Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

City of Seattle

King County

Audit Period

January 1, 2007 through December 31, 2007

Report No. 75352

Issue Date

September 22, 2008

WASHINGTON

BRIAN SONNTAG

STATE AUDITOR

Washington State Auditor
Brian Sonntag

September 22, 2008

Honorable 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

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

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

- **Material Weaknesses:** We identified no 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 no 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.

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
10.558	Child and Adult Care Food Program
16.011	Urban Areas Security Initiative
16.710	Public Safety Partnership and Community Policing Grants
20.205	Highway Planning and Construction
20.507	Transit Cluster - Federal Transit Formula Grants
93.778	Title XIX Medicaid Assistance Program (Medicaid)

97.004	State Domestic Preparedness Equipment Support Program
97.008	Urban Areas Security Initiative
97.036	Public Assistance Grants
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 $2,914,014.

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

Schedule of Federal Audit Findings and Questioned Costs

City of Seattle
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1. The City of Seattle did not have internal controls in place to ensure compliance with Federal reporting requirements.

CFDA Number and Title:	20.507 Federal Transit Formula Grants
Federal Grantor Name:	U.S. Federal Highway Administration
Federal Award/Contract Number:	ST06FTA
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$0

Description of Condition

We reviewed the City's internal controls and compliance with regulations over the Federal Transit Formula Grants (CFDA 20.507). The City spent $2,018,709 in grant funds during 2007 for the South Lake Union Streetcar.

It is a stated goal of the Federal Department of Transportation (DOT) to increase utilization of Disadvantaged Business Enterprises (DBEs). As a recipient of DOT funds, the City is required to submit the Uniform Report of DBE Awards and Commitments and Payments semiannually. This report documents the City's utilization of businesses owned by socially disadvantaged groups.

Cause of Condition

The City thought that submitting DBE data through DOT's online system was sufficient to ensure compliance. They were not aware that a specific form was required. The City did not have adequate internal controls to ensure that the report was submitted semiannually as required.

Effect of Condition

Without submission of the proper form, DOT cannot ensure proper utilization of disadvantaged businesses. Ultimately, disadvantaged businesses are unable to compete for Federal contracts on a level playing field.

Recommendation

We recommend that the City establish policies to ensure compliance with DBE reporting requirements.

City's Response

We concur with the finding that the City failed to comply with the requirement to submit seminannual Uniform Reports of DBE Awards and Commitments and Payments. We were mistaken in considering our regular posting of quarterly DBE utilizations and payments on TEAM, the Federal Transit Administration's on-line system as sufficient compliance. The City now complies with the semiannual reporting requirement and has submitted the report for the six-month period ending March 31, 2008.

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

CFR Sec. 26.1 What are the objectives of this part?

This part seeks to achieve several objectives:
(a) To ensure nondiscrimination in the award and administration of DOT-assisted contracts in the Department's highway, transit, and airport financial assistance programs;
(b) To create a level playing field on which DBEs can compete fairly for DOT-assisted contracts;
(c) To ensure that the Department's DBE program is narrowly tailored in accordance with applicable law;
(d) To ensure that only firms that fully meet this part's eligibility standards are permitted to participate as DBEs;
(e) To help remove barriers to the participation of DBEs in DOT-assisted contracts;
(f) To assist the development of firms that can compete successfully in the marketplace outside the DBE program; and
(g) To provide appropriate flexibility to recipients of Federal financial assistance in establishing and providing opportunities for DBEs.

CFR Sec. 26.**11** What records do recipients keep and report?

(a) [Reserved]
(b) You must continue to provide data about your DBE program to the Department as directed by DOT operating administrations.
(c) You must create and maintain a bidders list.
(1) The purpose of this list is to provide you as accurate data as possible about the universe of DBE and non-DBE contractors and subcontractors who seek to work on your Federally-assisted contracts for use in helping you set your overall goals.
(2) You must obtain the following information about DBE and non-DBE contractors and subcontractors who seek to work on your Federally-assisted contracts:
(i) Firm name;
(ii) Firm address;
(iii) Firm's status as a DBE or non-DBE;
(iv) Age of the firm; and
(v) The annual gross receipts of the firm. You may obtain this information by asking each firm to indicate into what gross receipts bracket they fit (e.g., less than $500,000; $500,000-$1 million; $1-2 million; $2-5 million; etc.) rather than requesting an exact figure from the firm.

Schedule of Federal Audit Findings and Questioned Costs

City of Seattle
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2. The City of Seattle did not have internal controls in place to ensure compliance with federal suspension and debarment requirements.

CFDA Number and Title:	97.004, 97.071 and 97.067 Homeland Security Cluster
Federal Grantor Name:	U.S. Department of Homeland Security
Federal Award/Contract Number:	2004 TU T4-0029; 2005 GE T5 0032; 2006 GE T6 0059; 2005 GE T5 0032
Pass-through Entity Name:	Washington State Military Department
Pass-through Award/Contract Number:	E07-148
Questioned Cost Amount:	$0

Description of Condition

We reviewed the City's internal controls and compliance with the suspension and debarment requirements associated with its Homeland Security grant programs. The City spent $1,605,258.42 in Homeland Security grant funds for goods and services during 2007.

During our review, we noted the City paid two vendors $102,999. In our review of contracts with those vendors, we noted that the City failed to maintain adequate documentation to show City personnel checked to see that the vendors were not suspended or debarred from receiving federal money. In addition, the City failed to write into the vendor contracts a certification specifying that the vendor was not suspended or debarred.

Questioned Costs

There are no questioned costs because we determined the vendors were not suspended or debarred.

Cause of Condition

The Seattle Police Department was unaware of the requirement to maintain documentation that the City personnel verified that the vendors were not suspended or debarred as required by federal regulations. Also, the City does not have a system in place to ensure any departments receiving federal funds are aware of the Suspension and Debarment requirements.

Effect of Condition

Internal controls were insufficient to ensure compliance with federal grant requirements. As a result, there is an increased risk that the City could contract with a suspended or debarred vendor. If a party is suspended or debarred, any payment of grant funds to them is unallowable and subject to recovery by the grantor agency.

Recommendation

The City should establish a system to ensure any department receiving federal funds is aware of the suspension and debarment requirements. In addition, the City should require the individual Departments to retain documentation verifying the vendors' suspension and debarment status.

City's Response

We agree that our current internal controls could be improved to ensure that all vendors paid with federal funds are not suspended or debarred. The subject-Department's Contracting Manual currently specifies clear responsibility for verifying the issue of suspension and debarment and the staff do verify the status of vendors involved in federal grant-funded transactions. As an improvement to current procedures and internal controls, we will also require written documentation of suspension and debarment verification processes, and will include a provision on vendor certification against suspension or debarment in contracts funded from federal funds.

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

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:
>
> > (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
> >
> > (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Title 2, Code of Federal Regulations, Section 180.200, states:

> A covered transaction is a nonprocurement or procurement transaction that is subject to the prohibitions of this part. It may be a transaction at—
>
> > (a) The primary tier, between a Federal agency and a person (see appendix to this part); or
> >
> > (b) A lower tier, between a participant in a covered transaction and another person.

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

> (a) Covered transactions under this part—
>
> > (1) Do not include any procurement contracts awarded directly by a Federal agency; but

(2) Do include some procurement contracts awarded by non-Federal participants in nonprocurement covered transactions (see appendix to this part).

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

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

Title 2, Code of Federal Regulations, Section 180.300, states:

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

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

Title 2 Code of Federal Regulations, Section 180.330, states:

Before entering into a covered transaction with a participant at the next lower tier, you must require that participant to—

(a) Comply with this subpart as a condition of participation in the transaction. You may do so using any method(s), unless Sec. 180.440 requires you to use specific methods.

(b) Pass the requirement to comply with this subpart to each person with whom the participant enters into a covered transaction at the next lower tier.

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3. The City of Seattle City Light Department should improve internal controls over financial statement preparation.

Background

City management, the state Legislature, state and federal agencies and bondholders rely on financial statement information 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 City of Seattle City Light Department's financial statements were audited by a CPA firm whose reports thereon have been furnished to us. Our report includes the significant deficiencies in controls identified by the CPA firm that have the potential to adversely affect the City's ability to produce reliable financial statements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate a significant deficiency, as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

The following deficiencies in internal controls were identified by the CPA firm:

- A review of unbilled revenues identified a significant deficiency in the control activities supporting the determination of that financial statement amount. Unbilled revenues are estimated to record revenue for services that have been delivered, but not billed. Audit work performed by the CPA firm concluded that there are limited review procedures, as well as minimal preventative internal controls, implemented to ensure accuracy, completeness, and reasonableness of this revenue.

- A review of inventory controls by the CPA firm identified a significant deficiency in the control activities supporting inventory. Inventory is tracked on a perpetual basis. The validity of the Department's inventory is based on inventory cycle counts performed throughout the year by warehouse employees. These employees are also responsible for recording the use of inventory. Audit testing included inventory test counts as well as testing of the issuance of inventory to ensure proper recording. Through these testing procedures, it was noted that warehousers can issue material/inventory without a properly authorized material request form.

Cause of Condition

- Control over unbilled revenues was considered sufficient because it was consistently applied and the calculation included factors relevant to the related power demand. However, management subsequently found that basing the calculation on additional objective measures such as power load would result in a better estimate.

- Control over inventory had been considered satisfactory because reconciliations of records to physical counts did not result in material adjustments to the financial statements. After the audit disclosed some immaterial differences, management determined that it would improve review controls and insure that established controls are being consistently followed.

Effect of Condition

- Sensitive estimates of unbilled revenues lacked sufficient internal control procedures to ensure accurate financial reporting. The CPA firm concluded their audit work did not indicate that there were errors in reporting or calculation process; however, they concluded there is more than a remote possibility that a reporting error could be created in an amount that is more than inconsequential to the Department's financial statements.

- Internal controls for inventory were not sufficient to ensure accurate financial reporting. Several discrepancies were noted during inventory test counts. However, these discrepancies were immaterial to the financial statements as a whole.

Recommendation

Based on the results of their work, the CPA firm recommended:

- The Department should complete a detailed review of controls over calculating estimated unbilled revenues and implement enhancements to ensure timely, accurate, and complete reporting.

- Implementation of system control enhancements around the issuance of inventory to ensure all inventory have been properly authorized. Implementing additional controls over the issuance and tracking of inventory will ensure the accuracy of perpetual inventory. In addition, a third party from the accounting division should assist in the performance of inventory cycle counts. This assistance should be at least quarterly and on an unannounced basis.

City's Response

Accounting and Management of Sensitive Estimates – Unbilled Revenues

Management's Response: *City Light has reviewed the calculation of unbilled revenue and the reporting of it in the financial statements and agrees that additional review procedures and a reconciliation of the unbilled revenue numbers to system load are enhancements that should be made to the current process. City Light has enlisted staff within its engineering and power management areas to develop procedures to ensure the calculations for unbilled revenue are reviewed and the numbers used are verified and tied to system load. Although calculations in prior years provided reasonable estimates of the unbilled revenue and were computed systematically with appropriate and consistent analysis, the additional review, verification and reconciliation of the calculations should help to improve the accuracy of the estimated unbilled revenue amounts and provide better internal controls over the process.*

Internal Controls Over Inventory

Management's Response: *City Light agrees that steps should be taken to enhance the system controls around the issuance and tracking of inventory in its perpetual inventory system. In response to this recommendation, City Light has done a preliminary review of its policies and procedures and the related PassPort inventory system. City Light has identified changes that can be made to ensure proper utilization of Material Request Forms when issuing inventory, improve usage of system controls and reporting to provide more effective reconciliation of inventory records and greater accuracy of the perpetual inventory, and improve the accuracy and internal* *controls over the cycle count and physical inventory processes. A workplan to establish action items and implementation timeframes will be implemented throughout the course of the year. Observation of and assistance with the performance of the cycle count process by the Accounting Division will start in third quarter 2008.*

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

RCW 43.09.200 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 there from; 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 in part:

> 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.

b. Material weakness: 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 . . . .

Schedule of Prior Federal Audit Findings

City of Seattle
King County
January 1, 2007 through December 31, 2007

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

<table>
<tr><td>Audit Period:
2006</td><td>Report Reference No:
73373</td><td>Finding Reference No:
1</td><td>CFDA Number(s):
20.507</td></tr>
<tr><td colspan="2">Federal Program Name and Granting Agency:
U.S. Federal Highway Administration – Federal Transit Formula Grants</td><td colspan="2">Pass-Through Agency Name:
Washington State Department of Transportation</td></tr>
<tr><td colspan="4">Finding Caption: The City of Seattle did not maintain adequate records to document it met subrecipient monitoring requirements.</td></tr>
<tr><td colspan="4">Background: The City did not 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 and lacked sufficient documentation to show adequate controls were in place to monitor compliance by Monorail Services with grant program requirements.</td></tr>
<tr><td colspan="4">Status of Corrective Action: (check one)
☒ Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid</td></tr>
<tr><td colspan="4">Corrective Action Taken: Since issuance of the audit report the Seattle Center is including language in its agreements with Seattle Monorail Services (SMS, the subrecipient) requiring that SMS and its contractors comply with FTA requirements. SMS is also required to include FTA requirements in its contracts with third-party contractors. In addition, Seattle Center staff holds weekly construction meetings with SMS staff to monitor the planning, engineering and construction of monorail rehabilitation projects, SMS compliance with federal grant requirements and SMS compliance is documented.</td></tr>
</table>

Audit Period: 2006	**Report Reference No:** 73373	**Finding Reference No:** 2	**CFDA Number(s):** 20.205
Federal Program Name and Granting Agency: U.S. Federal Highway Administration – Highway Planning and Construction		**Pass-Through Agency Name:** Washington State Department of Transportation	
Finding Caption: The City of Seattle charged unallowable costs and activities to its Highway Planning and Construction grant.			
Background: The City charged $163,052 for activities not identified in the grant agreement and $33,272 of unallowable overhead to the grant program. While costs for overhead can be allowed on projects, the City did not have such approval from WSDOT. Total questioned costs were $196,324.			
Status of Corrective Action: (check one) ☒ Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid			
Corrective Action Taken: 1) The City of Seattle Transportation Department (SDOT) acknowledges that $163,052 in charges related to transportation system improvements including sidewalks, traffic medians and crosswalks for a library/community center storm drainage facility were inappropriately billed to a Washington State Department of Transportation (WSDOT) grant. The charges were billed 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. Formal systems are in place for communicating the billing information from the Finance section to the Grant Accounting section. In addition, we will be adding a review and approval by the project manager of the information communicated for billing. This will provide the benefit of a “double check” that the billing information communicated is accurate. Training sessions will be conducted with staff to insure consistency. SDOT is in communication with WSDOT regarding this finding to determine if other eligible charges may be substituted for the ineligible charges or if a refund will be required. SDOT will take what ever action is allowed by WSDOT to resolve the billing issue. 2) The City of Seattle Transportation Department (SDOT) acknowledges that $33,272 in overhead charges was inappropriately billed to Washington State Department of Transportation (WSDOT) grant(s). SDOT acknowledges that the calculation used to determine the appropriate percentage to apply to direct labor for the recovery of overhead costs was not calculated appropriately as per OMB Circular A-87. SDOT is in communication with WSDOT regarding this finding to determine if other eligible charges may be substituted for the ineligible overhead charges or if a refund will be required. SDOT will take what ever action is allowed by WSDOT to resolve the billing issue. For future billings, SDOT will revise its calculation used to determine the appropriate percentage to apply to direct labor for the recovery of overhead costs. Additionally, SDOT is in the process of contracting with a consultant to perform a complete review of the overhead cost calculations both for internal and external billing and as it relates to OMB Circular A-87.			

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, 2007 through December 31, 2007

Honorable Mayor and City Council
City of Seattle
Seattle, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Seattle, King County, Washington, as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 30, 2008. The prior year partial comparative information has been derived from the City's 2006 basic financial statements that we issued our report thereon dated June 26, 2007. Our report was modified to include a reference to other auditors. During the year ended December 31, 2007, the City implemented Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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 3.

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 City'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.

We also noted certain additional matters that we have reported to the management of the City in separate letters dated September 15, 2008.

COMPLIANCE AND OTHER MATTERS

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

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

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

This report is intended for the information and use of management, the Honorable 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 30, 2008

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, 2007 through December 31, 2007

Honorable 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, 2007. 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.

In our opinion, 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, 2007. However, the results of our auditing procedures disclosed an 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 1.

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 Findings 1 and 2 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. We did not consider any of the deficiencies described in the accompanying Schedule of Federal Audit Findings and Questioned Costs to be material weaknesses.

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

This report is intended for the information of management, the Honorable 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 15, 2008

Independent Auditor's Report on Financial Statements

City of Seattle
King County
January 1, 2007 through December 31, 2007

Honorable Mayor and City Council
City of Seattle
Seattle, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Seattle, King County, Washington, as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed on page 20. 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 for the Light Fund, Water Fund and Drainage and Wastewater Fund, which are major funds that collectively represent 94 percent, 99 percent and 87 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 4 percent, 1 percent, and 9 percent, respectively, of the assets, net assets and revenues of the business-type activities, and 5 percent, 0 percent, and 13 percent, respectively, of the assets, net assets and revenues of the aggregate discretely presented component unit and remaining fund information. We also did not audit the financial statements of the Seattle City Employees' Retirement System, which represent 74 percent, 84 percent, and 24 percent, respectively, of assets, net assets and revenues of the aggregate discretely presented component unit and remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Light, Water, Solid Waste and Drainage and Wastewater funds and the Seattle City Employees' Retirement System are based solely on the reports of the other auditors. The partial prior year comparative information has been derived from the City's 2006 financial statements and, in our report dated June 26, 2007, based on our audit and the reports of other auditors, we expressed unqualified opinions on the respective financial statements of the governmental activities, business-type activities, each major fund and the aggregate discretely presented component unit and remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Water, Solid Waste, and Drainage and Wastewater funds and the Seattle City Employees' Retirement System were not audited in accordance with *Government Auditing* Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component unit and remaining fund information of the City of Seattle, as of December 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the 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 21 through 40 , budgetary comparison information on pages 133 through 136 and pension trust fund information on pages 137 through 139 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and 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 by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

June 30, 2008

Financial Section

City of Seattle
King County
January 1, 2007 through December 31, 2007

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2007

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2007
Statement of Activities – 2007
Balance Sheet – Governmental Funds – 2007
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – 2007
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2007
Statement of Net Assets – Proprietary Funds – 2007
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds – 2007
Statement of Cash Flows – Proprietary Funds – 2007
Statement of Net Assets – Fiduciary Funds – 2007
Statement of Changes in Net Assets – Fiduciary Funds – 2007
Notes to Financial Statements – 2007

REQUIRED SUPPLEMENTAL INFORMATION

Budgetary Comparison Information – 2007
- General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – 2007
- Transportation Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – 2007
- Low-Income Housing Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – 2007
- Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Notes to Required Supplementary Information – 2007

Pension Trust Fund – 2007
- Pension Plan Information – Schedule of Funding Progress – 2007
- Pension Plan Information – Schedule of Employer Contributions – 2007
- Pension Plan Information – Notes to Required Supplementary Information – 2007

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards – 2007
Notes to Schedule of Expenditures of Federal Awards – 2007

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, 2007. 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 2007 the assets of the City of Seattle exceeded its liabilities by $3.747 billion. Net assets invested in capital assets (net of depreciation and related debt) account for 79.6 percent of this amount ($2.982 billion). The remaining net assets of $768.6 million may be used to meet the City's ongoing obligations to citizens and creditors.

- The City's net assets increased by $358.1 million (10.6 percent) during the fiscal year. The governmental net assets increased by $251.5 million (11.0 percent) over the amount reported in 2006. Business-type net assets increased by $106.5 million (9.6 percent). The business-type increase included net income of $113.5 million for City Light, $1.2 million for the Water Utility, $7.5 million for nonmajor funds and a net loss of $17.8 million for Drainage and Wastewater Utility. 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 2007 the City's governmental funds reported a combined ending fund balance of $591.8 million, an increase of $93.3 million (15.6 percent). Of the major funds, the fund balance of the General Fund increased $85.7 million, the Transportation Fund increased $12.9 million, and the Low-Income Housing Fund increased by $11.1 million. The fund balances of the nonmajor governmental funds decreased by $16.4 million. In addition, though there was a slowdown of the economy nationwide this was slightly felt in the region and hence the City's tax revenues still increased from 2006 by $105.9 million. Approximately $234.8 million (40.2 percent) of the combined ending fund balance is unreserved fund balance available to the City for discretionary spending.

- At the end of 2007 the unreserved fund balance for the General Fund was $197.7 million or 31.2 percent of total General Fund expenditures of $633.8 million. The General Fund's unreserved fund balance increased by approximately $47.4 million from the prior year's amount of $150.3 million, reflecting significant increases in taxes and program income and interest.

- The City's total outstanding bonded debt decreased by approximately $75.7 million (2.2 percent) to $3.387 billion during the current fiscal year. General obligation for limited tax (LTGO) and unlimited tax (UTGO) bonded debt decreased by $30.7 million in 2007. During the year, revenue bonds and bond anticipation notes decreased by $45.0 million. On the $21.9 million special assessment bonds the City issued in 2006 for the design and construction of the new South Lake Union Streetcar and backed by the collection of assessments from a local improvement district (LID), it was reduced to $20.5 million by a bond maturity and call payment of $1.4 million (6.3 percent).

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 $3.747 billion.

Statement of Net Assets

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

(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2007	Restated 2006	2007	Restated 2006	2007	Restated 2006
Current and Other Assets	$ 1,172,214	$ 1,043,892	$ 934,389	$ 1,005,439	$ 2,106,603	$ 2,049,331
Capital Assets and Construction in Progress, Net of Accumulated Depreciation	2,748,984	2,589,925	3,297,786	3,166,254	6,046,770	5,756,179
Total Assets	3,921,198	3,633,817	4,232,175	4,171,693	8,153,373	7,805,510
Current Liabilities	226,541	213,815	300,773	314,341	527,314	528,156
Noncurrent Liabilities	1,160,895	1,137,765	2,718,021	2,750,516	3,878,916	3,888,281
Total Liabilities	1,387,436	1,351,580	3,018,794	3,064,857	4,406,230	4,416,437
Net Assets						
Invested in Capital Assets, Net of Related Debt	2,015,043	1,825,203	967,028	813,091	2,982,071	2,638,294
Restricted	194,618	183,340	51,360	59,161	245,978	242,501
Unrestricted (Deficit)	324,101	273,696	194,993	234,582	519,094	508,278
Total Net Assets	$ 2,533,762	$ 2,282,239	$ 1,213,381	$ 1,106,834	$ 3,747,143	$ 3,389,073

The largest portion of the City's net assets (79.6 percent) reflects an investment of $2.982 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, $245.9 million (6.6 percent), represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets, $519.1 million (13.9 percent), may be used to meet the government's obligation to citizens and creditors.

Unrestricted net assets for governmental activities increased by18.4 percent from $273.7 million in 2006 to $324.1 million in 2007. Robust activity in the commercial real estate market provided increased real estate excise tax revenues and was a contributing factor to the increase in unrestricted net assets. The increase was also partially due to the continued strength of the local economy and the increases in the corresponding business taxes.

The net assets for the business activities increased between 2006 and 2007 from $1.107 billion to $1.213 billion. The increase in net assets is attributed primarily to the performance of the City Light Utility in 2007. Though there was a slight increase ($715.0 million and $60.1 million, respectively) in both operating revenues and operating expenses, the Utility generated an operating income of $130.0 million. Adding to this the $42.0 million in capital contributions and grants and net nonoperating expense of $59.0 million, the Utility registered a $113.5 million change in net assets.

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

(In Thousands)

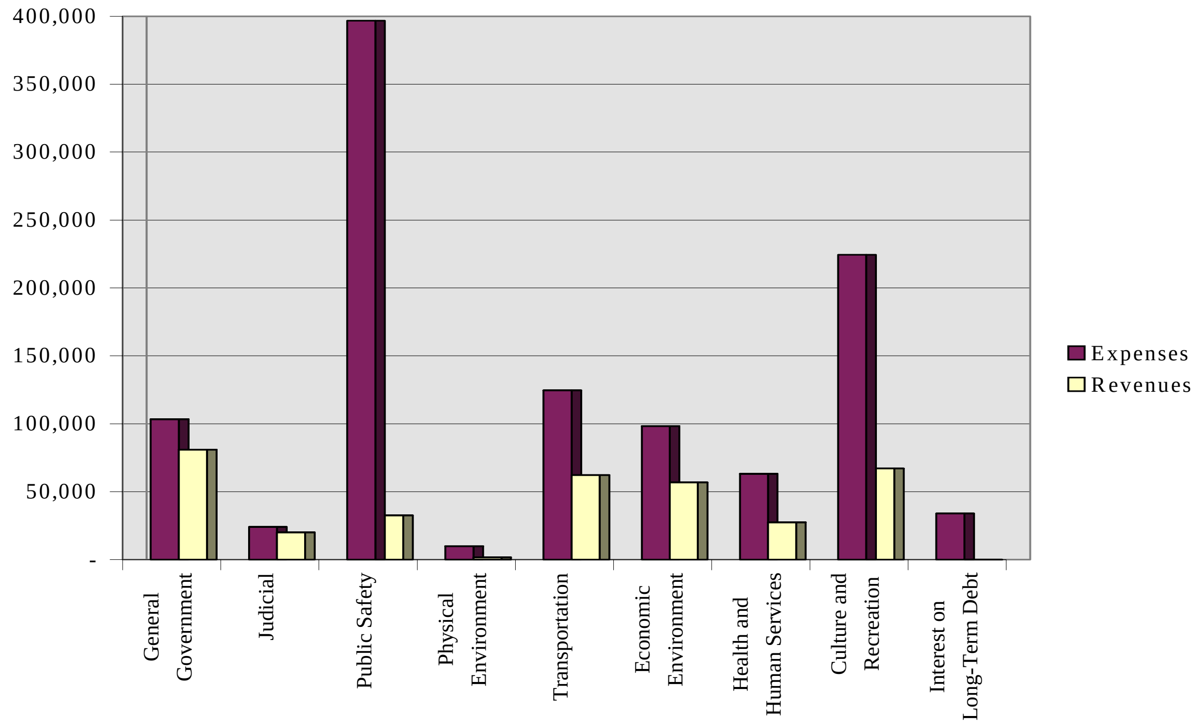
	Governmental Activities		Business-Type Activities		Total	
	2007	Restated 2006	2007	Restated 2006	2007	Restated 2006
Revenues						
Program Revenues						
Charges for Services	$ 224,256	$ 180,587	$ 1,352,056	$ 1,320,336	$ 1,576,312	$ 1,500,923
Operating Grants and Contributions	93,182	93,850	6,207	2,412	99,389	96,262
Capital Grants and Contributions	31,577	52,174	53,063	49,437	84,640	101,611
General Revenues						
Property Taxes	359,651	318,490	-	-	359,651	318,490
Sales Taxes	171,846	155,311	-	-	171,846	155,311
Business Taxes	332,238	311,015	-	-	332,238	311,015
Other Taxes	93,959	66,675	-	-	93,959	66,675
Other	34,047	57,374	19,382	18,064	53,429	75,438
Total Revenues	1,340,756	1,235,476	1,430,708	1,390,249	2,771,464	2,625,725
Expenses						
Governmental Activities						
General Government	103,324	128,718	-	-	103,324	128,718
Judicial	24,030	20,344	-	-	24,030	20,344
Public Safety	396,669	354,083	-	-	396,669	354,083
Physical Environment	9,991	7,331	-	-	9,991	7,331
Transportation	124,493	87,610	-	-	124,493	87,610
Economic Environment	98,337	78,957	-	-	98,337	78,957
Health and Human Services	63,275	56,904	-	-	63,275	56,904
Culture and Recreation	224,454	215,081	-	-	224,454	215,081
Interest on Long-Term Debt	34,048	35,399	-	-	34,048	35,399
Business-Type Activities						
Light	-	-	755,121	699,163	755,121	699,163
Water	-	-	169,631	161,943	169,631	161,943
Drainage and Wastewater	-	-	225,833	199,378	225,833	199,378
Solid Waste	-	-	119,714	114,527	119,714	114,527
Planning and Development	-	-	56,139	50,203	56,139	50,203
Downtown Parking Garage	-	-	8,336	8,076	8,336	8,076
Total Expenses	1,078,621	984,427	1,334,774	1,233,290	2,413,395	2,217,717
Excess (Deficiency) Before Transfers	262,135	251,049	95,934	156,959	358,069	408,008
Transfers	(10,612)	(9,260)	10,612	9,260	-	-
Increase in Net Assets	251,523	241,789	106,546	166,219	358,069	408,008
Net Assets - Beginning of Year	2,282,239	2,040,449	1,106,835	940,616	3,389,074	2,981,065
Nets Assets - End of Year	$ 2,533,762	$ 2,282,238	$ 1,213,381	$ 1,106,835	$ 3,747,143	$ 3,389,073

Analysis of Changes in Net Assets

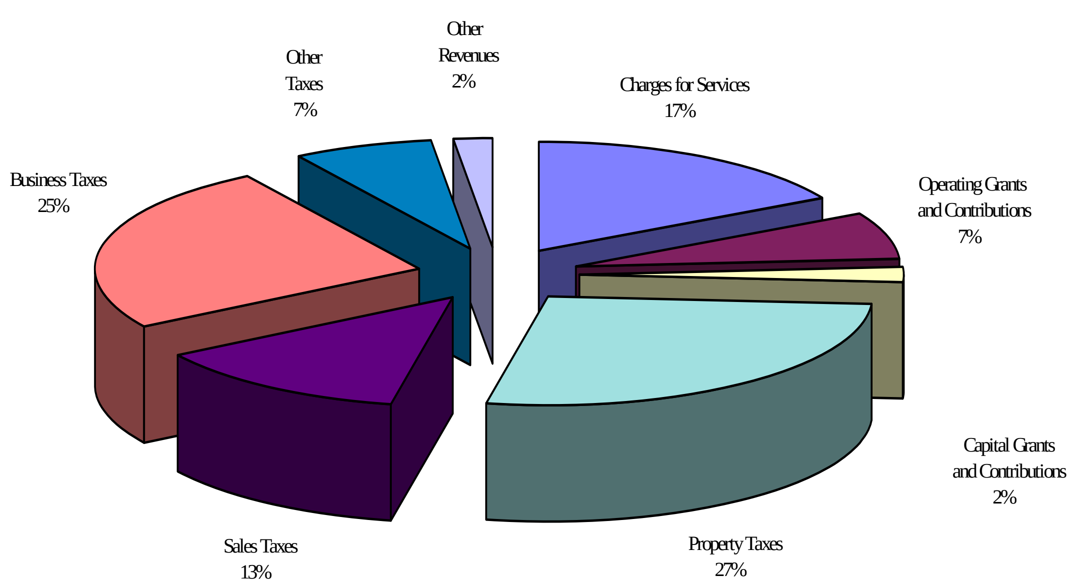
In 2007 the City's total net assets increased by $358.1 million. The increase is explained in the following discussion of governmental and business-type activities.

Governmental Activities

EXPENSES AND PROGRAM REVENUES - GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



Total $1,340.8 Million

Governmental Activities. The charts on the previous page present the City's governmental expenses and revenues by function and its revenue by source. Public safety is the largest governmental expense of the City, followed by culture and recreation, transportation, general government, economic environment, health and human services, 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 $251.5 million in 2007 compared to an increase of $243.1 million in 2006. Key factors in the change are as follows:

In 2007, total revenues for governmental activities were $1.341 billion, $104.4 million or 8.5 percent higher than 2006.

Program revenue related to services increased by $21.5 million or 6.6 percent in 2007. 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.

Revenue generated by grants and contributions decreased by $22.0 million in 2007. While 2007 operating grants decreased by only 1.6 percent, capital grants decreased by 39.0 percent or $20.5 million compared to 2006.

Property taxes, the largest source of revenue supporting governmental activities, increased by $41.1 million or 12.9 percent compared to 2006. 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. In November 2006 voters approved a transportation lid; this property tax measure generated approximately $36.0 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 strength of the regional economy and the commercial construction activity within the downtown area in 2007, sales tax revenues increased by $16.5 million or 10.6 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 2007, B&O tax revenues increased by $21.2 million or 6.8 percent due to the full year of collecting the B&O tax rate increases that went into effect midyear 2006.

Other tax revenues increased by $27.2 million or 40.0 percent. During 2007 Seattle experienced extraordinary activity in the commercial real estate market, and revenue from real estate excise taxes increased by $18.5 million from $58.3 million in 2006 to $76.9 million in 2007.

Other revenues significantly declined in 2007, nearly 97.5 percent from $35.3 million to $891 thousand. Those revenues resulted from the one time sale of several properties in 2006.

Also contributing to the increase in revenues, investment earnings went up by $11.1 million in 2007. The rate of return for investments continued to rise from an average of 4.0 percent in 2006 to an average of 5.1 percent in 2007.

In 2007 total expenses for governmental activities were $1.077 billion compared to $983.1 million in 2006, $93.9 million or 9.6 percent higher than 2006.

General government expenses went down by $26.8 million, a 21.0 percent decrease over 2006. Judgment and claims expenses were down $14.4 million as a result of one time charges taken in 2006 for several large cases, including the Glaser Temporary Employees Class Action lawsuit and the legal fees associated with that case. Expenditures for general bond interest were down 7.3 million. The unrestricted cumulative reserve fund also decreased expenditures by $3.8.

Public safety expenses increased by $39.3 million, an 11.1 percent increase over 2006. The increase is attributed to several factors: staffing increases at both the Police and Fire Departments; a 3.3 percent cost-of-living salary adjustment, increased overtime and employee benefit expenses, and cost increases for technical and professional services.

Judicial expenses went up $3.7 million or 18.1 percent. In addition to the cost-of-living salary adjustment and health care increases, staff was added to implement the Seattle Justice Information System's handheld ticketing devices data exchanges between the Court and Seattle Police Department. The Municipal Court also added probation staff to increase the supervision of probationers and in support of its expanded menu of alternatives to incarceration.

Physical environment expenses went up $2.6 million, a 36.3 percent increase compared to 2006. In addition to the Citywide adjustments to labor costs and changes in inflation assumptions for other costs, expenses went up due to additional programs and staffing within the Revenue and Consumer Affairs Division. Staff was added to improve customer wait times, alleviate backlogs in processing City tax payments, and attend to other customer service needs. The licensing Operations Unit's budget also increased to implement a commercial recycling licensing program.

Transportation expenses went up $36.3 million, a 41.1 percent increase compared to 2006. The expenses increased compared to 2006 as major projects are in the initial planning and development phases, including the Alaskan Way Viaduct and Seawall Replacement projects. The increased expenditures supported the City's planning costs, costs of the SDOT staff working on project, outreach to waterfront businesses, and initial work to replace the north seawall.

Economic environment expenses went up by $19.3 million or 24.5 percent. The Office of Housing increased expenditures $2.12 million in the homeownership and sustainability program, $2.0 million for the multifamily production and preservation program, and $1.3 million for administrative costs. The Office of Economic Development added two positions and increased expenditures by $1.06 million. Department of Neighborhoods increased expenditures by $0.95 million to fund the purchase of additional P-Patch sites.

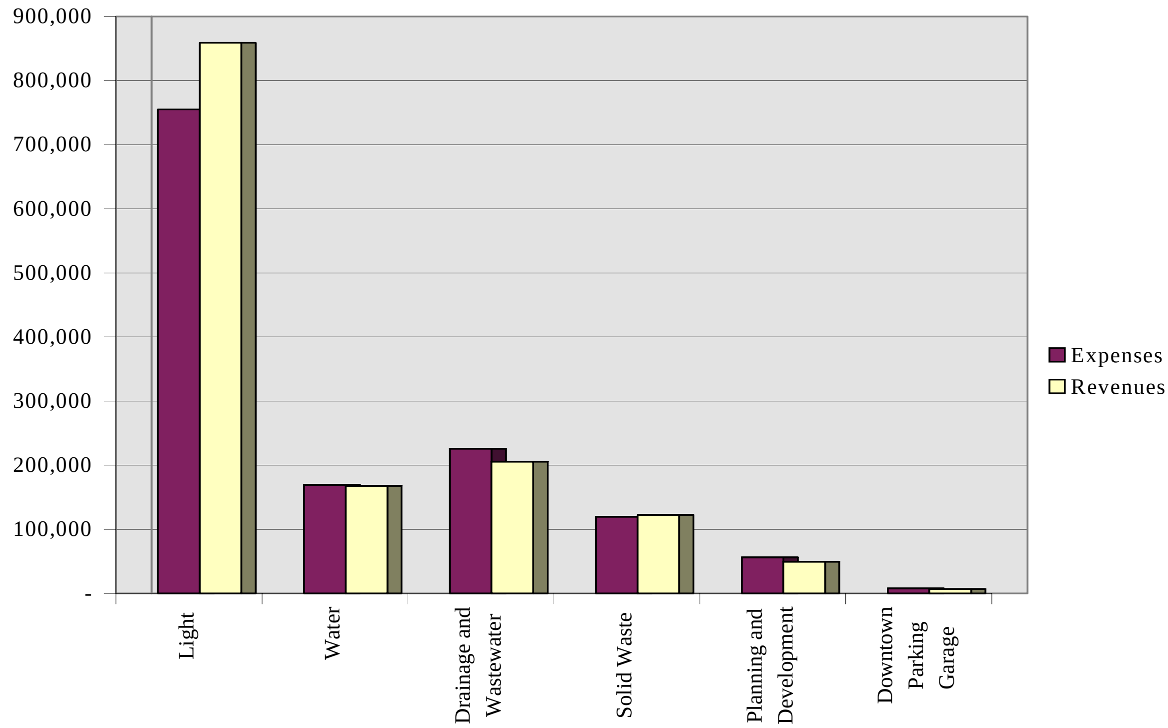
Health and human services expenses showed an increase of $6.3 million or 11.2 percent. The largest change in expenditures was an increase of $6.0 million and 9 positions to the home-based care program. The increase is primarily due to revenue adjustments in grant sources.

At $224.3 million, culture and recreation expenses were up $9.3 million in 2007 or 4.3 percent higher than 2006. Library's expenditures increased approximately $4.0 million for operating the new or expanded libraries, increasing expenditures for library collections, an automated materials handling system, and replacement of the Library's horizon catalog system. The Department of Parks' expenditures have increased primarily due to the opening of new facilities. Nine positions were added to manage and staff the City's neighborhood community centers and Citywide recreation facilities and programs, increasing expenditures approximately $4.0 million. In 2007 department contributions to the One Percent for Art program increased significantly largely because of the renewed participation of Seattle City Light (SCL) and Seattle Public Utilities (SPU) in the program. This resulted in increased expenditures of $2.0 million.

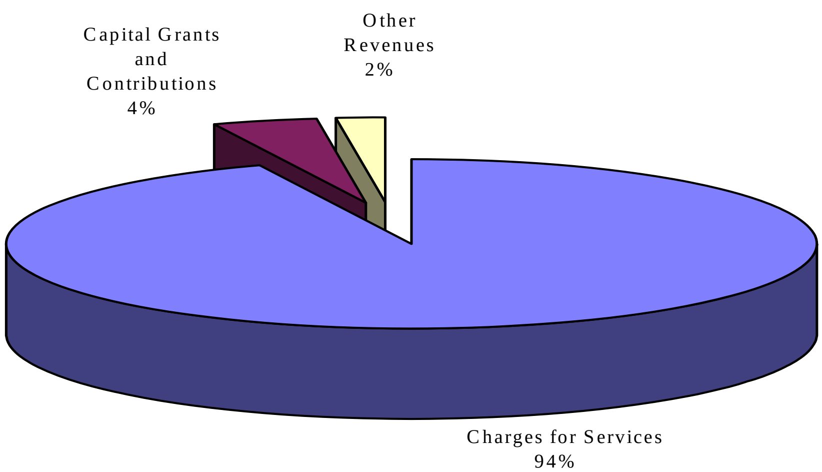
The City refunded and defeased certain bonds in 2007 in order to lower the interest costs. This included refunding $60.81 million of the 1998 LTGO, Series F, Bonds, and refunding $59.21 million of the 1999 UTGO, Series A, Bonds. Interest on long-term debt went down by $1.35 million or 3.8 percent for 2007.

Business-Type Activities

EXPENSES AND PROGRAM REVENUES - BUSINESS-TYPE ACTIVITIES



REVENUES BY SOURCE - BUSINESS-TYPE ACTIVITIES



Total $1,430.7 Million

Business-Type Activities. Business-type activities increased the City's net assets by $104.4 million to $1.211 billion, an increase of 9.4 percent. Key factors for the change were as follows:

The City Light Utility realized a net increase of $113.5 million in net assets in 2007; a decrease of $48.3 million compared to net income of $161.8 million in 2006 was due in large part to the overall 2007 system rate decrease implemented in January 2007. Also contributing to the lower net income were slightly higher operating revenues and higher in operating expenses, administrative and general costs, non-operating expenses and capital contributions.

The Water Utility experienced an increase of $1.2 million in net assets in 2007. This increase was primarily due to an increase in tap fees and revenues received from sales of other fixed assets in 2007.

The Drainage and Wastewater Utility net assets declined $17.8 million in 2007. Operating revenues increased by $15.6 million due to rate increases for both wastewater and drainage. The increase was offset by a rise in operating expenses of $26.9 million, including a significant increase of $11.0 million for expensed capital projects and an increase of $8.6 million in wastewater treatment costs charged by King County Metro. Taxes and claims expenses went up by $3.7 million. Capital contributions and grants revenues decreased by $8.7 million in 2007.

The Solid Waste Utility experienced a $3.4 million increase in net assets in 2007. This compares to a decrease of $1.2 million in 2006. Operating revenues increased by $9.5 million mainly due to rate increases in 2007. The revenue increase was offset by an increase of $5.0 million in operating expenses.

In 2007 the Planning and Development (DPD) Fund net assets increased by $5.5 million. The increase was $0.8 million higher than the increase of $4.7 million in 2006. Operating revenues increased by $4.6 million in 2007 due to continuing growth in building construction revenues. Transfer in from other City funds increased by $1.3 million and investment income increased by $0.6 million. The increases were offset by a rise in operating expenses of $5.9 million.

The Downtown Parking Garage Fund experienced a decrease of $1.4 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	
	2007	2006	2007	2006	2007	2006
Revenues						
Taxes	$ 770,140	$ 706,363	$ 43,455	$ -	$ 11,849	$ 11,816
Licenses and Permits	22,680	19,953	9,821	7,585	-	-
Grants, Shared Revenues, and Contributions	18,916	21,008	33,490	44,017	7,601	6,273
Charges for Services	64,750	52,924	30,638	24,396	18	22
Fines and Forfeits	19,497	18,320	10	26	-	-
Parking Fees and Space Rent	21,360	16,786	73	55	27	27
Program Income, Interest, and Miscellaneous Revenues	41,390	27,603	838	259	17,514	6,077
Total Revenues	958,733	862,957	118,325	76,338	37,009	24,215
Expenditures	633,766	592,859	191,859	157,366	25,913	18,217
Other Financing Sources and Uses						
Long-Term Debt	-	-	-	5,000	-	-
Sales of Capital Assets	3,868	3,992	-	-	-	-
Transfers In (Out)	(243,105)	(236,465)	86,392	75,446	-	3,257
Total Other Financing Sources and Uses	(239,237)	(232,473)	86,392	80,446	-	3,257
Fund Balances						
Reserves Legally Segregated for Future Use	123,935	82,344	23,361	10,503	53,108	37,134
Reserves Not Available for Appropriation	5,415	8,674	2	2	-	-
Unreserved	197,678	150,280	-	-	10,477	15,355
Total Fund Balances	$ 327,028	$ 241,298	$ 23,363	$ 10,505	$ 63,585	$ 52,489

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

GOVERNMENTAL FUNDS (continued)

(In Thousands)

	Nonmajor Funds			
	Special Revenue Funds		Debt Service Funds	
	2007	2006	2007	2006
Revenues				
Taxes	$ 56,081	$ 53,377	$ 26,206	$ 26,105
Licenses and Permits	938	810	-	-
Grants, Shared Revenues, and Contributions	61,882	61,467	2	2
Charges for Services	53,448	47,834	-	-
Fines and Forfeits	3,194	2,884	-	-
Parking Fees and Space Rent	16,188	18,555	259	9,201
Program Income, Interest, and Miscellaneous Revenues	11,782	4,034	1,459	2,829
Total Revenues	203,513	188,961	27,926	38,137
Expenditures	335,293	311,116	97,708	106,998
Other Financing Sources and Uses				
Long-Term Debt	-	-	147	23
Sales of Capital Assets	479	15,158	-	-
Transfers In (Out)	141,418	121,197	69,170	70,190
Total Other Financing Sources and Uses	141,897	136,355	69,317	70,213
Fund Balances				
Reserves Legally Segregated for Future Use	24,584	20,448	15,996	16,461
Reserves Not Available for Appropriation	7,901	4,022	-	-
Unreserved	28,442	26,339	-	-
Total Fund Balances	$ 60,927	$ 50,809	$ 15,996	$ 16,461

	Nonmajor Funds				Total Governmental Funds	
	Capital Projects Funds		Permanent Funds			
	2007	Restated 2006	2007	2006	2007	Restated 2006
Revenues						
Taxes	$ 49,510	$ 53,705	$ -	$	$ 957,241	$ 851,366
Licenses and Permits	-	-	-		33,439	28,348
Grants, Shared Revenues, and Contributions	8,956	25,833	21	322	130,868	158,922
Charges for Services	198	69	-		149,052	125,245
Fines and Forfeits	-	-	-		22,701	21,230
Parking Fees and Space Rent	123	118	-		38,030	44,742
Program Income, Interest, and Miscellaneous Revenues	8,092	5,986	128	104	81,203	46,892
Total Revenues	66,879	85,711	149	426	1,412,534	1,276,745
Expenditures	96,724	92,942	55	416	1,381,318	1,279,914
Other Financing Sources and Uses						
Long-Term Debt	38,731	44,932	-	-	38,878	49,955
Sales of Capital Assets	-	16,606	-	-	4,347	35,756
Transfers In (Out)	(35,032)	(38,561)	(15)	(15)	18,828	(4,951)
Total Other Financing Sources and Uses	3,699	22,977	(15)	(15)	62,053	80,760
Fund Balances						
Reserves Legally Segregated for Future Use	100,491	127,920	2	2	341,477	294,812
Reserves Not Available for Appropriation	-	-	2,186	2,190	15,504	14,888
Unreserved	(1,846)	(3,125)	83	-	234,834	188,849
Total Fund Balances	$ 98,645	$ 124,795	$ 2,271	$ 2,192	$ 591,815	$ 498,549

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 $591.8 million, an increase of $95.1 million in comparison to 2006. Approximately $234.8 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; $14.0 million; (2) funding of continuing projects and programs in future periods, $269.1 million; (3) payment of debt service, $34.8 million; and (4) a variety of other purposes, $38.9 million.

Revenues for governmental funds overall totaled approximately $1.413 billion in the fiscal year ended December 31, 2007, which represents an increase of approximately $138.0 million or 10.8 percent from the prior fiscal year of $1.275 billion. Expenditures in governmental funds amounted to $1.381 billion, an increase of approximately $101.0 million or 7.9 percent compared to $1.280 billion spent in 2006. In the aggregate, revenues for governmental funds exceeded expenditures by approximately $31.2 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 2007.

At the end of 2007 the total fund balance of the General Fund was $327.0 million. Fund balance increased by $85.7 million in 2007 compared to 2006.

Total revenues for the General Fund amounted to $958.7 million, an increase of $95.8 million or 11.1 percent higher than 2006. Tax revenues increased by $63.8 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 2007.

Program Income, Interest, and Miscellaneous Revenues increased by $13.8 million. Revenues derived from Charges for Services went up by $11.8 million overall. Fines and Forfeits went up by $1.2 million, and Parking Fees and Space Rent went up $4.6 million.

General Fund expenditures increased by $40.9 million or 6.9 percent in 2007, from $592.9 million to $633.8 million. The increases in Public Safety expenditures rose $24.6 million. The Capital Outlay for Culture and Recreation increased $9.9 million. Judicial expenditures went up $3.6 million. Capital Outlay for the Physical Environment went up $3.4 million.

The Other Financing Sources and Uses category decreased the General Fund's fund balance position by $239.2 million in 2007 compared to $232.5 million in 2006. The net transfers out increased by $6.6 million in 2007.

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 increased by $12.9 million compared to a $0.6 million decrease in 2006. Revenues were up $42.0 million, primarily due to the increase in revenues related to the Bridging the Gap funding package. These revenues consist of an excess property tax levy, an employee hours tax, and a commercial parking tax. Expenditures were up $34.5 million, mainly due to capital projects being funded from the Bridging the GAP program and the addition of personnel to meet the related increase in work.

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 $63.6 million the Low-Income Housing Fund ended the year with a fund balance increase of $11.1 million. Revenue increased by $9.5 million while expenditures increased by $7.7 million. The increase in revenues is due to the sale of Transferable Development Rights for $12.2 million. The increase in expenditures is attributed to the cyclical nature of the fund. Multifamily construction projects can span over several years from acquisition to final construction. Further driving the variations is the cyclical nature of downtown construction and their associated costs.

In 2007 the other **special revenue funds** showed a $10.1 million or 19.9 percent increase in fund balance as a result of operations. The most significant increases occurred in the Park and Recreation Fund ($2.8 million), Human Services Fund ($2.3 million), the Education and Development Services Fund ($1.4 million), and the Municipal Arts Fund ($2.8 million).

Total revenues for the special revenue funds were up $14.6 million, a 7.7 percent increase from 2006. Increases in program income, interest, and miscellaneous revenues (up $7.7 million), grants, shared revenues, and contributions (up $0.4 million), charges for services (up $5.6 million) and taxes, (up by $2.7 million) were responsible for the increase. The decrease in parking revenues and space rentals was $2.4 million and the decrease in fines and forfeits was $0.3 million.

Expenditures increased by $24.2 million, up 7.8 percent from 2006. The largest increases were in the Human Services Operating Fund (up $8.2 million) due to a large increase in funding for various services and programs, including support for the Ten Year Plan to End Homelessness, and in the Park and Recreation Fund (up $4.4 million) due to the opening of new facilities and adding new staff and covering operating costs for the Seattle Aquarium.

The Other Financing Sources and Uses category increased in 2007, up by $5.5 million or 4.1 percent compared to 2006. This net increase resulted from a $14.7 million decrease in sales of capital assets and increase in net transfers in from other funds of $20.7 million.

The fund balance in the **capital projects funds** showed a $26.2 million or 21.0 percent decrease in 2007. The most significant decreases came from the Libraries for All Fund, down $4.5 million; Parks Department capital project funds, decreased by $9.1 million; the Seattle Center Redevelopment Fund, decreased by $2.6 million, and the Public Safety Information Technology Fund, decreased by $23.9 million. The decreases in fund balance mentioned above were offset by an increase in the Fire Facilities fund balance increase of $16.1 million.

Revenues for the capital projects funds went down $18.8 million or 22.0 percent compared to 2006. Grants, Shared Revenues, and Contributions decreased by $16.9 million or 65.3 percent. Tax revenues decreased by $4.2 million or 7.8 percent

Expenditures for capital projects remained relatively constant, increasing $3.8 million, a 4.1 percent increase compared to the 2006 expenditures of $92.9 million.

The 2007 fund balances of the **debt service funds** decreased by $0.5 million. The **permanent funds** remained at about the same levels as 2006.

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	$ 698,309	$ -	$ -	$ -	$ 71,831
Licenses and Permits	12,670	-	-	10,011	-
Grants, Shared Revenues, and Contributions	17,927	(93)	-	-	1,603
Charges for Services	53,267	9,621	-	-	964
Fines and Forfeits	19,497	-	-	-	-
Parking Fees and Space Rent	21,160	-	-	-	200
Program Income, Interest, and Miscellaneous Revenues	13,621	3,665	46	369	5,009
Total Revenues	836,451	13,193	46	10,380	79,607
Expenditures	574,056	6,160	911	6,275	39,495
Other Financing Sources and Uses					
Sales of Capital Assets	10	-	-	-	3,858
Transfers In (Out)	(220,884)	-	-	-	(22,133)
Total Other Financing Sources and Uses	(220,874)	-	-	-	(18,275)
Fund Balances					
Reserves Legally Segregated for Future Use	20,079	18,598	451	-	55,973
Reserves Not Available for Appropriation	3,719	-	-	-	-
Unreserved	73,262	(1,026)	460	7,378	53,707
Total Fund Balances	$ 97,060	$ 17,572	$ 911	$ 7,378	$ 109,680

	Neighborhood Matching	Development Rights	Emergency	Special Employment Program	Industrial Insurance
Revenues					
Taxes	$ -	$ -	$ -	$ -	$ -
Licenses and Permits	-	-	-	-	-
Grants, Shared Revenues, and Contributions	-	(520)	-	-	-
Charges for Services	-	-	-	238	661
Fines and Forfeits	-	-	-	-	-
Parking Fees and Space Rent	-	-	-	-	-
Program Income, Interest, and Miscellaneous Revenues	-	1,498	1	-	1,546
Total Revenues	-	978	1	238	2,207
Expenditures	3,164	-	3	250	-
Other Financing Sources and Uses					
Sales of Capital Assets	-	-	-	-	-
Transfers In (Out)	(89)	-	3	-	-
Total Other Financing Sources and Uses	(89)	-	3	-	-
Fund Balances					
Reserves Legally Segregated for Future Use	5,338	-	20	-	-
Reserves Not Available for Appropriation	-	-	1,696	-	-
Unreserved	153	658	38,643	106	4,776
Total Fund Balances	$ 5,491	$ 658	$ 40,359	$ 106	$ 4,776

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 2007	Total General Fund 2006
Revenues					
Taxes	$ -	$ -	$ -	$ 770,140	$ 706,363
Licenses and Permits	-	-	-	22,681	19,953
Grants, Shared Revenues, and Contributions	-	-	-	18,917	21,008
Charges for Services	-	-	-	64,751	52,924
Fines and Forfeits	-	-	-	19,497	18,320
Parking Fees and Space Rent	-	-	-	21,360	16,786
Program Income, Interest, and Miscellaneous Revenues	(698)	16,280	52	41,389	27,603
Total Revenues	(698)	16,280	52	958,735	862,957
Expenditures	-	3,455	-	633,769	592,859
Other Financing Sources and Uses					
Sales of Capital Assets	-	-	-	3,868	3,992
Transfers In (Out)	-	-	-	(243,103)	(236,465)
Total Other Financing Sources and Uses	-	-	-	(239,235)	(232,473)
Fund Balances					
Reserves Legally Segregated for Future Use	-	23,476	-	123,935	82,344
Reserves Not Available for Appropriation	-	-	-	5,415	8,674
Unreserved	5,359	13,831	370	197,677	150,280
Total Fund Balances	$ 5,359	$ 37,307	$ 370	$ 327,027	$ 241,298

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 $113.5 million in 2007 compared to $161.8 million in 2006, a decrease of $48.3 million or 33 percent from last year's record net income. $40.7 million of the decrease was due in large part to the overall 2007 system rate decrease implemented in January 2007. Within operating expenses, administrative and general costs were higher by $17.7 million due in part to higher costs in the areas of pensions, benefits, rents, and environmental pertaining to clean-up of the Duwamish superfund sites. Other power costs were increased by nearly $1.0 million. Offsetting the lower revenues and higher operating expenses was an increase in other deductions, net by $11.1 million from 2006, attributable mainly to higher capital fees recorded for underground infrastructure improvements to suburban areas within the Utility's service area.

Net cash provided by operating activities decreased by $25.6 million to $218.1 million in 2007 compared to $243.7 million in 2006. Restricted assets were $31.1 million in 2007, down from $31.5 million in 2006. The $0.4 million reduction in restricted assets was due to retainage deposits, decreased in total by $1.3 million for contractor-completed projects during the year. These deposits were offset by an increase in customer advance payments in the amount of $0.8 million received for customer electrical construction projects that will be scheduled for completion. Other decreases in the amount of $0.1 million during the normal course of operations accounted for the balance. The significant component of restricted assets remained at $25.0 million in the Contingency Reserve Account established in 2005. Utility plant and other capital assets were $1.591 billion and $1.517 billion in 2007 and 2006, respectively, a net increase of $74.3 million. The majority of the capital asset additions were in the distribution system, hydraulic production, and transmission.

Total net revenue bonds payable was $1.342 billion in 2007 and $1.409 billion in 2006, a net decrease of $66.8 million. Interest expense was $66.4 million in 2007 and $69.4 million in 2006. Future debt service requirements on the subordinate lien bonds, based on 2007 end-of-year actual interest rates, range from 3.27 percent to 3.42 percent through year 2021. Including long-term debt, the total liabilities were $1.509 billion in 2007 and $1.584 billion in 2006.

Total net assets were $661.1 million in 2007 and $547.6 million in 2006.

Water Utility. The net operating income of the Water Utility decreased by $3.8 million to $21.7 million in 2007 from $25.5 million in 2006. Operating revenues increased $5.0 million due to the increases in tap fees and water rates, while operating expenses increased $8.7 million. The increase in operating expenses is attributed to several factors: an increase in science, sustainability and watershed expenses, an increase in general and administrative expenses for expensing of the watershed master plan, Chinook restoration and project tracking system, increased expenses related to elimination of the Engineering Services Fund. Net income increased to $1.2 million in 2007 compared to $0.6 million in 2006, an increase of $0.6 million.

Net cash provided by operating activities increased to $58.3 million in 2007 from $48.8 million in 2006, an increase of $9.5 million. Total operating and restricted cash and investments were $56.3 million in 2007 compared to $121.9 million in 2006, a decrease of $65.6 million. This decrease in cash and investments is primarily due to a decrease in construction fund cash and investments funded for capital improvement projects.

Utility plant and other capital assets were $1.085 billion and $1.042 billion in 2007 and 2006, respectively, an increase of $43.0 million. Significant capital was spent on installation and replacement of service meters, security improvements for facilities, installation of new distribution water mains, computer systems upgrades, water system rehabilitation, and reservoir coverings costs.

The Water Utility had $841.8 million outstanding Water System Revenue Bonds liabilities in 2007, as compared to $861.7 million in 2006. The decrease of $19.9 million was mainly due to principal payments on existing bonds.

Total net assets were $303.8 million in 2007 and $302.6 million in 2006.

Drainage and Wastewater Utility. The Utility realized an operating loss of $10.9 million in 2007 as compared to an operating income of $0.3 million in 2006. Operating revenue increased $15.6 million and operating expense increased $26.9 million between 2007 and 2006. The Utility realized a net loss of $17.8 million in 2007 and a $1.0 million net gain in 2006. The net loss was primarily due to an increase in expensed capital projects and wastewater treatment costs, while the revenues from capital contribution and grants decreased $8.7 million in 2007.

Net cash provided by operating activities decreased to $5.5 million in 2007 from $21.5 million in 2006. Total operating and restricted cash and investments were $26.8 million in 2007 compared to $65.5 million in 2006, a decrease of $38.7 million, primarily due to a decrease in construction fund cash and investments funded for capital improvement projects.

Utility plant, net of accumulated depreciation, and other capital assets increased to $516.9 million in 2007 from $499.7 million in 2006, an increase of $17.2 million. Acquisition of new assets included $7.1 million for Natural Drainage System improvements and $8.6 million for additions to computer systems. Significant capital was spent on flood control and local drainage projects, general improvements to the sewer and drainage infrastructure, and the Protection of Beneficial Uses improvement project.

The Drainage and Wastewater Revenue and Refunding Bonds outstanding liabilities were $325.5 in 2007 and $334.6 million in 2006. There were no new bonds issued in 2007. Interest expense was $14.9 million in 2007 and $13.6 million in 2006. Total liabilities, including revenue bonds, were $382.5 million in 2007 and $385.4 million in 2006.

Total net assets were $227.6 million in 2007 and $245.5 million in 2006.

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 2007 were $2.129 billion. SCERS represents 99.5 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, 2007, by $2.119 billion. Net assets increased by $108.2 million (5.4 percent) during 2007, primarily due to slight gains, compared to 2006, in the equity markets in the U.S. and abroad and in hedge funds and real estate. Investing in corporate bonds also increased at the end of 2007. Total revenues (additions to net assets) for 2007 were $220.0 million, which includes member and employer contributions of $80.8 million and total net investment income of $139.2 million. Total expenses (deductions from net assets) in 2007 were $111.7 million, an increase of $11.7 million (11.8 percent) from 2006. The largest part of the 2007 increase in total expenses (deductions) was for retiree benefits which increased by $10.8 million (12.3 percent).

At December 31, 2007, 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 $9.0 million and $0.8 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 2007 the General Fund's original budget was $1.041 billion. That original budget was increased by $37.0 million (3.6 percent) in supplemental appropriations.

The most significant budget revisions are described below:

- The Parks Department received a revision of $9.3 million, increasing the budget in the Cumulative Reserve Unrestricted Subfund. Part of the budget revision was $5.9 million for the acquisition of Discovery Park's Capehart Facility. Other revisions included the acceptance of $2.7 million in grant funding that contributed to the following projects: Citywide and neighborhood projects, forest restoration, and playfields and facilities.

- The Fleets and Facilities Department received a revision of $1.6 million, increasing the budget in the Cumulative Reserve Capital Project REET I Subfund. This revision supported the neighborhoods fire stations replacement program with $1.1 million and the general government community-based facilities with $0.5 million.

- The Police Department budget was revised, increasing it by $12.5 million, including authorizing the acceptance of $8.1 million for grants, $0.7 million for the purchase of 10 new patrol cars, and $1.2 million for the Police Department Information Technology Division to implement the handheld ticketing devices project.

- The Fire Department budget was increased by approximately $4.0 million. This included authorizing the acceptance of $2.8 million in grant funding and increasing appropriations $0.57 million for retroactive pay increases and medical benefit adjustments for Local 2898 union members.

- At year-end 2007 actual expenditures were $145.7 million less than budgeted. Of this amount, $93.9 million of the budget was carried over into 2007 to cover outstanding encumbrances, grants, capital spending, and special carryovers.

- The City Council authorized the acceptance of all grant funds. If a grant is not included as a part of the adopted budget, a separate ordinance is required. In 2007 over $15.8 million in additional grant funds were appropriated. The majority of grant awards were to the Police, Fire, and the Cumulative Reserve Subfunds for the Parks Department.

- During the year budgetary revenue estimates exceeded actual revenues by $50.8 million. Tax revenues exceeded the budget by $47.9 million, Licenses and Permits exceeded the budget by $4.7 million, Charges for Services exceeded the budget by $6.3 million, and Fines and Forfeits exceeded estimates the budget by $1.9 million. All other categories were less than budget.

CAPITAL ASSETS

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

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

(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Land	$ 419,494	$ 401,605	$ 99,323	$ 97,389	$ 518,817	$ 498,994
Plant in Service, Excluding Land	-	-	2,856,738	2,767,831	2,856,738	2,767,831
Buildings and Improvements	1,376,754	1,356,121	42,092	44,096	1,418,846	1,400,217
Machinery and Equipment	125,085	93,311	8,168	8,916	133,253	102,227
Infrastructure	587,456	479,914	-	-	587,456	479,914
Construction in Progress	229,233	248,063	273,533	230,226	502,766	478,289
Other Capital Assets	10,962	10,911	17,932	17,796	28,894	28,707
Total Capital Assets	$ 2,748,984	$ 2,589,925	$ 3,297,786	$ 3,166,254	$ 6,046,770	$ 5,756,179

Capital assets for governmental activities increased $159.0 million in 2007. Major increases included the following:

- Seattle Center capitalized improvements to various facilities amounting to $2.6 million and spent $1.0 million for the purchase of machinery and equipment. Construction in progress amounted to $3.8 million at the end of 2007, an increase of $1.9 million over last year.

- The Library expended $11.8 million for various library improvements/renovations, such as Broadview, $5.3 million; Southwest, $4.9 million; Queen Anne, $0.7 million; University, $0.8 million. Construction in progress at December 31, 2007, was $25.2 million.

- The Parks Department completed construction of various community centers at a cost of $4.4 million, such as Woodland Park Zoo Garage at $1.8 million and various additions to existing buildings amounting to $2.6 million. Additional costs of $41.8 million were expended for park improvement projects; and several parcels of land were purchased at $15.8 million, such as Discovery Park at $4.0 million; Capitol Hill Park at $3.1 million; Bellevue Substation at $2.2 million; Hing Hay Park Addition at $3.2 million; and others at $4.9 million. Construction in progress at December 31, 2007, stood at $4.0 million, a decrease of $2.4 million over last year.

- The Department of Transportation capitalized $136.3 million for various infrastructure assets (roads, bridges, sidewalks, land and land rights, signs, illuminations, and others). Streetcars, completed at a cost of $7.6 million, were also capitalized. Construction in progress at December 31, 2007, was $101.8 million.

- The Fleets and Facilities Department incurred $1.0 million to complete additional construction of various City buildings. Land parcels were acquired for Asian counseling at $0.6 million. Various city property improvements of $3.6 million were made (Haller Lake, $1.5 million; Seattle Municipal Tower, $0.9 million; Charles Street, $0.7 million; other facilities, $0.5 million). Construction in progress at the end of December 31, 2007, was $80.1 million.

- Machinery and equipment were purchased at a cost of $14.0 million, $13.3 million of which was for a large fireboat and a small fast attack boat built to accommodate equipment required by the Urban Areas Security Initiative to provide for chemical, biological, radiological, nuclear, and explosive events.

Capital assets for business-type activities increased $131.5 million as follows:

- City Light capital assets increased by $75.0 million in 2007. These increases were mainly for a) hydroelectric production plant, including the Ross circuit breaker, elevator and security systems governor control upgrade and installation of fall protection at Boundary Powerhouse, installation of irrigation system and backflow device at Newhalem, replacement of generator unit 24 transformer at Gorge Powerhouse, improvement of visitor house and road and other equipment purchased. b) Transmission Plant increased due to replacement of circuit breakers, relays, transmission lines, towers, construction of road and other transmission plant assets. c) Distribution Plant increased in substations equipment, poles, overhead conductors, and relocations, under grounding, conversion for network underground conduit for streetcar project, automated meter readers, transformers and streetlights. d) General Plant increased due to the purchased of vehicles and equipment, computer, communication equipment, structure improvement of visitor center at the Seattle Municipal Tower. Purchase Land /land easements for distribution plant.

- Drainage and Wastewater Utility capital assets increased by $17.1 million. Major capital improvements included Pinehurst Natural Drainage System, rehabilitation of sewer/drainage pipes, upgrade of the Supervisory Control and Data Acquisition (SCADA) computer system for customer billing, and upgrade to the Operations Center Building. Construction work in progress amounted to $47.3 million at December 31, 2007.

- Water Utility capital assets increased by $43.0 million. Increases included new direct service meters and replacement meters at $18.5 million, security improvements at a cost of $10.6 million, new distribution watermains at $5.8 million, several computer systems upgraded at a cost of $4.9 million, upgrades to the SCADA system at $2.5 million. Construction in progress at December 31, 2007, amounted to $106.4 million.

- Nonmajor enterprise funds capital assets decreased by $0.1 million due to transfer of construction in progress to expense and liability accounts. Capital assets increased by $43.0 million in 2007. Major capital outlays included expansion and improvements at the North Recycling and Disposal Station, rehabilitation and purchase of new heavy equipment, improvements of Operation control Center, Main Warehouse and Security systems, technology enhancement and improvements, purchase of additional recycling containers. Construction in progress at December 31, 2007, amounted to $14.7 million.

More detailed financial information about the City's capital asset activities is presented in Note 5 to the financial statements.

DEBT ADMINISTRATION

At the end of fiscal year 2007 the City had $3.387 billion in outstanding bonded debt that included general obligation and revenue bonds, compared to $3.463 billion in 2006. This represents a decrease of approximately $75.7 million (2.2 percent). Additionally, the City issuance in 2006 of $21.9 million special assessments bonds, without lending its full faith and credit but obligated in some manner, for the design and construction of the South Lake Union Streetcar, decreased to $20.5 million. A maturity and bond call payment of $1.4 million occurred in 2007 using the special assessment collections from property owners within the local improvement district.

In 2007 the City issued general obligation bonds to finance various capital improvement projects and ventures, including the Alaskan Way Tunnel/Sea Wall ($3.8 million), Aquarium ($4.9 million), Monorail Rehabilitation ($4.3 million), Northgate Land Acquisition ($3.0 million), Parking Pay Stations ($3.3 million), and Zoo Garage ($17.2 million). To take advantage of the prevailing low-interest rates in the year and to improve City cash flow, the same bond issuance included limited tax and unlimited tax refunding bonds of $59.2 million and $60.9 million respectively to refund $60.8 million of the 1998 LTGO, Series F, and $59.2 million of the 1999 UTGO, Series A, of the same order. The City also issued revenue bonds of $82.2 million for the Solid Waste Utility capital improvement projects and refunding of $3.4 million of the 1999 Solid Waste, Series B, revenue bonds, and for the full repayment of the 2003 line-of-credit revenue anticipation notes of $23.6 million

The City also partially defeased $5.9 million of the 2003 LTGO bonds that provided financing for the McCaw Hall using its Seattle Center levy money of $6.3 million.

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 tax general obligation debt is capped at 7.5 percent of assessed value by state law. The 2008 assessed value of taxable properties for the City is $121.6 billion. At year-end 2007 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 $924.0 million, well below the limit of $9.1 billion rendering the City a legal debt margin of $8.2 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 2007 the net outstanding limited tax general obligation was $765.8 million.

The City is self-insured for workers compensation and for most health care costs. The City carries general liability insurance with a self-insured retention. For these claims, including those incurred but not reported, the City recognized a total liability of $70.1 million at the end of the year. In addition, City utilities recorded $24.7 million in estimated environmental liabilities. At the end of 2007 City Light had in its record $4.7 million as obligation related to its purchased power commitments for the Lucky Peak project in Boise Idaho. 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

The City's 2008 budget reflects the strong economic environment in the Puget Sound region, which has now fully recovered from the recession early in the decade. This development allowed restoration of many valuable programs that were previously cut and to make investments in high-priority areas as mentioned in the transmittal letter.

General Subfund. Revenues are projected to grow at a rate of 3.5 percent in 2008. Tax revenues are expected to grow by 4.0 percent in 2008. The main drivers of this growth are the business and occupation (B&O) and sales taxes. The adopted 2008 forecast includes the effect of changes in state law that could reduce City B&O tax revenues by $20 million, but includes the square footage tax designed to mitigate that loss. Those changes, along with an increase in the exemption threshold for small businesses, comprise a net 3.1 percent growth rate for 2008. Sales tax revenues, led by construction, hotel, and retail sales, are projected to grow by 3.8 percent in 2008. Sales by the Seattle Public Utilities are projected to increase utility taxes from these sources by 5.7 percent in 2008.

Utilities. City Light's 2008 budget includes funding to relocate and underground its infrastructure in conjunction with major transportation projects at the Mercer Corridor, Spokane Street Viaduct, and Aurora Avenue North. It also provides funding for mitigation, cyber security, and creation of a small group to manage compliance with the regulatory and system protection requirements of the newly created North American Electric Reliability Corporation (NERC).

The Seattle Public Utilities (SPU) continues to apply its asset management approach for selecting what capital projects to build and when, as well as for achieving efficiencies in its operating programs. The utility evaluates projects based on their economic, social, and environmental benefits, as well as the ability to meet customer service levels. This approach leads to the most economical balance between capital investments and operation and maintenance expenditures and minimizes life-cycle costs of utility assets.

The City added about 236 full-time-equivalent positions in 2007.

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).

B-1 **STATEMENT OF NET ASSETS**

Page 1 of 2 **December 31, 2007**

(In Thousands)

	Primary Government				Component Unit
			Comparative Totals		
	Governmental Activities	Business-Type Activities	2007	Restated 2006	Seattle Public Library Foundation
ASSETS					
Current Assets					
Operating Cash and Equity in Pooled Investments	$ 611,400	$ 154,326	$ 765,726	$ 691,296	$ 5,300
Restricted Cash and Equity in Pooled Investments	-	3,626	3,626	3,544	-
Investments	-	-	-	-	45,569
Receivables, Net of Allowances	86,087	190,850	276,937	287,581	1,425
Internal Balances	16,482	(16,482)	-	-	-
Due from Other Governments	69,610	6,315	75,925	80,708	-
Inventories	3,493	31,486	34,979	32,087	-
Prepaid and Other Current Assets	52	1,120	1,172	1,464	18
Total Current Assets	787,124	371,241	1,158,365	1,096,680	52,312
Noncurrent Assets					
Restricted Cash and Equity in Pooled Investments	198	121,925	122,123	97,030	-
Restricted Investments	-	18,652	18,652	90,082	-
Restricted Investment Interest Receivable	-	279	279	1,042	-
Unamortized Debt Costs	2,674	14,998	17,672	40,197	-
Contracts and Notes	282,921	66	282,987	258,950	-
Capitalized Purchased Power Commitment	-	4,749	4,749	15,402	-
Deferred Conservation Costs, Net	-	180,928	180,928	176,070	-
Deferred Landfill Closure and Postclosure Costs, Net	-	30,211	30,211	33,406	-
Net Pension Asset	78,434	-	78,434	78,064	-
Deferred Muckleshoot Settlement Costs	-	2,400	2,400	3,000	-
Other Deferred Charges and Noncurrent Assets	20,863	188,940	209,803	159,408	4,925
Capital Assets, Net of Accumulated Depreciation					
Land and Land Rights	419,494	99,323	518,817	498,994	-
Plant in Service, Excluding Land	-	2,856,738	2,856,738	2,767,831	-
Buildings and Improvements	1,376,754	42,092	1,418,846	1,400,217	-
Machinery and Equipment	125,085	8,168	133,253	102,227	8
Infrastructure	587,456	-	587,456	479,914	-
Construction in Progress	229,233	273,533	502,766	478,289	-
Other Capital Assets	10,962	17,932	28,894	28,707	-
Total Noncurrent Assets	3,134,074	3,860,934	6,995,008	6,708,830	4,933
Total Assets	3,921,198	4,232,175	8,153,373	7,805,510	57,245

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

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Page 2 of 2

STATEMENT OF NET ASSETS

December 31, 2007

(In Thousands)

	Primary Government				Component Unit
			Comparative Totals		
	Governmental Activities	Business-Type Activities	2007	Restated 2006	Seattle Public Library Foundation
LIABILITIES					
Current Liabilities					
Accounts Payable	$ 68,026	$ 61,266	$ 129,292	$ 121,333	$ 530
Salaries, Benefits, and Taxes Payable	32,254	14,986	47,240	43,524	-
Contracts Payable	7,339	664	8,003	4,649	-
Due to Other Governments	8,669	8,679	17,348	16,586	-
Interest Payable	11,569	38,788	50,357	49,513	-
Taxes Payable	37	9,815	9,852	10,412	-
Deposits Payable	1,228	-	1,228	1,012	-
Deferred Credits	3,336	16,183	19,519	17,738	285
Current Portion of Long-Term Debt					
Bonds and Revenue Anticipation Notes Payable	49,190	105,784	154,974	180,541	-
Special Assessment Bonds with Governmental Commitment	1,060	-	1,060	1,220	-
Deferred Bond Interest	-	666	666	555	-
Compensated Absences Payable	15,719	2,322	18,041	15,689	-
Purchased Power Obligation	-	11,970	11,970	11,770	-
Notes and Contracts Payable	2,189	636	2,825	7,304	-
Claims Payable	25,526	15,922	41,448	32,937	-
Habitat Conservation Program Liability	-	9,528	9,528	3,356	-
Muckleshoot Liability	-	1,000	1,000	1,495	-
Landfill Closure and Postclosure Liability	-	1,465	1,465	5,410	-
Arbitrage Rebate Liability	26	-	26	-	-
Other Current Liabilities	373	1,099	1,472	3,112	-
Total Current Liabilities	226,541	300,773	527,314	528,156	815
Noncurrent Liabilities					
Bonds and Anticipation Notes Payable, Net of Unamortized Premiums, Discounts, and Other	684,359	2,571,643	3,256,002	3,296,172	-
Deferred Bond Interest	-	3,664	3,664	3,691	-
Special Assessment Bonds with Governmental Commitment	19,485	-	19,485	20,705	-
Compensated Absences Payable	54,273	21,654	75,927	68,829	-
Claims Payable	44,588	33,409	77,997	59,588	-
Notes and Contracts Payable	19,738	6,412	26,150	28,148	-
Purchased Power Obligation	-	(7,221)	(7,221)	3,632	-
Landfill Closure and Postclosure Liability	-	25,612	25,612	22,873	-
Vendor Deposits Payable	198	326	524	455	-
Habitat Conservation Program Liability	-	4,019	4,019	11,447	-
Muckleshoot Liability	-	495	495	-	-
Deferred Credits	325,033	54,559	379,592	370,873	-
Arbitrage Rebate Liability	407	-	407	-	-
Unfunded Other Post Employment Benefits	9,207	2,492	11,699	-	-
Net Pension Obligation	2,797	-	2,797	-	-
Other Noncurrent Liabilities	810	957	1,767	1,868	-
Total Noncurrent Liabilities	1,160,895	2,718,021	3,878,916	3,888,281	-
Total Liabilities	1,387,436	3,018,794	4,406,230	4,416,437	815
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	2,015,043	967,028	2,982,071	2,638,294	8
Restricted for					
Debt Service	34,834	2,998	37,832	33,605	-
Contingency Reserve Account	-	25,000	25,000	25,000	-
Capital Projects	117,416	-	117,416	136,926	126
Education and Development Services	16,724	-	16,724	15,373	16,622
Special Deposits	23,458	94	23,552	3,304	-
Deferred Conservation and Environmental Costs	-	9,257	9,257	7,153	-
Bonneville Power Administration Projects	-	2,393	2,393	1,872	-
Deferred External Infrastructure Costs	-	7,016	7,016	9,245	-
Muckleshoot Settlement	-	545	545	421	-
Other Deferred Charges	-	4,057	4,057	7,412	-
Other Purposes	-	-	-	-	223
Nonexpendable	2,186	-	2,186	2,190	26,128
Unrestricted	324,101	194,993	519,094	508,278	13,323
Total Net Assets	$ 2,533,762	$ 1,213,381	$ 3,747,143	$ 3,389,073	$ 56,430

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, 2007**

(In Thousands)

Functions/Programs	Program Expenses: Expenses	Program Expenses: Indirect Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES					
General Government	$ 104,590	$ (1,266)	$ 69,637	$ 11,284	$ -
Judicial	24,030	-	19,851	242	30
Public Safety	397,635	(966)	21,850	10,224	485
Physical Environment	9,991	-	1,660	16	-
Transportation	123,982	511	28,859	14,362	19,128
Economic Environment	98,337	-	25,100	26,740	5,019
Health and Human Services	63,275	-	16	27,416	-
Culture and Recreation	224,454	-	57,283	2,898	6,915
Interest on Long-Term Debt	34,048	-	-	-	-
Total Governmental Activities	1,080,342	(1,721)	224,256	93,182	31,577
BUSINESS-TYPE ACTIVITIES					
Light	754,275	846	812,761	3,909	42,203
Water	169,277	354	159,967	695	7,191
Drainage and Wastewater	225,629	204	201,139	944	3,641
Solid Waste	119,602	112	121,913	525	28
Planning and Development	55,934	205	49,471	134	-
Downtown Parking Garage	8,336	-	6,805	-	-
Total Business-Type Activities	1,333,053	1,721	1,352,056	6,207	53,063
Total Government-Wide Activities	$ 2,413,395	$ -	$ 1,576,312	$ 99,389	$ 84,640
COMPONENT UNIT	$ 4,628	$ -	$ 194	$ 4,281	$ -

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, 2007**

(In Thousands)

	Net Revenue (Expense) and Changes in Net Assets				
	Primary Government				Component Unit
			Comparative Totals		
	Governmental Activities	Business-Type Activities	2007	Restated 2006	Seattle Public Library Foundation
GOVERNMENTAL ACTIVITIES					
General Government	$ (22,403)	$ -	$ (22,403)	$ (60,928)	
Judicial	(3,907)	-	(3,907)	(1,985)	
Public Safety	(364,110)	-	(364,110)	(332,122)	
Physical Environment	(8,315)	-	(8,315)	(5,720)	
Transportation	(62,144)	-	(62,144)	(18,288)	
Economic Environment	(41,478)	-	(41,478)	(42,092)	
Health and Human Services	(35,843)	-	(35,843)	(31,229)	
Culture and Recreation	(157,358)	-	(157,358)	(130,093)	
Interest on Long-Term Debt	(34,048)	-	(34,048)	(35,399)	
Total Governmental Activities	(729,606)	-	(729,606)	(657,856)	
BUSINESS-TYPE ACTIVITIES					
Light	-	103,752	103,752	149,975	
Water	-	(1,778)	(1,778)	(1,692)	
Drainage and Wastewater	-	(20,109)	(20,109)	(822)	
Solid Waste	-	2,752	2,752	(1,591)	
Planning and Development	-	(6,534)	(6,534)	(5,508)	
Downtown Parking Garage	-	(1,531)	(1,531)	(1,427)	
Total Business-Type Activities	-	76,552	76,552	138,935	
Total Government-Wide Activities	(729,606)	76,552	(653,054)	(518,921)	
COMPONENT UNIT					$ (153)
General Revenues					
Property Taxes	359,651	-	359,651	318,490	-
Sales Taxes	171,846	-	171,846	155,311	-
Business Taxes	332,238	-	332,238	311,015	-
Excise Taxes	76,918	-	76,918	58,397	-
Other Taxes	12,765	-	12,765	4,929	-
Penalties and Interest on Delinquent Taxes	4,276	-	4,276	3,349	-
Unrestricted Investment Earnings	33,156	19,106	52,262	38,262	3,343
Gain (Loss) on Sale of Capital Assets	891	276	1,167	37,176	-
Transfers	(10,612)	10,612	-	-	-
Total General Revenues and Transfers	981,129	29,994	1,011,123	926,929	3,343
Changes in Net Assets	251,523	106,546	358,069	408,008	3,190
Net Assets - Beginning of Year	2,282,239	1,106,835	3,389,074	2,965,505	53,240
Prior-Year Adjustments	-	-	-	15,560	-
Net Assets - Beginning of Year as Restated	2,282,239	1,106,835	3,389,074	2,981,065	53,240
Net Assets - End of Year	$ 2,533,762	$ 1,213,381	$ 3,747,143	$ 3,389,073	$ 56,430

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

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Page 1 of 4

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2007
(In Thousands)

	General	Transportation	Low-Income Housing
ASSETS			
Cash and Equity in Pooled Investments	$ 284,614	$ 16,670	$ 63,407
Receivables, Net of Allowances			
Taxes	51,445	3,753	290
Accounts	2,007	3,225	356
Contracts and Notes	4	10	-
Special Assessments - Delinquent	-	-	-
Interest and Dividends	1,522	334	266
Unbilled and Others	327	1,274	-
Due from Other Funds	11,524	8,301	3
Due from Other Governments	43,979	7,273	1,102
Inventories	41	-	-
Prepaid and Other Current Assets	52	-	-
Contracts and Notes - Noncurrent	6,088	-	236,714
Advances to Other Funds	1,696	-	-
Deferred Charges and Other Assets	-	-	-
Total Assets	$ 403,299	$ 40,840	$ 302,138
LIABILITIES			
Accounts Payable	$ 22,166	$ 6,993	$ 1,228
Contracts Payable	774	4,550	-
Due to Other Funds	6,044	1,722	210
Due to Other Governments	4,345	22	2
Salaries, Benefits, and Taxes Payable	19,493	2,722	-
Interest Payable	65	32	13
Deposits Payable	672	203	158
Revenue Collected/Billed in Advance - Current	1,454	16	-
Other Current Liabilities	165	-	-
Advances from Other Funds	-	-	-
Deferred Revenues	21,093	1,217	236,942
Total Liabilities	76,271	17,477	238,553

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

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BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2007

(In Thousands)

	Other Governmental	Comparative Totals 2007	Comparative Totals Restated 2006
ASSETS			
Cash and Equity in Pooled Investments	$ 198,799	$ 563,490	$ 463,595
Receivables, Net of Allowances			
Taxes	7,537	63,025	56,269
Accounts	3,936	9,524	7,893
Contracts and Notes	2,302	2,316	7,228
Special Assessments - Delinquent	53	53	-
Interest and Dividends	864	2,986	4,008
Unbilled and Others	994	2,595	2,869
Due from Other Funds	5,305	25,133	24,765
Due from Other Governments	15,823	68,177	71,374
Inventories	922	963	905
Prepaid and Other Current Assets	-	52	153
Contracts and Notes - Noncurrent	40,120	282,922	258,859
Advances to Other Funds	-	1,696	6,741
Deferred Charges and Other Assets	20,863	20,863	22,374
Total Assets	$ 297,518	$ 1,043,795	$ 927,033
LIABILITIES			
Accounts Payable	$ 28,043	$ 58,430	$ 52,988
Contracts Payable	2,016	7,340	4,458
Due to Other Funds	8,063	16,039	14,295
Due to Other Governments	4,300	8,669	8,540
Salaries, Benefits, and Taxes Payable	7,556	29,771	26,240
Interest Payable	18	128	59
Deposits Payable	194	1,227	1,012
Revenue Collected/Billed in Advance - Current	1,866	3,336	7,505
Other Current Liabilities	143	308	279
Advances from Other Funds	1,696	1,696	4,241
Deferred Revenues	65,780	325,032	308,865
Total Liabilities	119,675	451,976	428,482

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

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Page 3 of 4

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2007
(In Thousands)

	General	Transportation	Low-Income Housing
FUND BALANCES			
Reserves Legally Segregated for Future Use			
Capital Improvements	$ 55,973	$ -	$ -
Continuing Appropriations	20,180	23,321	45,922
Debt Service	18,598	-	-
Encumbrances	5,726	40	7,186
Health Care Rate Stabilization	23,458	-	-
Reserves Not Available for Appropriation			
Endowments	-	-	-
Gifts	-	-	-
Interfund Loans	1,696	-	-
Inventories	-	-	-
Petty Cash	3,719	2	-
Unreserved, Reported in			
Major Funds			
Designated for Special Purpose	29,758	-	-
Undesignated	167,920	-	10,477
Special Revenue Funds	-	-	-
Capital Projects Funds	-	-	-
Permanent Funds	-	-	-
Total Fund Balance	327,028	23,363	63,585
Total Liabilities and Fund Balance	$ 403,299	$ 40,840	$ 302,138

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, 2007
(In Thousands)

	Other Governmental	Comparative Totals 2007	Comparative Totals Restated 2006
FUND BALANCES			
Reserves Legally Segregated for Future Use			
Capital Improvements	$ 103,524	$ 159,497	$ 180,697
Continuing Appropriations	20,265	109,688	71,667
Debt Service	16,236	34,834	25,621
Encumbrances	1,051	14,003	13,599
Health Care Rate Stabilization	-	23,458	3,229
Reserves Not Available for Appropriation			
Endowments	2,050	2,050	2,050
Gifts	7,350	7,350	3,479
Interfund Loans	-	1,696	6,741
Inventories	663	663	658
Petty Cash	25	3,746	1,959
Unreserved, Reported in			
Major Funds			
Designated for Special Purpose	-	29,758	28,531
Undesignated	-	178,397	137,106
Special Revenue Funds	28,442	28,442	26,339
Capital Projects Funds	(1,846)	(1,846)	(3,125)
Permanent Funds	83	83	-
Total Fund Balance	177,843	591,819	498,551
Total Liabilities and Fund Balance	$ 297,518		

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

	2007	Restated 2006
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,664,393	2,511,707
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	6,489	6,043
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.	124,173	112,041
Net pension asset net of pension obligations	75,637	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	(25,105)	(23,706)
Accrued Interest Payable	(11,366)	(13,318)
Current Portion of Long-Term Debt	(57,974)	(59,627)
Compensated Absences Payable	(15,448)	(13,332)
General Obligation Bonds Payable	(664,440)	(688,480)
Less Bond Discount and Premium	(16,522)	(13,942)
Special Assessment Bonds	(19,485)	(20,705)
Unamortized Losses on Refunding	3,016	2,423
Deferred Credits	2,674	2,674
Notes and Other Long-Term Liabilities	(19,738)	(21,927)
Compensated Absences - Long-Term	(51,288)	(46,293)
Claims Payable - Long-Term	(32,935)	(17,996)
Workers' Compensation	(10,860)	(9,938)
Arbitrage	(432)	-
Unfunded Other Post Employment Benefits	(8,846)	-
Net Adjustments	1,941,943	1,783,688
Net Assets of Governmental Activities	$ 2,533,762	$ 2,282,239

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

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007
(In Thousands)

	General	Transportation	Low-Income Housing
REVENUES			
Taxes	$ 770,140	$ 43,455	$ 11,849
Licenses and Permits	22,680	9,821	-
Grants, Shared Revenues, and Contributions	18,916	33,490	7,601
Charges for Services	64,750	30,638	18
Fines and Forfeits	19,497	10	-
Parking Fees and Space Rent	21,360	73	27
Program Income, Interest, and Miscellaneous Revenues	41,390	838	17,514
Total Revenues	958,733	118,325	37,009
EXPENDITURES			
Current			
General Government	147,517	-	-
Judicial	24,142	-	-
Public Safety	372,107	-	-
Physical Environment	10,513	-	-
Transportation	11,221	84,204	-
Economic Environment	18,503	-	25,835
Health and Human Services	280	-	-
Culture and Recreation	3,546	-	-
Capital Outlay			
General Government	12,849	-	-
Public Safety	7,147	-	-
Physical Environment	10	-	-
Transportation	-	105,079	-
Economic Environment	192	-	78
Culture and Recreation	25,739	-	-
Debt Service			
Principal	-	2,185	-
Advance Refunding to Escrow	-	-	-
Interest	-	391	-
Bond Issuance Cost	-	-	-
Other	-	-	-
Total Expenditures	633,766	191,859	25,913
Excess (Deficiency) of Revenues Over Expenditures	324,967	(73,534)	11,096
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	-	-	-
Refunding Debt Issued	-	-	-
Premium on Bonds Issued	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-
Sales of Capital Assets	3,868	-	-
Transfers In	5,389	88,928	-
Transfers Out	(248,494)	(2,536)	-
Total Other Financing Sources (Uses)	(239,237)	86,392	-
Net Change in Fund Balance	85,730	12,858	11,096
Fund Balances - Beginning of Year	241,298	10,505	52,489
Fund Balances - End of Year	$ 327,028	$ 23,363	$ 63,585

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

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007
(In Thousands)

	Other Governmental	Comparative Totals 2007	Comparative Totals Restated 2006
REVENUES			
Taxes	$ 131,798	$ 957,242	$ 851,366
Licenses and Permits	938	33,439	28,348
Grants, Shared Revenues, and Contributions	70,862	130,869	158,922
Charges for Services	53,643	149,049	125,245
Fines and Forfeits	3,194	22,701	21,230
Parking Fees and Space Rent	16,569	38,029	44,742
Program Income, Interest, and Miscellaneous Revenues	21,458	81,200	46,892
Total Revenues	298,462	1,412,529	1,276,745
EXPENDITURES			
Current			
General Government	7,155	154,672	160,282
Judicial	-	24,142	20,569
Public Safety	5,260	377,367	352,395
Physical Environment	239	10,752	7,574
Transportation	49	95,474	82,612
Economic Environment	59,012	103,350	83,327
Health and Human Services	64,210	64,490	58,723
Culture and Recreation	195,668	199,214	191,618
Capital Outlay			
General Government	3,974	16,823	42,691
Public Safety	31,198	38,345	3,928
Physical Environment	-	10	-
Transportation	-	105,079	80,913
Economic Environment	-	270	16
Culture and Recreation	62,902	88,641	85,438
Debt Service			
Principal	59,051	61,236	71,672
Advance Refunding to Escrow	6,270	6,270	-
Interest	34,532	34,923	37,599
Bond Issuance Cost	256	256	380
Other	-	-	177
Total Expenditures	529,776	1,381,314	1,279,914
Excess (Deficiency) of Revenues Over Expenditures	(231,314)	31,215	(3,169)
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	36,365	36,365	49,635
Refunding Debt Issued	60,870	60,870	2,195
Premium on Bonds Issued	4,178	4,178	378
Payment to Refunded Bond Escrow Agent	(62,535)	(62,535)	(2,253)
Sales of Capital Assets	480	4,348	35,756
Transfers In	212,597	306,914	282,578
Transfers Out	(37,057)	(288,087)	(287,529)
Total Other Financing Sources (Uses)	214,898	62,053	80,760
Net Change in Fund Balance	(16,416)	93,268	77,591
Fund Balances - Beginning of Year	194,259	498,551	420,958
Fund Balances - End of Year	$ 177,843	$ 591,819	$ 498,549

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, 2007

(In Thousands)

	Comparative Totals 2007	Restated 2006
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balance - total governmental funds	$ 93,268	$ 77,591
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	(78,800)	(74,292)
Capital outlay reported as expenditures	235,073	204,805
Retirement and sale of capital assets	(3,457)	(505)
Capital assets received as donations	-	3,462
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	446	124
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	(36,365)	(22,710)
Proceeds of special assessment bonds with government commitment	-	(21,925)
Premium on general obligation bonds	(4,178)	(378)
Proceeds from bond refunding	(60,870)	(2,195)
Proceeds of long-term loans	-	(5,000)
Principal payments bonds/notes	61,237	71,673
Bond interest	462	180
Remittance to refunding escrow using City funds	6,270	-
Bond issuance costs	233	1,985
Remittance to refunding escrow using refunding proceeds	62,535	2,253
Amortization of debt expense	(257)	(251)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Compensated absences	(7,112)	(1,330)
Injury and damage claims	(15,659)	2,672
Workers' compensation	(1,600)	759
Arbitrage	(432)	106
Unfunded OPEB liabilities	(8,846)	-
Net pension asset	(2,428)	-
Internal service funds are used by management to charge the cost of Fleets and Facilities, Information Technology, and Engineering Services to individual funds. Adjustments reflect the consolidation of internal service funds activities to governmental funds:		
Operating loss (income) allocated to enterprise funds	(2,178)	(855)
Net revenue of internal service funds activities reported with governmental activities	14,181	5,620
Change in Net Assets of Governmental Activities	$ 251,523	$ 241,789

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2007
(In Thousands)

	Business-Type Activities - Enterprise Funds							
	Light				Water			
	2007		2006		2007		2006	
ASSETS								
Current Assets								
Operating Cash and Equity in Pooled Investments	$	87,724	$	127,148	$	6,799	$	11,837
Restricted Cash and Equity in Pooled Investments		-		-		1,883		1,764
Receivables, Net of Allowances								
Accounts		67,660		74,179		9,329		9,553
Interest and Dividends		617		651		-		-
Unbilled		59,515		64,485		8,291		7,314
Energy Contracts, Notes, and Other Contracts		855		6,680		2,775		47
Due from Other Funds		692		1,398		1,245		390
Due from Other Governments		2,712		4,445		2,160		1,350
Materials and Supplies Inventory		26,936		24,157		4,514		4,646
Prepayments and Other Current Assets		1,052		1,053		68		239
Total Current Assets		247,763		304,196		37,064		37,140
Noncurrent Assets								
Restricted Cash and Equity in Pooled Investments		31,109		31,503		32,996		48,342
Restricted Investments		-		-		14,661		59,985
Restricted Investment Interest Receivable		-		-		251		873
Unamortized Bond Issue Costs, Net		6,497		7,244		4,733		5,024
Notes and Contracts Receivable		-		-		66		91
Capitalized Purchased Power Commitment		4,749		15,402		-		-
Deferred Conservation Costs, Net		141,584		138,077		39,344		37,993
Deferred Landfill Closure and Postclosure Costs, Net		-		-		-		-
Deferred External Insfrastructure Costs		-		-		-		-
Capitalized Relicensing Costs		40,917		28,852		-		-
Deferred Muckleshoot Settlement Costs		-		-		2,400		3,000
Other Deferred Charges		106,099		89,268		4,316		2,039
Capital Assets								
Land and Land Rights		41,051		39,831		33,493		33,355
Plant in Service, Excluding Land		2,605,862		2,485,489		1,350,949		1,308,418
Less Accumulated Depreciation		(1,174,568)		(1,109,485)		(406,556)		(372,512)
Building and Improvements		-		-		-		-
Less Accumulated Depreciation		-		-		-		-
Machinery and Equipment		-		-		-		-
Less Accumulated Depreciation		-		-		-		-
Construction in Progress		104,241		86,411		106,449		72,212
Other Property, Net		14,708		14,729		855		704
Total Noncurrent Assets		1,922,249		1,827,321		1,183,957		1,199,524
Total Assets		2,170,012		2,131,517		1,221,021		1,236,664

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2007
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2007	2006	2007	Restated 2006
ASSETS				
Current Assets				
Operating Cash and Equity in Pooled Investments	$ 18,075	$ 16,530	$ 41,728	$ 32,301
Restricted Cash and Equity in Pooled Investments	1,743	1,780	-	-
Receivables, Net of Allowances				
Accounts	12,710	12,631	15,254	14,497
Interest and Dividends	73	49	331	126
Unbilled	13,245	12,170	194	238
Energy Contracts, Notes, and Other Contracts	1	2	-	-
Due from Other Funds	1,203	284	1,383	659
Due from Other Governments	1,209	458	234	385
Materials and Supplies Inventory	-	-	36	54
Prepayments and Other Current Assets	-	19	-	-
Total Current Assets	48,259	43,923	59,160	48,260
Noncurrent Assets				
Restricted Cash and Equity in Pooled Investments	2,953	17,093	54,867	9
Restricted Investments	3,991	30,097	-	-
Restricted Investment Interest Receivable	28	168	-	-
Unamortized Bond Issue Costs, Net	2,360	2,470	1,408	412
Notes and Contracts Receivable	-	-	-	-
Capitalized Purchased Power Commitment	-	-	-	-
Deferred Conservation Costs, Net	-	-	-	-
Deferred Landfill Closure and Postclosure Costs, Net	-	-	30,211	33,406
Deferred External Insfrastructure Costs	21,433	21,779	-	-
Capitalized Relicensing Costs	-	-	-	-
Deferred Muckleshoot Settlement Costs	-	-	-	-
Other Deferred Charges	14,149	15,615	2,026	1,854
Capital Assets				
Land and Land Rights	10,107	9,531	14,672	14,672
Plant in Service, Excluding Land	638,751	600,521	49,807	46,309
Less Accumulated Depreciation	(179,895)	(166,176)	(27,612)	(24,732)
Building and Improvements	-	-	60,131	60,132
Less Accumulated Depreciation	-	-	(18,039)	(16,035)
Machinery and Equipment	-	-	14,439	14,523
Less Accumulated Depreciation	-	-	(6,271)	(5,608)
Construction in Progress	47,355	55,270	15,488	16,333
Other Property, Net	603	597	1,766	1,765
Total Noncurrent Assets	561,835	586,965	192,893	143,040
Total Assets	610,094	630,888	252,053	191,300

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2007
(In Thousands)

	Business-Type Activities - Enterprise Funds Comparative Totals		Governmental Activities - Internal Service Funds	
	2007	Restated 2006	2007	2006
ASSETS				
Current Assets				
Operating Cash and Equity in Pooled Investments	$ 154,326	$ 187,816	$ 47,910	$ 39,883
Restricted Cash and Equity in Pooled Investments	3,626	3,544	-	-
Receivables, Net of Allowances				
Accounts	104,953	110,860	1,359	990
Interest and Dividends	1,021	826	221	174
Unbilled	81,245	84,207	79	17
Energy Contracts, Notes, and Other Contracts	3,631	6,729	-	-
Due from Other Funds	4,523	2,731	9,130	6,519
Due from Other Governments	6,315	6,638	1,431	2,697
Materials and Supplies Inventory	31,486	28,857	2,531	2,324
Prepayments and Other Current Assets	1,120	1,311	-	-
Total Current Assets	392,246	433,519	62,661	52,604
Noncurrent Assets				
Restricted Cash and Equity in Pooled Investments	121,925	96,947	198	83
Restricted Investments	18,652	90,082	-	-
Restricted Investment Interest Receivable	279	1,041	-	-
Unamortized Bond Issue Costs, Net	14,998	15,150	-	-
Notes and Contracts Receivable	66	91	-	-
Capitalized Purchased Power Commitment	4,749	15,402	-	-
Deferred Conservation Costs, Net	180,928	176,070	-	-
Deferred Landfill Closure and Postclosure Costs, Net	30,211	33,406	-	-
Deferred External Insfrastructure Costs	21,433	21,779	-	-
Capitalized Relicensing Costs	40,917	28,852	-	-
Deferred Muckleshoot Settlement Costs	2,400	3,000	-	-
Other Deferred Charges	126,590	108,776	-	-
Capital Assets				
Land and Land Rights	99,323	97,389	39	81
Plant in Service, Excluding Land	4,645,369	4,440,737	-	-
Less Accumulated Depreciation	(1,788,631)	(1,672,905)	-	-
Building and Improvements	60,131	60,132	2,890	2,575
Less Accumulated Depreciation	(18,039)	(16,035)	(853)	(718)
Machinery and Equipment	14,439	14,523	161,260	155,388
Less Accumulated Depreciation	(6,271)	(5,608)	(81,922)	(84,435)
Construction in Progress	273,533	230,226	3,175	5,333
Other Property, Net	17,932	17,795	-	-
Total Noncurrent Assets	3,860,934	3,756,850	84,787	78,307
Total Assets	4,253,180	4,190,369	147,448	130,911

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2007
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2007	2006	2007	2006
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 43,370	$ 44,586	$ 7,363	$ 6,508
Salaries, Benefits, and Payroll Taxes Payable	8,304	8,965	2,653	2,474
Compensated Absences Payable	1,223	1,005	403	398
Due to Other Funds	11,452	7,356	3,593	4,361
Due to Other Governments	23	23	-	-
Interest Payable	19,445	20,422	12,463	10,694
Deferred Bond Interest	-	-	-	-
Taxes Payable	8,987	9,511	426	439
General Obligation Bonds Due Within One Year	-	-	-	-
Revenue Bonds and Anticipation Notes Due Within One Year	70,460	66,755	21,385	18,485
Energy and Other Contracts Payable	664	191	-	-
Claims Payable	8,097	9,937	1,240	998
Purchased Power Obligation	11,970	11,770	-	-
Notes and Contracts Payable	285	4,227	118	118
Habitat Conservation Program Liability	-	-	9,528	3,356
Muckleshoot Liability	-	-	1,000	1,495
Landfill Closure and Postclosure Liability	-	-	-	-
Deferred Credits	8,512	4,732	2,246	1,228
Other Current Liabilities	958	2,247	-	1
Total Current Liabilities	193,750	191,727	62,418	50,555
Noncurrent Liabilities				
Advances from Other Funds/Interfund Notes Payable	-	-	-	-
Compensated Absences Payable	11,343	10,387	3,876	3,584
Claims Payable	19,685	11,065	2,473	2,385
Notes and Contracts Payable	-	285	-	-
Long-Term Purchased Power Obligation	4,749	15,402	-	-
Less Obligation Due Within One Year	(11,970)	(11,770)	-	-
Public Works Trust Loan	-	-	591	709
Landfill Closure and Postclosure Liability	-	-	-	-
Vendor and Other Deposits Payable	-	-	120	189
Habitat Conservation Program Liability	-	-	4,019	11,447
Muckleshoot Liability	-	-	495	-
Deferred Credits	26,659	34,369	12,571	12,362
Unfunded Other Post Employment Benefits	1,257	-	486	-
Other Noncurrent Liabilities	194	186	637	442
General Obligation Bonds, Due Serially	-	-	-	-
Less Bonds Due Within One Year	-	-	-	-
Bond Discount and Premium, Net	-	-	-	-
Deferred Loss on Advanced Refunding	-	-	-	-
Deferred Bond Interest	-	-	-	-
Less Accrued Interest Due Within One Year	-	-	-	-
Revenue Bonds and Anticipation Notes	1,342,460	1,409,215	841,785	861,670
Less Bonds Due Within One Year	(70,460)	(66,755)	(21,385)	(18,485)
Bond Discount and Premium, Net	28,551	32,247	27,862	29,339
Deferred Loss on Advanced Refunding	(37,277)	(42,402)	(18,727)	(20,155)
Total Noncurrent Liabilities	1,315,191	1,392,229	854,803	883,487
Total Liabilities	1,508,941	1,583,956	917,221	934,042

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2007
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2007	2006	2007	Restated 2006
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 4,155	$ 3,922	$ 9,098	$ 9,207
Salaries, Benefits, and Payroll Taxes Payable	1,858	1,603	2,171	2,023
Compensated Absences Payable	311	249	385	380
Due to Other Funds	4,198	4,829	1,762	2,131
Due to Other Governments	8,239	7,662	417	361
Interest Payable	5,750	4,403	1,130	472
Deferred Bond Interest	-	-	666	555
Taxes Payable	186	208	216	214
General Obligation Bonds Due Within One Year	-	-	1,179	1,145
Revenue Bonds and Anticipation Notes Due Within One Year	8,070	9,165	4,690	27,966
Energy and Other Contracts Payable	-	-	-	-
Claims Payable	5,917	3,930	668	594
Purchased Power Obligation	-	-	-	-
Notes and Contracts Payable	233	378	-	-
Habitat Conservation Program Liability	-	-	-	-
Muckleshoot Liability	-	-	-	-
Landfill Closure and Postclosure Liability	-	-	1,465	5,410
Deferred Credits	2,739	2,019	2,686	2,254
Other Current Liabilities	-	-	141	184
Total Current Liabilities	41,656	38,368	26,674	52,896
Noncurrent Liabilities				
Advances from Other Funds/Interfund Notes Payable	-	-	-	-
Compensated Absences Payable	2,988	2,240	3,447	3,177
Claims Payable	10,615	10,592	636	827
Notes and Contracts Payable	-	-	-	-
Long-Term Purchased Power Obligation	-	-	-	-
Less Obligation Due Within One Year	-	-	-	-
Public Works Trust Loan	5,821	5,226	-	-
Landfill Closure and Postclosure Liability	-	-	25,612	22,873
Vendor and Other Deposits Payable	189	183	17	-
Habitat Conservation Program Liability	-	-	-	-
Muckleshoot Liability	-	-	-	-
Deferred Credits	-	-	15,329	15,278
Unfunded Other Post Employment Benefits	358	-	391	-
Other Noncurrent Liabilities	110	88	16	35
General Obligation Bonds, Due Serially	-	-	65,702	70,023
Less Bonds Due Within One Year	-	-	(1,179)	(1,145)
Bond Discount and Premium, Net	-	-	4,222	293
Deferred Loss on Advanced Refunding	-	-	(738)	-
Deferred Bond Interest	-	-	4,330	4,246
Less Accrued Interest Due Within One Year	-	-	(666)	(555)
Revenue Bonds and Anticipation Notes	325,460	334,625	91,695	40,901
Less Bonds Due Within One Year	(8,070)	(9,165)	(4,690)	(27,966)
Bond Discount and Premium, Net	8,154	8,419	3,701	276
Deferred Loss on Advanced Refunding	(4,818)	(5,138)	(605)	(532)
Total Noncurrent Liabilities	340,807	347,070	207,220	127,731
Total Liabilities	382,463	385,438	233,894	180,627

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2007
(In Thousands)

	Business-Type Activities - Enterprise Funds Comparative Totals		Governmental Activities - Internal Service Funds	
	2007	Restated 2006	2007	2006
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 63,986	$ 64,223	$ 9,434	$ 4,567
Salaries, Benefits, and Payroll Taxes Payable	14,986	15,065	2,484	2,221
Compensated Absences Payable	2,322	2,032	271	324
Due to Other Funds	21,005	18,677	1,742	1,125
Due to Other Governments	8,679	8,046	-	-
Interest Payable	38,788	35,991	76	146
Deferred Bond Interest	666	555	-	-
Taxes Payable	9,815	10,372	36	40
General Obligation Bonds Due Within One Year	1,179	1,145	860	815
Revenue Bonds and Anticipation Notes Due Within One Year	104,605	122,371	-	-
Energy and Other Contracts Payable	664	191	-	-
Claims Payable	15,922	15,459	421	407
Purchased Power Obligation	11,970	11,770	-	-
Notes and Contracts Payable	636	4,723	-	383
Habitat Conservation Program Liability	9,528	3,356	-	-
Muckleshoot Liability	1,000	1,495	-	-
Landfill Closure and Postclosure Liability	1,465	5,410	-	-
Deferred Credits	16,183	10,233	-	-
Other Current Liabilities	1,099	2,432	65	2
Total Current Liabilities	324,498	333,546	15,389	10,030
Noncurrent Liabilities				
Advances from Other Funds/Interfund Notes Payable	-	-	-	2,500
Compensated Absences Payable	21,654	19,388	2,985	3,148
Claims Payable	33,409	24,869	793	818
Notes and Contracts Payable	-	285	-	1
Long-Term Purchased Power Obligation	4,749	15,402	-	-
Less Obligation Due Within One Year	(11,970)	(11,770)	-	-
Public Works Trust Loan	6,412	5,935	-	-
Landfill Closure and Postclosure Liability	25,612	22,873	-	-
Vendor and Other Deposits Payable	326	372	199	83
Habitat Conservation Program Liability	4,019	11,447	-	-
Muckleshoot Liability	495	-	-	-
Deferred Credits	54,559	62,009	-	-
Unfunded Other Post Employment Benefits	2,492	-	361	-
Other Noncurrent Liabilities	957	751	810	852
General Obligation Bonds, Due Serially	65,702	70,023	860	1,675
Less Bonds Due Within One Year	(1,179)	(1,145)	(860)	(815)
Bond Discount and Premium, Net	4,222	293	18	49
Deferred Loss on Advanced Refunding	(738)	-	-	-
Deferred Bond Interest	4,330	4,246	-	-
Less Accrued Interest Due Within One Year	(666)	(555)	-	-
Revenue Bonds and Anticipation Notes	2,601,400	2,646,411	-	-
Less Bonds Due Within One Year	(104,605)	(122,371)	-	-
Bond Discount and Premium, Net	68,268	70,281	-	-
Deferred Loss on Advanced Refunding	(61,427)	(68,227)	-	-
Total Noncurrent Liabilities	2,718,021	2,750,517	5,166	8,311
Total Liabilities	3,042,519	3,084,063	20,555	18,341

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2007
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2007	2006	2007	2006
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 450,344	$ 287,597	$ 295,738	$ 291,610
Restricted for				
Debt Service	2,998	2,939	-	-
Contingency Reserve Account	25,000	25,000	-	-
Special Deposits and Other	94	75	-	-
Deferred Conservation and Environmental Costs	-	-	7,035	6,494
Bonneville Power Administration Projects	-	-	2,393	1,872
Deferred External Infrastructure Costs	-	-	-	-
Muckleshoot Settlement	-	-	545	421
Other Deferred Charges	-	-	1,001	571
Unrestricted	182,635	231,950	(2,912)	1,654
Total Net Assets	$ 661,071	$ 547,561	$ 303,800	$ 302,622
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, 2007
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2007	2006	2007	Restated 2006
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 206,654	$ 218,835	$ 14,292	$ 15,049
Restricted for				
Debt Service	-	5,044	-	-
Contingency Reserve Account	-	-	-	-
Special Deposits and Other	-	-	-	-
Deferred Conservation and Environmental Costs	2,222	659	-	-
Bonneville Power Administration Projects	-	-	-	-
Deferred External Infrastructure Costs	7,016	9,245	-	-
Muckleshoot Settlement	-	-	-	-
Other Deferred Charges	2,410	5,969	646	872
Unrestricted	9,329	5,698	3,221	(5,248)
Total Net Assets	$ 227,631	$ 245,450	$ 18,159	$ 10,673
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, 2007
(In Thousands)

	Business-Type Activities - Enterprise Funds Comparative Totals		Governmental Activities - Internal Service Funds	
	2007	Restated 2006	2007	2006
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 967,028	$ 813,091	$ 83,712	$ 76,500
Restricted for				
Debt Service	2,998	7,983	-	-
Contingency Reserve Account	25,000	25,000	-	-
Special Deposits and Other	94	75	-	-
Deferred Conservation and Environmental Costs	9,257	7,153	-	-
Bonneville Power Administration Projects	2,393	1,872	-	-
Deferred External Infrastructure Costs	7,016	9,245	-	-
Muckleshoot Settlement	545	421	-	-
Other Deferred Charges	4,057	7,412	-	-
Unrestricted	192,273	234,054	43,182	36,070
Total Net Assets	1,210,661	1,106,306	$ 126,894	$ 112,570
Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds	2,720	529		
Net Assets of Business-Type Activities	$ 1,213,381	$ 1,106,835		

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, 2007
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2007	2006	2007	2006
OPERATING REVENUES				
Charges for Services and Other Revenues	$ 832,525	$ 831,810	$ 160,161	$ 155,175
OPERATING EXPENSES				
Long-Term Purchased Power	220,194	210,239	-	-
Short-Term Wholesale Power Purchases	33,431	47,361	-	-
Generation	24,974	19,564	-	-
Transmission	45,138	46,825	-	-
Distribution	53,754	50,338	-	-
Energy Management and Other Power Expenses	90,541	42,927	-	-
Science, Sustainability, and Watershed	-	-	13,571	9,929
Utility Systems Management	-	-	8,419	12,212
Field Operations	-	-	17,875	17,075
Engineering Services	-	-	4,724	4,557
Customer Services	31,242	37,986	7,549	7,939
Wastewater Treatment	-	-	-	-
Solid Waste Collection	-	-	-	-
Operations and Maintenance	-	-	-	-
General and Administrative	66,729	48,962	24,697	17,538
City Business and Occupation Taxes	33,396	35,591	18,561	17,907
Other Taxes	25,711	27,977	5,609	5,428
Amortization of Landfill and Postclosure Costs	-	-	-	-
Depreciation and Other Amortization	77,066	74,271	37,436	37,114
Total Operating Expenses	702,176	642,041	138,441	129,699
Operating Income (Loss)	130,349	189,769	21,720	25,476
NONOPERATING REVENUES (EXPENSES)				
Investment and Interest Income	10,217	9,994	3,909	2,985
Interest Expense	(66,386)	(69,445)	(37,378)	(35,014)
Amortization of Debt Costs	(2,176)	(2,336)	(291)	(284)
Gain (Loss) on Sale of Capital Assets	530	2,126	(199)	(278)
Contributions and Grants	3,909	1,442	695	282
Others, Net	(5,136)	(172)	5,531	593
Total Nonoperating Revenues (Expenses)	(59,042)	(58,391)	(27,733)	(31,716)
Income (Loss) Before Capital Contributions and Grants and Transfers	71,307	131,378	(6,013)	(6,240)
Capital Contributions and Grants	42,203	30,386	7,191	6,798
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Change in Net Assets	113,510	161,764	1,178	558
Net Assets - Beginning of Year	547,561	385,797	302,622	302,064
Prior-Year Adjustment	-	-	-	-
Net Assets - Beginning of Year as Restated	547,561	385,797	302,622	302,064
Net Assets - End of Year	$ 661,071	$ 547,561	$ 303,800	$ 302,622
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, 2007

(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2007	2006	2007	Restated 2006
OPERATING REVENUES				
Charges for Services and Other Revenues	$ 202,408	$ 186,832	$ 179,893	$ 165,623
OPERATING EXPENSES				
Long-Term Purchased Power	-	-	-	-
Short-Term Wholesale Power Purchases	-	-	-	-
Generation	-	-	-	-
Transmission	-	-	-	-
Distribution	-	-	-	-
Energy Management and Other Power Expenses	-	-	-	-
Science, Sustainability, and Watershed	14,115	3,326	3,133	3,399
Utility Systems Management	8,088	4,988	2,419	1,269
Field Operations	13,083	12,428	8,386	8,121
Engineering Services	8,045	2,613	191	79
Customer Services	4,985	5,157	10,162	10,329
Wastewater Treatment	98,425	89,839	-	-
Solid Waste Collection	-	-	59,450	60,093
Operations and Maintenance	-	-	47,714	44,321
General and Administrative	25,592	27,878	18,558	13,392
City Business and Occupation Taxes	23,688	21,919	17,307	15,512
Other Taxes	2,404	2,254	1,674	1,551
Amortization of Landfill and Postclosure Costs	-	-	3,195	3,175
Depreciation and Other Amortization	14,931	16,141	7,429	7,444
Total Operating Expenses	213,356	186,543	179,618	168,685
Operating Income (Loss)	(10,948)	289	275	(3,062)
NONOPERATING REVENUES (EXPENSES)				
Investment and Interest Income	2,549	1,833	2,430	1,430
Interest Expense	(14,947)	(13,559)	(5,477)	(5,337)
Amortization of Debt Costs	(110)	(93)	(63)	(63)
Gain (Loss) on Sale of Capital Assets	(40)	(39)	(15)	14
Contributions and Grants	944	187	659	501
Others, Net	1,092	103	(963)	(674)
Total Nonoperating Revenues (Expenses)	(10,512)	(11,568)	(3,429)	(4,129)
Income (Loss) Before Capital Contributions and Grants and Transfers	(21,460)	(11,279)	(3,154)	(7,191)
Capital Contributions and Grants	3,641	12,251	28	1
Transfers In	-	-	10,612	9,260
Transfers Out	-	-	-	-
Change in Net Assets	(17,819)	972	7,486	2,070
Net Assets - Beginning of Year	245,450	244,478	10,673	5,597
Prior-Year Adjustment	-	-	-	3,006
Net Assets - Beginning of Year as Restated	245,450	244,478	10,673	8,603
Net Assets - End of Year	$ 227,631	$ 245,450	$ 18,159	$ 10,673
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, 2007
(In Thousands)

	Business-Type Activities - Enterprise Funds Comparative Totals 2007	Business-Type Activities - Enterprise Funds Comparative Totals Restated 2006	Governmental Activities - Internal Service Funds 2007	Governmental Activities - Internal Service Funds 2006
OPERATING REVENUES				
Charges for Services and Other Revenues	$ 1,374,987	$ 1,339,440	$ 171,183	$ 120,343
OPERATING EXPENSES				
Long-Term Purchased Power	220,194	210,239	-	-
Short-Term Wholesale Power Purchases	33,431	47,361	-	-
Generation	24,974	19,564	-	-
Transmission	45,138	46,825	-	-
Distribution	53,754	50,338	-	-
Energy Management and Other Power Expenses	90,541	42,927	-	-
Science, Sustainability, and Watershed	30,819	16,654	-	-
Utility Systems Management	18,926	18,469	123	110
Field Operations	39,344	37,624	-	-
Engineering Services	12,960	7,249	7,583	7,531
Customer Services	53,938	61,411	-	-
Wastewater Treatment	98,425	89,839	-	-
Solid Waste Collection	59,450	60,093	-	-
Operations and Maintenance	47,714	44,321	94,549	84,983
General and Administrative	135,576	107,770	14,407	9,567
City Business and Occupation Taxes	92,952	90,929	5	5
Other Taxes	35,398	37,210	259	379
Amortization of Landfill and Postclosure Costs	3,195	3,175	-	-
Depreciation and Other Amortization	136,862	134,970	14,538	13,258
Total Operating Expenses	1,233,591	1,126,968	131,464	115,833
Operating Income (Loss)	141,396	212,472	39,719	4,510
NONOPERATING REVENUES (EXPENSES)				
Investment and Interest Income	19,105	16,242	2,672	2,279
Interest Expense	(124,188)	(123,355)	14	(70)
Amortization of Debt Costs	(2,640)	(2,776)	-	-
Gain (Loss) on Sale of Capital Assets	276	1,823	131	102
Contributions and Grants	6,207	2,412	967	3,104
Others, Net	524	(150)	176	2
Total Nonoperating Revenues (Expenses)	(100,716)	(105,804)	3,960	5,417
Income (Loss) Before Capital Contributions and Grants and Transfers	40,680	106,668	43,679	9,927
Capital Contributions and Grants	53,063	49,436	85	-
Transfers In	10,612	9,260	-	893
Transfers Out	-	-	(29,440)	(5,200)
Change in Net Assets	104,355	165,364	14,324	5,620
Net Assets - Beginning of Year			112,570	106,950
Prior-Year Adjustment			-	-
Net Assets - Beginning of Year as Restated			112,570	106,950
Net Assets - End of Year			$ 126,894	$ 112,570
Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds	2,191	855		
Change in Net Assets of Business-Type Activities	$ 106,546	$ 166,219		

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, 2007
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2007	2006	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 763,543	$ 778,970	$ 156,057	$ 155,143
Cash Paid to Suppliers	(320,017)	(311,016)	(25,298)	(35,949)
Cash Paid to Employees	(166,282)	(161,613)	(46,879)	(45,580)
Cash Paid for Taxes	(59,144)	(62,607)	(25,575)	(24,784)
Net Cash from Operating Activities	218,100	243,734	58,305	48,830
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Principal and Interest Paid on Loan/Note	(290)	(290)	-	-
Operating Grants Received	3,894	1,472	695	282
Service for Others	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Receipts for Energy Conservation Augmentation	1,917	4,011	-	-
Payments for Energy Conservation Augmentation	(13,693)	(17,648)	-	-
Intergovernmental Revenues and Other	-	-	1,010	593
Gains from Bankruptcy Distributions	525	681	-	-
Net Cash from Noncapital Financing Activities	(7,647)	(11,774)	1,705	875
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
Principal Payments on Long-Term Debt and Refunding	(71,049)	(69,691)	(20,003)	(24,208)
Capital Expenditures and Deferred Charges Paid	(156,979)	(145,640)	(82,574)	(65,994)
Interest Paid on Long-Term Debt	(69,955)	(72,665)	(38,945)	(34,998)
Capital Fees and Grants Received	37,456	24,671	7,191	4,854
Premium from Sale of Long-Term Debt	-	-	-	-
Loss from Advanced Refunding of Long-Term Debt	-	-	-	-
Debt Issuance Costs	-	-	-	(915)
Proceeds from Sale of Capital Assets	5	1,508	4,683	44
Net Cash from Capital and Related Financing Activities	(260,522)	(260,860)	(129,648)	(6,057)
CASH FLOWS FROM INVESTING ACTIVITIES [a]				
Proceeds from Sale of Investments	-	-	77,548	141,181
Purchases of Investments	-	-	(31,688)	(166,093)
Interest Received on Investments	10,251	9,838	3,513	2,457
Net Cash from Investing Activities	10,251	9,838	49,373	(22,455)
Net Increase (Decrease) in Cash and Equity in Pooled Investments	(39,818)	(19,062)	(20,265)	21,193
CASH AND EQUITY IN POOLED INVESTMENTS				
Beginning of Year	158,651	177,713	61,943	40,750
End of Year	$ 118,833	$ 158,651	$ 41,678	$ 61,943
CASH AT THE END OF THE YEAR CONSISTS OF				
Operating Cash and Equity in Pooled Investments	$ 87,724	$ 127,148	$ 6,799	$ 11,837
Current Restricted Cash and Equity in Pooled Investments	-	-	1,883	1,764
Noncurrent Restricted Cash and Equity in Pooled Investments	31,109	31,503	32,996	48,342
Total Cash at the End of the Year	$ 118,833	$ 158,651	$ 41,678	$ 61,943

[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, 2007
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2007	2006	2007	Restated 2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 201,006	$ 187,358	$ 179,880	$ 167,559
Cash Paid to Suppliers	(139,160)	(114,811)	(104,311)	(97,555)
Cash Paid to Employees	(30,246)	(27,527)	(46,335)	(43,278)
Cash Paid for Taxes	(26,149)	(23,510)	(19,792)	(17,681)
Net Cash from Operating Activities	5,451	21,510	9,442	9,045
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Principal and Interest Paid on Loan/Note	-	-	-	-
Operating Grants Received	944	187	659	501
Service for Others	-	-	(1,002)	(674)
Transfers In	-	-	10,612	9,260
Transfers Out	-	-	-	-
Receipts for Energy Conservation Augmentation	-	-	-	-
Payments for Energy Conservation Augmentation	-	-	-	-
Intergovernmental Revenues and Other	(3,857)	(2,051)	40	-
Gains from Bankruptcy Distributions	-	-	-	-
Net Cash from Noncapital Financing Activities	(2,913)	(1,864)	10,309	9,087
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Draw-On Line of Credit - Revenue Anticipation Note	-	-	-	11,600
Proceeds from Sale of Bonds and Other Long-Term Debt	694	50,586	143,578	-
Principal Payments on Long-Term Debt and Refunding	(9,408)	(7,087)	(94,887)	(5,271)
Capital Expenditures and Deferred Charges Paid	(21,509)	(23,990)	(4,459)	(15,379)
Interest Paid on Long-Term Debt	(14,887)	(14,786)	(4,829)	(5,458)
Capital Fees and Grants Received	1,074	1,728	27	1
Premium from Sale of Long-Term Debt	-	-	4,357	-
Loss from Advanced Refunding of Long-Term Debt	-	-	(1,249)	-
Debt Issuance Costs	-	(188)	(188)	-
Proceeds from Sale of Capital Assets	-	-	(15)	14
Net Cash from Capital and Related Financing Activities	(44,036)	6,263	42,335	(14,493)
CASH FLOWS FROM INVESTING ACTIVITIES [a]				
Proceeds from Sale of Investments	90,541	103,843	-	-
Purchases of Investments	(64,260)	(116,174)	-	-
Interest Received on Investments	2,585	1,912	2,198	1,351
Net Cash from Investing Activities	28,866	(10,419)	2,198	1,351
Net Increase (Decrease) in Cash and Equity in Pooled Investments	(12,632)	15,490	64,284	4,990
CASH AND EQUITY IN POOLED INVESTMENTS				
Beginning of Year	35,403	19,913	32,310	27,320
End of Year	$ 22,771	$ 35,403	$ 96,594	$ 32,310
CASH AT THE END OF THE YEAR CONSISTS OF				
Operating Cash and Equity in Pooled Investments	$ 18,075	$ 16,530	$ 41,728	$ 32,301
Current Restricted Cash and Equity in Pooled Investments	1,743	1,780	-	-
Noncurrent Restricted Cash and Equity in Pooled Investments	2,953	17,093	54,866	9
Total Cash at the End of the Year	$ 22,771	$ 35,403	$ 96,594	$ 32,310

[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, 2007
(In Thousands)

	Business-Type Activities - Enterprise Funds Comparative Totals 2007	Business-Type Activities - Enterprise Funds Comparative Totals Restated 2006	Governmental Activities - Internal Service Funds 2007	Governmental Activities - Internal Service Funds 2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 1,300,486	$ 1,289,030	$ 169,472	$ 120,319
Cash Paid to Suppliers	(588,786)	(559,331)	(66,887)	(57,022)
Cash Paid to Employees	(289,742)	(277,998)	(44,284)	(48,246)
Cash Paid for Taxes	(130,660)	(128,582)	(270)	(426)
Net Cash from Operating Activities	291,298	323,119	58,031	14,625
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Principal and Interest Paid on Loan/Note	(290)	(290)	(2,500)	(1,000)
Operating Grants Received	6,192	2,442	969	3,104
Service for Others	(1,002)	(674)	-	-
Transfers In	10,612	9,260	-	893
Transfers Out	-	-	(29,440)	(5,200)
Receipts for Energy Conservation Augmentation	1,917	4,011	-	-
Payments for Energy Conservation Augmentation	(13,693)	(17,648)	-	-
Intergovernmental Revenues and Other	(2,807)	(1,458)	-	-
Gains from Bankruptcy Distributions	525	681	-	-
Net Cash from Noncapital Financing Activities	1,454	(3,676)	(30,971)	(2,203)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Draw-On Line of Credit - Revenue Anticipation Note	-	11,600	-	-
Proceeds from Sale of Bonds and Other Long-Term Debt	144,272	166,703	-	-
Principal Payments on Long-Term Debt and Refunding	(195,347)	(106,257)	(815)	(780)
Capital Expenditures and Deferred Charges Paid	(265,521)	(251,003)	(20,855)	(17,109)
Interest Paid on Long-Term Debt	(128,616)	(127,907)	(86)	(152)
Capital Fees and Grants Received	45,748	31,254	-	-
Premium from Sale of Long-Term Debt	4,357	-	-	-
Loss from Advanced Refunding of Long-Term Debt	(1,249)	-	-	-
Debt Issuance Costs	(188)	(1,103)	-	-
Proceeds from Sale of Capital Assets	4,673	1,566	167	102
Net Cash from Capital and Related Financing Activities	(391,871)	(275,147)	(21,589)	(17,939)
CASH FLOWS FROM INVESTING ACTIVITIES [a]				
Proceeds from Sale of Investments	168,089	245,024	-	-
Purchases of Investments	(95,948)	(282,267)	-	-
Interest Received on Investments	18,547	15,558	2,672	2,279
Net Cash from Investing Activities	90,688	(21,685)	2,672	2,279
Net Increase (Decrease) in Cash and Equity in Pooled Investments	(8,431)	22,611	8,143	(3,238)
CASH AND EQUITY IN POOLED INVESTMENTS				
Beginning of Year	288,307	265,696	39,965	43,204
End of Year	$ 279,876	$ 288,307	$ 48,108	$ 39,966
CASH AT THE END OF THE YEAR CONSISTS OF				
Operating Cash and Equity in Pooled Investments	$ 154,326	$ 187,816	$ 47,910	$ 39,883
Current Restricted Cash and Equity in Pooled Investments	3,626	3,544	-	-
Noncurrent Restricted Cash and Equity in Pooled Investments	121,924	96,947	198	83
Total Cash at the End of the Year	$ 279,876	$ 288,307	$ 48,108	$ 39,966

[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, 2007
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2007	2006	2007	2006
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ 130,349	$ 189,769	$ 21,720	$ 25,476
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities				
Depreciation and Amortization	78,520	76,230	37,436	37,114
Amortization of Deferred Power Costs	6,601	6,573	-	-
Changes in Operating Assets and Liabilities				
Accounts Receivable	2,638	(18,553)	224	(353)
Unbilled Receivables	4,970	(3,754)	(977)	(138)
Bad Debt Expense	4,062	11,436	-	-
Power Revenue and Expense	(113)	81	-	-
Other Receivables	6,835	1,253	(2,703)	191
Due from Other Funds	706	1,709	(855)	999
Due from Other Governments	1,733	(1,008)	(810)	(533)
Materials and Supplies Inventory	(6,579)	(2,706)	132	(163)
Accounts Payable	(7,255)	(11,520)	2,105	2,919
Salaries, Benefits, and Payroll Taxes Payable	(662)	809	179	324
Compensated Absences Payable	1,173	(45)	783	46
Due to Other Funds	4,096	917	(768)	1,786
Due to Other Governments	-	23	-	(57)
Claims Payable	1,566	(2,010)	(166)	(1,958)
Taxes Payable	(524)	681	(12)	(56)
Deferred Credits	(8,727)	(6,650)	695	426
Other Assets and Liabilities	(1,289)	499	1,322	(17,193)
Total Adjustments	87,751	53,965	36,585	23,354
Net Cash from Operating Activities	$ 218,100	$ 243,734	$ 58,305	$ 48,830
SCHEDULE OF NONCASH ACTIVITIES				
In-Kind Capital Contributions	$ 5,769	$ 504	$ -	$ -
Amortization of Debt Related Costs, Net	(2,176)	(2,336)	-	-
Change in Valuation of Derivative Financial Instruments	(6,298)	5,930	-	-
Change in Valuation of Deferred Gain on Power Exchange	(23)	(1,003)	-	-
Allowance for Funds Used During Construction	2,691	2,576	-	-
Power Exchange Revenues	50,546	22,320	-	-
Power Exchange Expenses	(50,402)	(20,880)	-	-
Change in Capitalized Purchased Power Commitment/Obligation	(10,653)	(10,490)	-	-
Note Assumed for Software Agreement	-	832	-	-
Power Revenue Netting Activity	12,444	38,834	-	-
Power Expense Netting Activity	(43,172)	(40,357)	-	-
Fair Value Adjustment of Long-Term Investments	-	-	10	1
Bonds Proceeds Deposited with Escrow Agent to Refund Bonds	-	-	-	83,378
Bond Issuance Costs Deducted from Bond Proceeds	-	-	-	915
Contributed Infrastructure	-	-	2,154	1,944
Total Noncash Activities	$ (41,274)	$ (4,070)	$ 2,164	$ 86,238

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, 2007
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2007	2006	2007	Restated 2006
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ (10,948)	$ 289	$ 275	$ (3,062)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities				
Depreciation and Amortization	14,931	16,141	10,624	10,619
Amortization of Deferred Power Costs	-	-	-	-
Changes in Operating Assets and Liabilities				
Accounts Receivable	(79)	(1,646)	(757)	(2,873)
Unbilled Receivables	(1,076)	(335)	43	12
Bad Debt Expense	-	-	-	-
Power Revenue and Expense	-	-	-	-
Other Receivables	-	-	-	-
Due from Other Funds	(214)	1,725	(725)	549
Due from Other Governments	(751)	(130)	151	(199)
Materials and Supplies Inventory	-	-	43	(48)
Accounts Payable	233	170	279	1,062
Salaries, Benefits, and Payroll Taxes Payable	255	246	147	176
Compensated Absences Payable	810	285	427	152
Due to Other Funds	(631)	835	(369)	693
Due to Other Governments	577	74	56	(14)
Claims Payable	1,335	2,256	61	(128)
Taxes Payable	(22)	68	1	15
Deferred Credits	742	1,576	484	3,867
Other Assets and Liabilities	289	(44)	(1,298)	(1,776)
Total Adjustments	16,399	21,221	9,167	12,107
Net Cash from Operating Activities	$ 5,451	$ 21,510	$ 9,442	$ 9,045
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	-	-	-	-
Fair Value Adjustment of Long-Term Investments	3	10	-	-
Bonds Proceeds Deposited with Escrow Agent to Refund Bonds	-	77,608	-	-
Bond Issuance Costs Deducted from Bond Proceeds	-	579	-	-
Contributed Infrastructure	2,295	10,523	-	-
Total Noncash Activities	$ 2,298	$ 88,720	$ -	$ -

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

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STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
December 31, 2007
(In Thousands)

	Pension Trust Funds	S. L. Denny Private-Purpose Trust	Agency Funds
ASSETS			
Cash and Equity in Pooled Investments	$ 26,559	$ 194	$ 8,927
Short-Term Investments	66,940	1	-
Securities Lending Collateral	103,323	-	-
Investments at Fair Value			
U.S. Government Obligations	135,366	-	-
Domestic Corporate Bonds	102,792	-	-
Domestic Stocks	763,844	-	-
International Stocks	402,966	-	-
Real Estate	286,646	-	-
Alternative/Venture Capital	233,790	-	-
Mezzanine Debt	114,463	-	-
Total Investments at Fair Value	2,039,867	-	-
Receivables			
Employer - Other	4,422	-	728
Employee	1,029	-	-
Interest and Dividends	2,616	1	-
Due from Other Governments	4	-	-
Total Receivables	8,071	1	728
Equipment, at Cost, Net of Accumulated Depreciation	3	-	-
Total Assets	2,244,763	196	9,655
LIABILITIES			
Accounts Payable	-	-	31
Refunds Payable and Other	12,231	-	-
Salaries, Benefits, and Payroll Taxes Payable	-	-	1,815
Deposits Payable	-	-	7,808
Claims/Judgments Payable	-	-	1
Securities Lending Collateral	103,323	-	-
Total Liabilities	115,554	-	9,655
Net Assets Held in Trust for Pension Benefits and Other Purposes	$ 2,129,209	$ 196	$ -

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, 2007
(In Thousands)

	Pension Trust Funds	S.L. Denny Private-Purpose Trust
ADDITIONS		
Contributions		
Employer	$ 74,372	$ -
Plan Member	40,535	-
Total Contributions	114,907	-
Investment Income (Loss)		
From Investment Activities		
Net Appreciation (Depreciation) in Fair Value of Investments	109,491	-
Interest	19,087	11
Dividends	14,921	-
Total Investment Activities Income (Loss)	143,499	11
Investment Activities Expenses		
Investment Management Fees	4,046	-
Performance Measurement Fees	100	-
Investment Custodial Fees	60	-
Total Investment Activities Expenses	4,206	-
Net Income (Loss) from Investment Activities	139,293	11
From Securities Lending Activities		
Securities Lending Income	6,694	-
Securities Lending Expenses		
Borrower Rebates	6,236	-
Management Fees	114	-
Total Securities Lending Expenses	6,350	-
Net Income (Loss) from Securities Lending Activities	344	-
Total Net Investment Income (Loss)	139,637	11
Total Additions	254,544	11
DEDUCTIONS		
Benefits	133,648	-
Refund of Contributions	11,526	-
Administrative Expense	2,687	-
Total Deductions	147,861	-
Change in Net Assets	106,683	11
Net Assets - Beginning of Year	2,022,525	185
Net Assets - End of Year	$ 2,129,208	$ 196

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(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 2007 the City implemented the following Government Accounting Standards Board (GASB) statements:

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This statement establishes standards of accounting and reporting for other postemployment benefits (OPEB) expense/expenditures and related OPEB liabilities or OPEB assets, note disclosures, and required supplementary information (RSI) in the financial reports of state and local governmental employers. The City recognized in 2007 net OPEB obligation and expenses of $9.2 million in governmental activities and $2.5 million in business-type activities.

GASB Statement No. 47, *Accounting for Termination Benefits*. This statement establishes standards of accounting and financial reporting for termination benefits and requires implementation effective in two parts. As used in this statement, termination benefits are benefits provided by employers to employees as an inducement to hasten the termination of services or as a result of a voluntary early termination (voluntary termination benefits) or as a consequence of the involuntary early termination of services (involuntary termination benefits). Termination benefits include early-retirement incentives, severance benefits, and other termination-related benefits. The provisions of this statement pertaining to termination benefits affecting the City's obligation for benefits on defined benefit pension plans were implemented in 2006. However, the City did not provide such benefits for early termination in 2006 as well as in 2007 and therefore the implementation had no impact on the City's financial position or operations in these years. The provision 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*, is implemented this year. However, the City had no legislation for early retirement incentives that passed in 2007 and no employee involuntary early termination occurred in 2007 that affected the City's obligation for defined benefit OPEB. Therefore, this implementation had no impact on the City's financial position or operations.

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

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

Fund Financial Statements

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

The City reports the following major governmental funds:

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

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

The **Low-Income Housing Fund** 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 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 385,000 customers in the Seattle area as well as to other city agencies.

The **Water Fund** accounts for operating the City's water utility. The Utility maintains more than 182 miles of water supply mains and more than 377 million gallons of distribution storage capacity in the Cedar and Tolt Rivers and Highline Well Field watersheds. The distribution system serves a population of close to 1,389,000 people, with an average daily total consumption of about 121 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 a portion of the state-levied fire insurance premium tax and significantly from pension and benefits contributions of the General Fund. It pays medical and pension benefits to sworn firemen.

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

The City uses **agency funds** to report assets that are held in a custodial relationship. Agency funds are not used to support the government's own programs and so these funds are excluded from the government-wide 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 timing of when revenues and expenditures or expenses and transfers are recognized in the accounts and reported in the financial statements.

Governmental Fund Financial Statements

Financial statements for governmental funds 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 firefighters, 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, 2006, 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)

	2007
Annual Budget	$ 1,040,295
Carryovers	
Encumbrances	4,517
Continuing Appropriations	77,178
Carryover Adjustments	33
Intrafund	(16,329)
Budget Revisions	36,987
Total Budget	$ 1,142,681

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 adopted by ordinance during the year. The budgetary basis is substantially the same as the accounting basis in all governmental fund types except for the treatment of encumbrances that do not lapse, those whose budgets were approved by the Department of Finance to carry over to the following year, and are included with expenditures.

FUND BALANCE DESIGNATED FOR SPECIAL PURPOSES

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

Also included in the balance for 2007 are revenues collected within the Cable TV Franchise Subfund. The Cable Television Franchise Subfund, created by Ordinance 118196, collects revenues from the cable providers and must use the funds according to the usage policies established in Council Resolution 30379.

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

Table 2-2 **FUND BALANCES DESIGNATED FOR SPECIAL PURPOSES**

(In Thousands)

Subfunds	2007	2006
Group Term Life Insurance	$ 370	$ 317
Health Care	13,831	20,205
Unemployment Compensation	5,359	6,057
Industrial Insurance	4,776	1,834
Special Employment Program	106	118
CableTV Franchise	5,316	-
	$ 29,758	$ 28,531

DEFICITS IN FUND BALANCES AND NET ASSETS

The Downtown Parking Garage Fund has negative fund net assets of $18.3 million. This is mostly attributable to cumulative 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 pay future operating costs and debt service as they become due.

The Seattle Streetcar Fund has negative fund assets of $45,000. The fund was created by Ordinance 122424. This ordinance also allows a loan from the City's Consolidated (Residual) Cash Pool of up to $2.2 million. This loan is to be repaid no later than December 31, 2018, from the sale of surplus property, grants, donations, transfers, and other monies as authorized by ordinance.

The 2008 Multipurpose LTGO Bond Fund has negative fund net assets of $1.8 million. The fund was created by Ordinance 122417 that authorized a loan of up to $18.5 million from the City's Consolidated (Residual) Cash Pool. This loan is to be repaid no later than June 2008 by the issuance of City LTGO bonds.

(3) CASH AND INVESTMENTS

CASH AND EQUITY IN POOLED INVESTMENTS

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

Custodial Credit Risk – Deposits. As of December 31, 2007, the City's cash pool had cash in vault of $0.1 million and $13.7 million on deposit with the City's custodial banks which includes cash that had been credited in the City books but remains in the bank to cover checks that had been issued by the City but were unredeemed at the end of the year. The Federal Deposit Insurance Corporation (FDIC) insures the City's deposits up to $0.1 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, 2007, 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	$ 92,284	$ -	$ 92,284	2
U.S. Government Obligations	15,370	-	15,370	517
U.S. Government Agencies	563,723	5,555	569,278	804
Commercial Paper	219,776	13,579	233,355	12
Municipal Bonds	34,927	-	34,927	288
Total	$ 926,080	$ 19,134	$ 945,214	
Weighted Average Maturity of the Treasury Residual Investments and Securities Held for Dedicated Funds				507

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

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with its investment policy the City manages exposure to credit risk 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, 2007, the City's investments in commercial paper were rated P-1 by Moody's Investors Service, A-1 or A-1+ by Standard & Poor's, or F-1 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, 2007, these investments were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's.

The City's investments in repurchase agreements require a master repurchase agreement executed with the counterparty, 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, 2007, the securities underlying the City's investment in repurchase agreements included collateral other than U.S. Treasuries, and the repurchase agreements were not rated.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with its investment policy, the City manages exposure to concentration of credit risk for the City's investments portfolio as a whole. The City limits its investments in any one issuer as follows: 10 percent of the portfolio per bank for certificates of deposit or bankers' acceptances; 5 percent for commercial paper or municipal bonds; and 20 percent U.S. government agency securities. However, U.S. government real estate mortgage investment conduits (REMICs), collateralized mortgage obligations (CMOs) and pass-through securities are not subject to maximum agency limitations. The City's investments in which five percent or more is invested in any single issuer as of December 31, 2007, are shown in the following table.

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

(In Thousands)

Issuer	Fair Value	Percent of Total Investments
Federal National Mortgage Association	$ 198,573	21 %
Federal Home Loan Mortgage	187,527	20
Federal Home Loan Bank	183,177	19
Bank of America	91,600	10

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	$ 134,906
Domestic Corporate Bonds	102,792
Domestic Stocks	763,844
International Stocks	402,966
Other	
Short-Term Investment Funds	66,940
Securities Lending	103,323
Mezzanine Debt	114,463
Real Estate	286,646
Alternative/Venture Capital	233,789
Total	$ 2,209,669

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 Type	Fair Value	Investment Maturities (In Years) <1	1 - 5	6 - 10	>10
Fixed Income					
U.S. Government					
Treasuries, Notes, and Bonds	$ 6,137	$ 431	$ 986	$ 3,483	$ 1,237
Treasury Inflation-Protected Securities	5,888	-	-	547	5,341
Agencies	14,770	131	5,043	1,827	7,769
Mortgage-Backed					
Government Pass-Throughs	33,281	53	1,456	2,346	29,426
Corporate Pass-Throughs	25,868	-	1,250	170	24,448
Government Collateralized Mortgage Obligations	5,218	7	203	1,905	3,103
Corporate Collateralized Debt and Loan Obligations	21,602	-	-	7,665	13,937
Corporate					
Bonds	55,097	1,549	18,239	16,766	18,543
Asset-Backed	16,016	1,268	6,955	872	6,921
Private Placements	29,617	6,038	6,995	4,597	11,987
Government/Sovereign Developed Markets	228	-	149	79	
Government/Sovereign Emerging Markets	520	-	-	-	520
Convertible Bonds	3,359	-	-	-	-
Convertible Preferred	1,998	-	-	-	-
Derivatives	(276)	-	-	-	-
Index Funds	20,062	-	-	-	-
Mutual Funds	67	-	-	-	-
Short-Term					
Certificates of Deposit	334	-	-	-	-
Pooled Funds	55,125	-	-	-	-
Total Portfolio	$ 294,911	$ 9,477	$ 41,276	$ 40,257	$ 123,232

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	$ 24,487	$ 27	$ 284	$ 60	$ 432	$ 76	$ 501	$ -
Corporate Collateralized Debt and Loan Obligations	1,672	-	-	879	7,112	-	-	11,940
Corporate								
Bonds	1,739	6,079	9,804	17,063	7,441	6,575	2,639	3,758
Asset-Backed	8,256	340	904	679	431	543	-	4,862
Private Placements	787	532	799	4,572	1,597	954	288	20,088
Government/Sovereign Developed Markets	-	-	79	149	-	-	-	-
Government/Sovereign Emerging Markets	-	-	-	519	-	-	-	-
Total Portfolio	$ 36,941	$ 6,978	$ 11,870	$ 23,921	$ 17,013	$ 8,148	$ 3,428	$ 40,648

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	0.7 %	1.0 %
Equities		
Domestic	36.6	38.0
International	19.0	20.0
Alternative	11.0	10.0
Debt		
Bonds	13.8	14.0
Mezzanine	5.4	5.0
Real Estate	13.5	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 and the Seattle City Employees' Retirement System are allowed to engage in securities lending transactions similar to that instituted by the Washington State Treasurer's Office and other municipal corporations in the State of Washington.

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

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

SCERS invests cash collateral received; accordingly, any investment made with cash collateral is reported as an asset. A corresponding liability is recorded as SCERS must return the cash collateral to the borrower upon the expiration of the loan. There have been no losses resulting from a default, and SCERS did not have negative credit exposure at December 31, 2007.

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

(In Thousands)

	2007		2006	
Type of Securities Lent	**Fair Values of Securities Lent**	**Collateral**	**Fair Values of Securities Lent**	**Collateral**
U.S. Government and Agencies	$ 19,437	19,634	$ 33,327	$ 34,051
U.S. Corporate Fixed Income	11,005	11,363	14,309	14,663
U.S. Equities	69,874	72,326	93,376	96,384
Total Securities Lent	$ 100,316	$ 103,323	$ 141,012	$ 145,098

Collateral	**2007**	**2006**
U.S. Corporate Obligations	$ 27,501	$ 17,500
Bank Obligations	17,998	16,000
Repurchase Agreements	470	84,853
Asset-Backed Securities	14,359	18,742
Certificates of Deposit	42,995	-
Euro Clear Floater	-	8,002
Total Collateral	$ 103,323	$ 145,097

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, 2007.

(4) RECEIVABLES AND INTERFUND TRANSACTIONS

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

(In Thousands)

	December 31 2007 Revenues	**December 31 2007 Receivables**
Property Taxes	$ 359,205	$ 8,272
General Business and Occupation Taxes	236,749	54,755
Totals	$ 595,954	$ 63,027

TAXING POWERS AND LIMITATIONS

State law limits the regular property tax rate for general City operations to $3.60 per $1,000 of assessed value. This includes $3.375 for general municipal purposes and an additional $0.225 for the Firemen's Pension Fund and for general municipal purposes under conditions spelled out in state law. From 1997 through 2001 state law limited the annual growth in the

City's regular property tax levy to the lesser of 106 percent or the annual rate of inflation. The passage of Initiative 747 in November 2001 reduced the 106 percent to 101 percent. In early November 2007 the State Supreme Court upheld a lower court ruling that Initiative 747 was unconstitutional. This decision would have returned the growth limit factor to 106 percent. On November 29, 2007, the legislature in special session passed and the governor signed into law language identical to that of Initiative 747. Thus, the limit factor remains 101 percent. The growth limit does not count tax revenues from new construction or property remodeled within the last year. With simple-majority voter approval, the City can levy additional property taxes above the 101 percent annual growth limit as long as the City's regular levy rate per $1,000 of assessed value does not exceed the $3.60 limit. Excess tax levies for capital purposes require a 60-percent approval by voters and do not fall under either of the limits. The City levied $1.88 per $1,000 for general operations and the Firemen's Pension Fund in 2007. In addition, the levy included $1.34 per $1,000 of assessed value for debt service and other voter-approved levies. The total 2007 levy was $3.22 per $1,000 of assessed value. Not included in this total is the levy for Emergency Medical Services, which was $0.21 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, 2007, 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	$ 2,331
	Nonmajor Enterprise	811
	Nonmajor Governmental	2,085
	Internal Service	223
	Transportation	148
	Light	4,526
	Water	1,400
	Total General Fund	11,524
Transportation	Drainage and Wastewater	734
	Nonmajor Enterprise	92
	General	1659
	Nonmajor Governmental	1225
	Internal Service	44
	Light	3902
	Water	645
	Total Transportation	8,301
Light	Drainage and Wastewater	84
	Nonmajor Enterprise	56
	General	269
	Nonmajor Governmental	108
	Transportation	24
	Internal Service	83
	Water	68
	Total Light Fund	692

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

(In Thousands)

Receivable Fund	Payable Fund(s)	Amount
Water	Drainage and Wastewater	$ 441
	Nonmajor Enterprise	70
	Nonmajor Governmental	1
	General	84
	Transportation	31
	Internal Service	65
	Light	553
	Total Water Fund	1,245
Low-Income Housing	Nonmajor Governmental	3
	Total Low-Income Housing	3
Drainage and Wastewater	Nonmajor Governmental	1
	General	39
	Transportation	3
	Nonmajor Enterprise	10
	Internal Service	701
	Water	41
	Light	408
	Total Drainage and Wastewater Fund	1,203
Nonmajor Governmental	Drainage and Wastewater	359
	Nonmajor Enterprise	309
	General	890
	Nonmajor Governmental	2458
	Internal Service	144
	Low-Income Housing	210
	Transportation	125
	Light	574
	Water	236
	Total Nonmajor Governmental Funds	5,305
Nonmajor Enterprise	Drainage and Wastewater	74
	Nonmajor Enterprise	16
	General	520
	Nonmajor Governmental	78
	Internal Service	25
	Transportation	1
	Light	605
	Water	64
	Total Nonmajor Enterprise Funds	1,383
Internal Service	Drainage and Wastewater	175
	Nonmajor Enterprise	398
	General	2583
	Nonmajor Governmental	2104
	Internal Service	457
	Light	884
	Transportation	1390
	Water	1139
	Total Internal Service Funds	9,130
Grand Total		$ 38,786

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 Streetcar Fund	$ 1,661
	2008 Multipurpose Long-Term General Obligation Bond Fund	35
Total City		$ 1,696

These interfund loans have all been approved by the City Council through ordinance. The Seattle Streetcar Fund's loan was approved by Ordinance 122424 and is intended to provide interim financing for streetcar capital costs. The loan is to be repaid by December 2018. The loan to the 2008 Multipurpose Long-Term General Obligation Bond Fund was approved by Ordinance 122417 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 no later than June 2008.

Table 4-4 **INTERFUND TRANSFERS**

(In Thousands)

	Transfers Out				
Transfers In	General	Nonmajor Governmental	Internal Service	Transportation	Total
General Fund	$ -	$ 303	$ 5,086	$ -	$ 5,389
Nonmajor Enterprise	10,612	-	-	-	10,612
Nonmajor Governmental	177,278	8,430	24,354	2,536	212,598
Transportation	60,604	28,324	-	-	88,928
Total Transfers	$ 248,494	$ 37,057	$ 29,440	$ 2,536	$ 317,527

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	$ 401,605	$ 17,931	$ 42	$ 419,494
Construction in Progress	248,063	228,284	247,114	229,233
Total Capital Assets Not Being Depreciated	649,668	246,215	247,156	648,727
CAPITAL ASSETS BEING DEPRECIATED				
Buildings and Improvements	1,719,114	66,102	4,967	1,780,249
Machinery and Equipment	212,219	57,072	22,289	247,002
Infrastructure	915,242	135,789	-	1,051,031
Other Capital Assets	11,699	234	-	11,933
Total Capital Assets Being Depreciated	2,858,274	259,197	27,256	3,090,215
Accumulated Depreciation				
Buildings and Improvements	362,993	42,332	1,830	403,495
Machinery and Equipment	118,908	22,824	19,815	121,917
Infrastructure	435,328	28,247	-	463,575
Other Capital Assets	788	183	-	971
Total Accumulated Depreciation	918,017	93,586	21,645	989,958
Total Capital Assets Being Depreciated, Net	1,940,257	165,611	5,611	2,100,257
Governmental Activities Capital Assets, Net	$ 2,589,925	$ 411,826	$ 252,767	$ 2,748,984
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	$ 97,389	$ 4,734	$ 2,800	$ 99,323
Construction in Progress	230,226	240,325	197,018	273,533
Total Capital Assets Not Being Depreciated	327,615	245,059	199,818	372,856
CAPITAL ASSETS BEING DEPRECIATED				
Plant in Service, Excluding Land	4,440,736	229,181	24,549	4,645,368
Buildings	60,131	-	-	60,131
Machinery and Equipment	14,524	785	870	14,439
Other Capital Assets	20,396	647	507	20,536
Total Capital Assets Being Depreciated	4,535,787	230,613	25,926	4,740,474
Accumulated Depreciation				
Plant in Service, Excluding Land	1,672,905	133,554	17,829	1,788,630
Buildings	16,035	2,004	-	18,039
Machinery and Equipment	5,608	1,526	863	6,271
Other Capital Assets	2,600	4	-	2,604
Total Accumulated Depreciation	1,697,148	137,088	18,692	1,815,544
Total Capital Assets Being Depreciated, Net	2,838,639	93,525	7,234	2,924,930
Business-Type Activities Capital Assets, Net	$ 3,166,254	$ 338,584	$ 207,052	$ 3,297,786

[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	$ 16,604
Public Safety	4,249
Transportation	28,411
Economic Environment	6
Culture and Recreation	29,527
Judicial	5
Subtotal	78,802
Capital assets held by internal service funds are charged to the various functions based on their usage of the assets	14,784
Total Governmental Activities	$ 93,586
BUSINESS-TYPE ACTIVITIES	
Light	$ 79,414
Water	35,341
Solid Waste	4,094
Drainage and Wastewater	14,709
Planning and Development	1,419
Parking Garage	2,111
Total Business-Type Activities	$ 137,088

(6) COMPENSATED ABSENCES

The following discussion on the general liabilities of the City and the tables for the other City funds present the accrued compensated absences at the end of 2007 and 2006. The tables show the accrued liabilities by group between governmental and business-type activities, and pension trust funds, and further by type of funds, as applicable.

GOVERNMENTAL ACTIVITIES

Governmental Funds

Unpaid compensated absences associated with governmental fund operations of $66.7 million and $59.6 million at December 31, 2007 and 2006, respectively, have been recorded in the government-wide statements. These amounts include unpaid holiday, compensatory, merit, and furlough time of $14.9 million and $12.7 million at the end of 2007 and 2006, respectively; accumulated unpaid vacation pay of $42.2 million and $38 million at the end of 2007 and 2006, respectively; and the balance for sick leave (estimated based on the termination method) of $9.7 million and $9.0 million at December 31, 2007 and 2006, respectfully.

Internal Service Funds

Table 6-1 **COMPENSATED ABSENCES IN INTERNAL SERVICE FUNDS**

(In Thousands)

	2007	**2006**
Fleets and Facilities	1,731	1,574
Information Technology	1,525	1,317
Engineering Services	-	581
Totals	$ 3,256	$ 3,472

BUSINESS-TYPE ACTIVITIES

Enterprise Funds

Table 6-2 **COMPENSATED ABSENCES IN ENTERPRISE FUNDS**

(In Thousands)

	2007	2006
Light	$ 12,566	$ 11,393
Water	4,280	3,983
Drainage and Wastewater	3,299	2,489
Solid Waste	1,337	1,245
Planning and Development	2,495	2,313
Totals	$ 23,977	$ 21,423

PENSION TRUST FUNDS

Table 6-3 **COMPENSATED ABSENCES IN PENSION TRUST FUNDS**

(In Thousands)

	2007	2006
Employees' Retirement	$ 62	$ 58
Firemen's Pension	33	138
Police Relief and Pension	75	67
Totals	$ 170	$ 263

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	$ 22
Less Accumulated Depreciation	(22)
December 31, 2007	$ -

Minimum Capital Lease Payments	Long-Term Liabilities Governmental Activities
2008	$ 3
Total Minimum Lease Payments	3
Less Interest	-
Principal	$ 3

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 duration of three years and are renewable at the end of the lease period. Fleets and Facilities paid rentals of approximately $3.2 million and $3.8 million in 2007 and 2006, 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 $283,099 and $274,900 in 2007 and 2006, 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
2008	$ 2,837	$ 268	$ 3,105
2009	2,358	268	2,626
2010	2,104	156	2,260
2011	1,860	-	1,860
2012	1,642	-	1,642
2013 - 2016	3,688	-	3,688
Total	$ 14,489	$ 692	$ 15,181

Business-Type Activities

In December 1994 the City entered into an agreement on behalf of the Seattle City Light Department for a ten-year lease of office facilities in downtown Seattle commencing February 1, 1996. In early 1996 the City purchased the building in which these facilities are located, thus becoming the Department's lessor. This lease extended through December 2006. Beginning in 2007 the Department made monthly lease payments to the City through the central cost allocation process, similar to all other payments for tenancy of City property and through the budget process. The Department also leases office equipment and smaller facilities for various purposes through long-term operating lease agreements. Expense under all leases totaled $6.9 million and $4.4 million in 2007 and 2006, respectively.

The Seattle Public Utilities has non-cancelable operating lease commitments for real and personal property for its three funds: Water Fund, Drainage and Wastewater Fund, and Solid Waste Fund. The minimum payments made respectively in 2007 and 2006 were: $454,213 and $207,545 for the Water Fund; $60,722 and $22,585 for the Drainage and Wastewater Fund, and $116,054 and $10,104 for the Solid Waste Fund. Rents are paid as they become due and payable.

Minimum payments under the leases are:

Table 7-3 **OPERATING LEASE COMMITMENTS**

BUSINESS-TYPE ACTIVITIES

(In Thousands)

Year Ending December 31	Minimum Payments City Light	Water	Drainage & Wastewater	Solid Waste	Total
2008	$ 397	$ 469	$ 63	$ 121	$ 1,050
2009	170	289	66	127	652
2010	6	202	69	132	409
2011	-	210	72	137	419
2012	-	218	74	147	439
2013 - 2016	-	911	310	588	1,809
Total	$ 573	$ 2,299	$ 654	$ 1,252	$ 4,778

LEASE REVENUES - GOVERNMENTAL ACTIVITIES

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

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

(In Millions)

	2007	2006
Non-City Property Subleased to City Departments	$ 3.3	$ 3.9
City-Owned Property Occupied by City Departments	54.6	22.5
City-Owned Property Leased to Non-City Tenants	3.1	3.7
Total	$ 61.0	30.1

Additionally, in 2007 the SeaPark Garage and the Seattle Municipal Tower Building generated $3.3 million total parking revenues, which were recorded in the Fleets and Facilities Fund.

Also, in 2007 the City recognized $6.8 million in parking revenues in the Downtown Parking Garage Fund, an enterprise fund, from the operation of the garage at Pacific Place.

(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 2006 the original amount of general obligation bonds issued in prior years was $1.320 billion. The amount of bonds outstanding at December 31, 2006, was $816.4 million. The following paragraphs discuss the general obligation bonds issued and defeased during 2007.

On May 2, 2007, the City issued the $95.6 million LTGO bonds with interest rates ranging from 4.0 percent to 5.0 percent and which mature serially from October 1, 2007, through October 1, 2028. At the same time, the City issued the $60.9 UTGO Refunding bonds with interest rates ranging from 4.25 percent to 5.0 percent and which mature serially starting on December 1, 2007, then from December 1, 2010, through December 1, 2018. The proceeds of the LTGO bonds are used to pay all or part of the costs of construction and acquisition of various City capital projects, including the Alaskan Way Tunnel/Sea Wall, Mercer Corridor, Parking Pay Stations, improvements to the Seattle Aquarium, Northgate land acquisition, construction of the Zoo Garage, Seattle Center Monorail rehabilitation, and to totally refund $60.8 million of the City's 1998 LTGO, Series F, bonds. The proceeds of the UTGO refunding bonds were used to partially refund $59.2 million of the City's 1999 UTGO, Series A, bonds. 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 December 12, 2008, for the 1998 LTGO, Series F, bonds and December 1, 2009, for the UTGO, Series A, bonds. Further discussion on the refunding is shown in the "Advance and Current Refundings" section of this note.

On April 4, 2007, the City partially defeased $2.7 million of the 2003 LTGO bonds that provided financing for the Seattle Center's McCaw Hall construction. The City placed its own resources of $2.9 million from the 1999 Seattle Center/Community Center levy in an irrevocable trust to provide for future debt service payments on the bonds. Table 8-10, "Advance Refunding and Current Refundings" section of this note, includes information on the defeased bonds.

On August 30, 2007, the City again partially defeased $3.2 million of the 2003 LTGO bonds that provided financing for the Seattle Center's McCaw Hall construction. The City placed its own resources of $3.4 million from the 1999 Seattle Center/Community Center levy in an irrevocable trust to provide for future debt service payments on the bonds. Table 8-10, "Advance Refunding and Current Refundings" section of this note, includes information on the defeased bonds.

The City had no short-term general obligation debt at the end of 2007.

The following table presents the individual general obligation bonds outstanding as of December 31, 2007, 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 2007	Redemptions To Date [a]	Bonds Outstanding December 31
LIMITED TAX GENERAL OBLIGATION (LTGO) BONDS - NON-VOTED							
Various Purpose - Key Tower, Police Support Facility, 1996, Series C	08/28/96	01/15/20-26	4.950 [b]	$ 5,595 [c]	$ -	$ -	$ 5,595
Various Purpose - Key Tower, Police Support Facility, 1996, Series D	10/06/99	01/15/23-24	3.400 [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	1,945	26,670	-
Refunding - Various LTGO Bonds, 1998, Series B	03/17/98	09/01/98-12	4.493	43,710	2,565	30,600	13,110
Deferred Interest Parking Garage, 1998, Series E	11/12/98	12/15/01-14	4.714	13,042	1,146	4,970	8,072
Parking Garage, 1998, Series F	11/12/98	12/15/14-28	5.148	60,805	60,805	60,805	-
Various Purpose - Civic Center, Galer St, 1999, Series B	10/19/99	12/01/00-28	5.677	85,500	2,880	79,275	6,225
Various Purpose - Civic Center, South Police Precincts, Training Facilities, Information Technology, Etc., 2001	08/21/01	08/01/02-31	4.908	129,760	4,355	29,055	100,705
Improvement (Various) and Refunding, 2002	01/30/02	07/01/02-32	4.778	125,510	4,875	44,660	80,850
Improvement (Various) and Refunding, 2002, Series B	09/26/02	10/01/03-14	3.127	64,560	4,315	36,195	28,365
Various Purpose and Refunding, 2003	02/26/03	08/01/04-23	3.469	60,855	7,770	41,750	19,105
Refunding, 2004	05/24/04	07/01/04-20	4.118	91,805	4,920	7,860	83,945
Various Purpose and Refunding, 2005	03/23/05	08/01/05-28	4.167	129,540	9,570	19,775	109,765
Various Purpose and Refunding, 2006	04/26/06	03/01/07-26	4.254	24,905	1,460	1,460	23,445
Various Purpose and Refunding, 2007	05/02/07	10/01/07-28	4.251	95,550	1,555	1,555	93,995
Total Limited Tax General Obligation Bonds				1,009,732	108,161	384,630	625,102
UNLIMITED TAX GENERAL OBLIGATION (UTGO) BONDS - VOTED							
Fire Station/Shops, 1968, Series 1	10/01/68	10/01/70-08	4.726	1,700	85	1,610	90
Sewer Improvement, 1968, Series 1	10/01/68	10/01/70-08	4.726	7,000	350	6,630	370
Refunding-Various UTGO Bonds, 1998, Series A	03/17/98	09/01/98-17	4.470	53,865	3,970	39,140	14,725
Library Facilities, 1999, Series A	07/01/99	12/01/00-18	5.135	100,000	63,900	89,965	10,035
Improvement (Library Facilities) and Refunding, 2002	09/26/02	12/01/03-21	3.892	117,025	8,995	40,870	76,155
Refunding, 2007	05/02/07	12/01/07-18	3.886	60,870	1,620	1,620	59,250
Total Unlimited Tax General Obligation Bonds				340,460	78,920	179,835	160,625
Total General Obligation Bonds				$ 1,350,192	$ 187,081	$ 564,465	$ 785,727

[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, 2007. 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, 2007, is $12,402,338. 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, 2007, are presented in the following table. Debt service for the LTGO bonds is met by transfers generally from the General Fund and certain special revenue funds and by reimbursements from proprietary funds of the City. Debt service for the UTGO bonds is covered by property tax levies that authorized the bond issues and were approved by at least 60 percent of the voters in elections in which the number of voters exceeded 40 percent of the voters in the most recent election preceding the election to vote on the bond issue.

Table 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
2008	$ 49,190	$ 32,998	$ 1,178	$ 3,548	$ 86,914
2009	49,375	30,795	1,205	3,672	85,047
2010	46,055	28,526	1,226	3,806	79,613
2011	45,625	26,371	1,247	3,940	77,183
2012	45,035	24,230	1,257	4,094	74,616
2013-2017	207,030	91,018	12,979	16,010	327,037
2018-2022	147,130	47,090	24,340	9,439	227,999
2023-2027	96,945	18,998	21,615	2,536	140,094
2028-2032	33,640	4,506	655	33	38,834
Total	$ 720,025	$ 304,532	$ 65,702	$ 47,078	$ 1,137,337

SPECIAL ASSESSMENTS BONDS WITH GOVERNMENTAL COMMITMENT

The bonds are special fund obligations of the City, the debt service of which will be paid from collections from related local improvement district (LID) assessments levied against the benefited properties located within the boundaries of the LID. Though guaranteed by the City's LID Guaranty Fund, this type of special assessment bonds does not constitute an obligation 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. The amount of special assessment bonds outstanding at the end 2007 was $20.55 million. There were no new bond issues in 2007.

The following table shows more detail on the outstanding 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 2007	Redemptions To Date	Bonds Outstanding December 31
Local Improvement District No. 6750 Bonds, 2006	09/13/06	12/15/07-24	4.102	$ 21,925	$ 1,380	$ 1,380	$ 20,545

The requirements to amortize the special assessments with governmental commitment as of December 31, 2007, 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
2008	$ 1,060	$ 822	$ 1,882
2009	1,220	783	2,003
2010	1,220	738	1,958
2011	1,220	692	1,912
2012	1,220	646	1,866
2013-2017	6,100	2,518	8,618
2018-2022	6,075	1,285	7,360
2023-2024	2,430	156	2,586
Total	$ 20,545	$ 7,640	$ 28,185

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 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. There were no amounts drawn in 2007 and the City paid $2.6 million and $0.4 million in principal and interest, respectively, in 2007. The outstanding balance on the notes at December 31, 2007, is $21.9 million. The following table presents the annual debt service requirements to maturity on the notes as of the end of 2007.

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
2008	$ 2,185	$ 398	$ 2,583
2009	2,134	354	2,488
2010	2,049	312	2,361
2011	1,945	270	2,215
2012	1,847	231	2,078
2013-2017	7,376	677	8,053
2018-2022	3,857	164	4,021
2023	530	5	535
Total	$ 21,923	$ 2,411	$ 24,334

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 2007 the department paid approximately $383,500 and $1,100 in principal and interest, respectively. As of December 31, 2007, the loan has been fully paid.

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, 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 2006 the original amount of revenue bonds and anticipation notes issued in prior years was approximately $3.454 billion. The total outstanding amount at December 31, 2006, was $2.646 billion. During 2007 an additional $82.2 million of revenue and refunding bonds were issued as follows.

Solid Waste

On December 16, 2007, the City issued the $82.2 New Money and Refunding Revenue Bonds, 2007, whose interest rates range from 4.0 percent to 5.0 percent. The bonds serially will mature from February 1, 2008, to February 1, 2033, in varying amounts. The proceeds of the new money portion bonds were used to pay for part of the costs of various projects of the Solid Waste System; to refund $3.4 million of the 1999 Solid Waste, Series B, bonds; and to pay in full the outstanding Solid Waste Bond Anticipation Line of Credit in the amount of $23.6 million. 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 November 11, 2009. Further discussion on the refunding is shown in the "Advance and Current Refundings" section of this note.

The business-type funds had no short-term debt at December 31, 2007.

The following table presents the individual revenue bonds and anticipation notes outstanding as of December 31, 2007, 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 2007	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	$ 1,300	$ 11,000	$ 14,000
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	2,200	10,500	9,500
1993 Subordinate Lien	11/17/93	11/01/99-18	.088-3.42	22,000	1,000	8,100	13,900
1996 Subordinate Lien	12/11/96	06/01/02-21	1.00-5.75	19,800	805	4,385	15,415
1997 Parity	12/30/97	07/01/03-22	5.131	30,000	1,105	5,070	24,930
1998 Parity, Series A, Refunding	01/27/98	07/01/98-20	4.884	104,650	5,065	17,670	86,980
1998 Parity, Series B	10/29/98	06/01/04-24	4.919	90,000	2,950	11,115	78,885
1999 Parity	10/27/99	10/01/06-24	5.960	158,000	3,250	144,500	13,500
2000 Parity	12/27/00	12/01/06-25	5.298	98,830	3,015	5,890	92,940
2001 Parity	03/29/01	03/01/04-26	5.082	503,700	6,990	23,140	480,560
2002 Parity, Refunding	12/04/02	12/01/03-14	3.470	87,735	9,255	38,515	49,220
2003 Parity, Refunding	08/20/03	11/01/04-28	3.517	251,850	23,820	81,005	170,845
2004 Parity	12/23/04	08/01/05-29	4.159	284,855	6,000	18,070	266,785
Total Light Bonds				1,721,420	66,755	378,960	1,342,460
MUNICIPAL WATER BONDS							
1995 Adjustable Rate	09/20/95	09/01/00-25	3.330	45,000	1,300	9,300	35,700
1997 Parity	04/08/97	08/01/97-26	5.712	53,000	1,275	53,000	-
1998 Parity	07/04/98	10/01/99-27	5.110	80,000	1,865	14,170	65,830
1999 Parity	06/23/99	03/01/00-29	5.373	100,000	2,090	95,530	4,470
1999 Parity, Series B	10/23/99	07/01/01-29	5.912	110,000	2,250	105,165	4,835
2001 Parity	11/20/01	11/01/05-31	4.972	52,525	1,125	3,260	49,265
2002 Adjustable Rate, Series A	05/15/02	05/15/03-32	3.400	32,500	1,400	3,800	28,700
2002 Adjustable Rate, Series B	05/15/02	05/15/03-32	3.400	32,500	-	2,500	30,000
2003 Parity, Refunding	05/12/03	09/01/03-33	4.083	271,320	6,875	53,700	217,620
2004 Parity	10/25/04	09/01/05-34	4.580	84,750	1,410	4,705	80,045
2005 Parity, Refunding	12/28/05	09/01/06-29	4.482	138,040	295	2,690	135,350
2006 Parity, Refunding	10/23/06	02/01/08-37	4.424	189,970	-	-	189,970
Total Water Bonds				1,189,605	19,885	347,820	841,785
MUNICIPAL DRAINAGE AND WASTEWATER BONDS							
1995 Improvement and Refunding	12/28/95	12/01/96-25	5.309	40,390	1,265	40,390	-
1998 Parity	05/15/98	11/01/98-18	5.122	24,170	550	4,595	19,575
1999 Parity	09/28/99	11/01/00-29	5.720	55,000	1,110	52,610	2,390
2001 Parity	06/22/01	11/01/02-31	5.260	60,680	1,190	6,530	54,150
2002 Improvement and Refunding	12/17/02	07/01/03-32	4.751	78,550	1,825	7,805	70,745
2004 Parity	10/28/04	09/01/05-34	4.609	62,010	1,095	3,045	58,965
2006 Improvement and Refunding	11/01/06	02/01/07-37	4.180	121,765	2,130	2,130	119,635
Total Drainage and Wastewater Bonds				442,565	9,165	117,105	325,460
SOLID WASTE BONDS							
1999 Refunding	01/19/99	08/01/99-09	4.839	40,900	4,160	31,880	9,020
1999 Parity, Series B	10/26/99	11/01/00-19	5.732	5,500	3,645	5,000	500
2007 Revenue & Refunding	12/12/07	02/1/2008-33	4.505	82,175	-	-	82,175
Total Solid Waste Bonds				128,575	7,805	36,880	91,695
Total Utility Revenue Bonds				3,482,165	103,610	880,765	2,601,400
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				$ 3,505,741	$ 103,610	$ 904,341	$ 2,601,400

[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 2007. 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, 2007, 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. These notes were refinanced by the Solid Waste Revenue and Refunding Bonds issued on December 12, 2007.

[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, 2007, 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
2008	$ 70,460	$ 66,107	$ 21,385	$ 39,345	$ 8,070	$ 15,865	$ 4,690	$ 3,048	$ 228,970
2009	74,260	62,548	22,280	38,373	8,440	15,510	6,535	4,205	232,151
2010	78,230	58,799	23,345	37,337	8,830	15,111	1,980	3,865	227,497
2011	74,340	55,158	24,425	36,279	9,230	14,722	2,075	3,773	220,002
2012	74,635	51,877	25,480	35,150	9,635	14,317	2,185	3,667	216,946
2013-2017	389,875	200,652	146,380	156,883	55,680	64,117	12,710	16,536	1,042,833
2018-2022	336,660	107,574	182,795	117,608	68,350	48,647	14,935	13,027	889,596
2023-2027	227,265	29,408	177,140	71,930	72,550	31,082	18,120	8,976	636,471
2028-2032	16,735	984	170,960	33,067	64,260	13,305	23,165	3,940	326,416
2033-2037	-	-	47,595	4,702	20,415	2,047	5,300	119	80,178
Total	$ 1,342,460	$ 633,107	$ 841,785	$ 570,674	$ 325,460	$ 234,723	$ 91,695	$ 61,156	$ 4,101,060

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 in 2006 departmentwide. The total amount of the note payable was $0.8 million at an imputed interest rate of 5.0 percent. During 2007 approximately $270,200 and $21,000 in principal and interest, respectively, were repaid leaving a balance of about $285,000 at December 31, 2007. This amount plus interest of about $7,000 is due in 2008.

In 2003 the Light Department also negotiated 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 were two major components of this work. The first consisted of installing an underground ductbank and the second was to perform the necessary underground electrical work within the ductbank. Financial terms of this agreement were finalized during 2005 that resulted in a note payable to Sound Transit. 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. The completed underground electrical work was financed in part by Sound Transit and the total amount due Sound Transit was $3.1 million. In 2006 the note payable was increased by nearly $1.0 million for additional electrical work performed. The entire note payable was repaid in full by the end of 2007. The note payable had an interest rate of 3.9 percent plus an inflation component.

Water

During 1993 the Seattle Public Utilities (SPU), for its Water Fund, entered an agreement to borrow up to $2.2 million from the Washington State Department of Community, Trade, and Economic Development under its Public Works Trust Loan program for the construction of certain capital improvements. Amounts borrowed under the agreement accrue interest at 1.0 percent per annum and are to be repaid in 19 annual installments plus interest. In 2007, amounts paid from the Water Fund totaled $118,217 and $8,000 in principal and interest, respectively, on the loan. The remaining outstanding balance at December 31, 2007, amounts to approximately $709,300, 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 $693,600 on a loan from the State of Washington Department of Ecology in 2007. The loan agreement originated in 2005 and allows borrowings up to $2.7 million to support the construction of improvements of the High Point Natural Drainage Systems project. Amounts borrowed under the agreement accrue interest at 1.5 percent per annum and are to be repaid in 20 annual installments. As of December 31, 2007, the City's outstanding balance on the loan amounts to $2.2 million.

During 2006 the Utility began receiving draws on a loan 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 over 20 years. As of December 31, 2007, the Fund owes $3.8 million..

Other loans outstanding as of December 31, 2007, amount to $79,851.

In 2007 amounts paid from the Drainage and Water totaled $243,505 in principal and approximately $50,000 in interest for all the loans.

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
2008	$ 118	$ 7	$ 233	$ 57	$ 415
2009	118	6	234	55	413
2010	118	5	344	53	520
2011	118	4	345	50	517
2012	118	2	346	46	512
2013-2017	119	1	1,660	180	1,960
2018-2022	-	-	1,650	110	1,760
2023-2027	-	-	1,024	45	1,069
2028-2029	-	-	218	5	223
Total	$ 709	$ 25	6,054	601	$ 7,389

The following table shows the long-term liability activities during the year ended December 31, 2007.

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

(In Thousands)

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds Payable					
General Obligation Bonds	$ 746,365	$ 97,235	$ 123,575	$ 720,025	$ 49,190
Add (Deduct) Deferred Amounts					
Issuance Premiums	13,994	4,178	1,630	16,542	-
Issuance Discounts	(2)	-	-	(2)	-
On Refunding	(2,423)	(1,995)	(1,402)	(3,016)	-
Special Assessment Bonds with Governmental Commitment [b]	21,925	-	1,380	20,545	1,060
Total Bonds Payable	779,859	99,418	125,183	754,094	50,250
Notes and Contracts					
Capital Leases	15	-	12	3	3
Other Notes and Contracts	24,494	-	2,571	21,923	2,185
Total Notes and Contracts	24,509	-	2,583	21,926	2,188
Compensated Absences [c]	63,096	61,674	54,778	69,992	15,719
Claims Payable					
Workers' Compensation	16,123	8,240	6,520	17,843	6,190
General Liability	33,676	22,992	7,656	49,012	16,077
Health Care Claims [c]	3,066	3,259	3,066	3,259	3,259
Total Claims Payable [d]	52,865	34,491	17,242	70,114	25,526
Arbitrage Rebate Liability	-	432	-	432	26
Total Long-Term Liabilities from Governmental Activities	$ 920,329	$ 196,015	$ 199,786	$ 916,558	$ 93,709
BUSINESS-TYPE ACTIVITIES					
Bonds Payable					
General Obligation Bonds	$ 70,023	$ 59,185	$ 63,506	$ 65,702	$ 1,179
Revenue Bonds	2,622,835	82,175	103,610	2,601,400	104,605
Add (Deduct) Deferred Amounts					
Issuance Premiums	72,379	7,862	6,193	74,048	-
Issuance Discounts	(1,805)	-	(246)	(1,559)	-
On Refunding	(68,227)	(1,528)	(7,590)	(62,165)	-
Total Bonds Payable	2,695,205	147,694	165,473	2,677,426	105,784
Revenue Anticipation Notes Payable	23,576	-	23,576	-	-
Accrued Interest - Deferred Interest Bonds	4,246	639	555	4,330	666
Notes and Contracts - Other	10,942	694	4,588	7,048	636
Compensated Absences	21,422	31,691	29,136	23,977	2,323
Claims Payable					
Workers' Compensation	5,922	3,116	2,411	6,627	2,299
General Liability	18,267	10,707	10,939	18,035	5,916
Muckleshoot Liability	1,495	-	-	1,495	1,000
Habitat Conservation Program Liability	14,803	1,241	2,498	13,546	9,528
Environmental Liability					
General Contamination Cleanup	17,335	12,883	5,546	24,672	7,706
Total Claims Payable [d]	57,822	27,947	21,394	64,375	26,449
Landfill Closure and Postclosure Costs [c]	28,284	-	1,207	27,077	1,465
Purchased Power Obligation	15,402	-	10,653	4,749	11,970 [e]
Total Long-Term Liabilities from Business-Type Activities	$ 2,856,899	$ 208,665	$ 256,582	$ 2,808,982	$ 149,293

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

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

[c] Compensated absences was restated to recognize $4.77 million of unused vacation relating to firefighters prior to 2007; to recognize a reduction of $6.29 million due to overstatement of health care claims at December 31, 2006; to correct a $1.0 million understatement of landfill closure and postclosure costs in this table in 2006.

[d] 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.

[e] Amount is final principal due for Lucky Peak bonds outstanding as of December 31, 2007. Payment is due July 1, 2008. $4,749 is the amount reflected in City Light that represents City Light's recorded obligation and related assets for the Lucky Peak project. This amount will also amortize to zero on July 1, 2008.

The City's internal service funds predominantly serve governmental funds. For this reason the above totals in the governmental activities include the long-term liabilities for these funds. At the end of the year compensated absences and claims payable of these funds amounted to approximately $3.3 million and $1.2 million, respectively, and are liquidated from each fund's own resources. Notes and contracts (including public works trust loans), compensated absences, and workers' compensation other than those pertaining to the internal service funds are liquidated using the respective governmental funds of operating City departments, including those funded by the General Fund. General liability and health care claims relating to internal service funds are liquidated using the General Fund. Liabilities for compensated absences for governmental activities in governmental funds that have department operating budgets, though they are reported as a general obligation of the City, are paid from these funds when these compensated absences are used by the employees or cashed out by them at termination or retirement. Arbitrage rebate liabilities in governmental activities are paid as they 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 2007.

The refunding portion of the $95.55 million LTGO Improvement and Refunding Bonds, 2007, issued on May 2, 2007, in the amount of $59.19 million fully refunded the $60.81 million 1998 LTGO, Series F, bonds. The aggregate total debt service on the refunded bonds requires a cash flow of $107.99 million, including $47.18 million in interest. The aggregate total debt service on the refunding bonds requires a cash flow of $100.59 million including interest of $41.40 million. The difference between the cash flows required to service the old and the new debt and to complete the refunding totaled approximately $7.4 million, and the aggregate economic gain amounted to approximately $4.34 million at net present value.

The refunding issue of $60.87 million UTGO Refunding Bonds, 2007, refunded $59.21 million of the 1999 UTGO, Series A, bonds. The aggregate total debt service on the refunded bonds requires a cash flow of $85.71 million, including $26.5 million in interest. The aggregate total debt service on the refunding bonds requires $81.02 million, including interest of $20.15 million. The difference between the cash flows required to service the old and the new debt and to complete the refunding totaled approximately $4.68 million, and the aggregate economic gain amounted to approximately $3.77 million at net present value.

The detail of two-time partial defeasance in 2007 of the 2003 LTGO bonds for the McCaw Hall construction project discussed earlier in the note is also shown in Table 8-10 that follows.

The refunding portion of the $82.18 million Solid Waste New Money and Refunding Revenue Bonds, 2007, issued on December 16, 2007, in the amount of $3.43 million refunded $3.42 million of the Solid Waste Revenue Bonds, Series 1999. The aggregate total debt service on the refunded bonds requires a cash flow of $4.98 million including interest of $1.56 million. The aggregate total debt service on the refunding bonds requires a cash flow of $4.61 million including interest of $1.18 million. The difference between the cash flows required to service the old and the new debt and to complete the refunding totaled approximately $369,000, and the aggregte economic gain amounted to approximately $204,000 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 2007	Defeased Outstanding December 31
GENERAL OBLIGATION BONDS							
Limited Tax (Non-Voted)							
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	150	470
Parking Garage, 1998, Series F, Refunded 05/02/07	11/12/98	12/15/14-28	5.148	60,805	60,805	-	60,805
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	1,095	7,375
Various Purpose and Refunding, 2003, Defeased 4/4/07	02/26/03	08/01/04-23	3.469	60,855	2,715	170	2,545
Various Purpose and Refunding, 2003, Defeased 8/30/07					3,180	-	3,180
Unlimited Tax (Voted)							
Library Facilities, 1999, Series A, Refunded 05/02/07	07/01/99	12/01/00-18	5.135	100,000	59,205	-	59,205
REVENUE BONDS							
Municipal Light and Power							
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							
1999 Parity	09/28/99	11/01/00-29	5.720	55,000	45,205	-	45,205
Solid Waste							
1999 Parity, Series B	10/26/99	11/01/00-19	5.732	5,500	3,415	-	3,415
Total Refunded/Defeased Bonds				$ 984,550	$ 596,720	$ 54,045	$ 542,675

ARBITRAGE

Since 1995 the City has been reviewing arbitrage rebate liability on its outstanding tax-exempt bonds and certificates of participation under Section 148(f) of the Internal Revenue Code. For bonds that have reached their installment computation dates (bonds outstanding for five years initially and every five years thereafter until the last of the bond issue matures) the City paid approximately $158,000 arbitrage rebate in 2006 and none in 2007 on the City's general obligation bonds. The City paid no rebate in 2006 and in 2007, for the Municipal Light and Power, Water System, Drainage and Wastewater, and Solid Waste revenue bonds. There is approximately $432,000 estimated arbitrage liability recognized at the end of 2007 on the general obligation bonds, including approximately $26,000 for yield-reduction payments expected to be due in April at the fifth year anniversary of the Various Purpose and Refunding 2003 LTGO bonds. There is no estimated arbitrage liability at the end of 2007 on 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	1/1/2008	1/1/2008	1/1/2008	9/30/2006	9/30/2006
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	30.0 years	30.0 years	17.75 years	N/A
Approach	Open	Closed	Closed	Closed	N/A
Actuarial Assumptions					
Inflation Rate (CPI)	3.50%	2.5% [e]	2.5% [e]	3.50%	3.50%
Investment Rate of Return	7.75%	5.125%	5.125%	8.00%	8.00%
Projected Salary Increases	4.00%	3.5% [e]	3.5% [e]	11.70%	11.70%
Postretirement Benefit Increases	0.67%	Varies [f]	Varies [f]	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] Long-term assumption is listed. Specific short-term assumptions were used through 2010.

[f] Based upon salary increase assumptions for benefits that increased based upon salary. Based upon CPI assumptions for benefits that increased based upon CPI.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

Plan Description

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

All employees of the City of Seattle are eligible for membership in the system with the exception of law enforcement officers and fire fighters who are covered under the statewide LEOFF plans administered by the state Department of Retirement Systems. Employees of METRO and the King County Health Department who established membership in the system when these organizations were City of Seattle departments were allowed to continue their membership. Current membership in SCERS consisted of the following at December 31, 2007:

Retirees and Beneficiaries Receiving Benefits	5,201
Terminated Plan Members Entitled To But Not Yet Receiving Benefits, Vested	1,776
Terminated Plan Members Who Have Restored Their Contributions Due to the Provisions of the Portability Statutes and May Be Eligible for Future Benefits, Vested	274
Active Plan Members, Vested and Non-vested	8,842

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

Refer to the Other Postemployment Benefits section of this note for discussion of the City's implicit rate subsidies to retirees for health care coverage.

The Seattle City Employees' Retirement System issues a stand-alone financial report. A copy of the report is available from the Seattle City Employees' Retirement System at 720 Third Avenue, Suite 1000, Seattle, WA 98104; by telephone at 206-386-1293; or by accessing the 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, 2007, based on the actuarial valuation of January 1, 2008, the actuarial value of plan net assets available for benefits was $2,119 million, and the actuarial accrued liability was $2,295 million. The unfunded actuarial accrued liability (UAAL) was $175 million and the funding ratio was 92.4 percent.

Actuarial data for SCERS are determined through biennial actuarial valuations. The latest actuarial valuation was completed as of January 1, 2008. 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)
2005	$ 34,095	$ 35,897	105 %	$ (78,064)
2006	37,755	37,939	100	(78,249)
2007	40,115	40,299	100	(78,434)

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
2007	$40,299	$ (6,064)	$ 5,879	$ 40,115	$40,299	$ (185)	$ (78,249)	$ (78,434)

During 2007 the Seattle City Employees' Retirement System's net pension asset increased from $78,249 million to $78,434 million, an increase of $185 thousand as calculated in the following table.

Table 9-2

ANNUAL PENSION COST AND NET PENSION OBLIGATION

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

For the Year Ended December 31, 2007

(In Thousands)

	2007	2005 [c]
Total Normal Cost Rate	12.50 %	13.05 %
Employee Contribution Rate	8.03	8.03
Employer Normal Cost Rate	4.47	5.02
Total Employer Contribution Rate	8.03 %	8.03 %
Amortization Payment Rate	3.56	3.01
Amortization Period	18.00	30.20
GASB 27 Amortization Rate	3.56	3.01
Total Annual Required Contribution (ARC) Rate [a]	8.03	8.03
Covered Employee Payroll [b]	$ 501,862	$ 447,040
ARC	$ 40,300	$ 35,897
Interest on Net Pension Obligation (NPO)	(6,064)	(5,910)
Adjustment to ARC	5,879	4,108
Annual Pension Cost (APC)	$ 40,115	$ 34,095
Employer Contribution	$ 40,300	$ 35,897
Change in NPO	$ (185)	$ (1,802)
NPO at Beginning of Year	(78,249)	(76,262)
NPO at End of Year	$ (78,434)	$ (78,064)

[a] If the amortization period determined by the actual contribution rate exceeds the maximum amortization period required by GASB Statement No. 27, the ARC is determined using an amortization of the funding excess over 30 years.

[b] Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation date.

[c] Actuarial studies are done every two years. No study was done in 2006.

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 may be eligible for a supplemental retirement benefit plus disability benefits under these plans. Those officers and fire fighters hired between March 1, 1970, and September 30, 1977, are not eligible for a supplemental retirement benefit, but may be eligible for disability benefits under this plan. Eligible law enforcement officers may retire with full benefits after 25 years of service at any age and fire fighters at age 50 after completing 25 years of service. These pension plans provide death benefits for eligible active and retired employees. In addition, these plans provide medical benefits in accordance with state statutes and City ordinances to active and retired members from the City. Currently 1,019 fire and 1,181 police retirees meet these eligibility requirements. The City fully reimburses the amount of valid claims for medical and hospitalization costs incurred by active members and pre-Medicare retirees. The City also reimburses the full amount of premiums for part B of Medicare for each retiree eligible for Medicare. Total postemployment medical benefits for Firemen's Pension were $9.0 million in 2007 and $7.8 million in 2006; and for Police Relief and Pension, $10.5 million in 2007 and $10.0 million in 2006.

Refer to the Other Postemployment Benefits section of this note for discussion of the City's implicit rate subsidies to retirees for health care coverage as well as medical benefits for retirees under the Firemen's and Police Relief and pension plans.

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

Current membership in Firemen's Pension and Police Relief and Pension consisted of the following at December 31, 2007:

	Firemen's Pension	Police Relief and Pension
Retirees and Beneficiaries Receiving Benefits	910	611
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	-	-
Active Plan Members, Vested	61	53
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, 2008, 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	2005	$ 9,704	100 %	$ -
	2006	9,385	100	-
	2007	9,533	91	900
Police Relief and Pension Fund	2005	7,187	100	-
	2006	6,056	100	-
	2007	7,783	76	1,897

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. In 2006 the Board of Directors amended the fully funded date from 2018 to December 31, 2023. The level contributions were set aside in the Firemen's Pension Actuarial Account with a fund balance of $8.6 million as of December 31, 2007. 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, 2007, based on the actuarial valuation as of January 1, 2008, was $168.4 million for Firemen's Pension and $138.9 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.

Projected benefit payments and liabilities increased significantly between the actuarial valuations. The primary contributing factor was the change in actuarial assumptions to reflect that long-run wages were expected to increase faster than the Consumer Price Index, resulting in the creation of net pension obligations of $1.9 million for Police Relief and Pension and $0.9 million for Firemen's Pension in 2007.

Table 9-3

ANNUAL PENSION COST AND NET PENSION OBLIGATION
FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS
For the Year Ended December 31, 2007
(In Thousands)

	Firemen's Pension			Police Relief and Pension		
	2007	2006	2005	2007	2006	2005
Annual Required Contribution (ARC)						
Annual Normal Cost - Beginning of Year	$ -			$ -		
Amortization of UAAL - Beginning of Year	9,068			7,403		
Interest to End of Year	465			379		
ARC at End of Year	9,533	$ 9,385	$ 9,704	7,782	$ 6,056	$ 7,187
Interest on NPO	-	-	-	-	-	-
Adjustment to ARC	-	-	-	-	-	-
Annual Pension Cost (APC)	9,533	9,385	9,704	7,782	6,056	7,187
Employer Contribution	8,633	9,385	9,704	5,885	6,056	7,187
Change in NPO	900	-	-	1,897	-	-
NPO at Beginning of Year	-	-	-	-	-	-
NPO at End of Year	$ 900	$ -	$ -	$ 1,897	$ -	$ -

Following are the Firemen's Pension and the Police Relief and Pension financial statements for fiscal year ending December 31, 2007.

Table 9-4

STATEMENT OF NET ASSETS
FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS
December 31, 2007
(In Thousands)

	Firemen's Pension	Police Relief and Pension	2007	2006
ASSETS				
Cash and Equity in Pooled Investments	$ 9,320	$ 2,408	$ 11,728	$ 12,452
Investments at Fair Value				
U.S. Government Obligations	461	-	461	458
Receivables				
Employer - Other	38	-	38	-
Interest and Dividends	-	-	-	28
Total Receivables	38	-	38	28
Total Assets	9,819	2,408	12,227	12,938
LIABILITIES				
Refunds Payable and Other - Other	813	1,603	2,416	1,567
Total Liabilities	813	1,603	2,416	1,567
Net Assets Held in Trust for Pension Benefits	$ 9,006	$ 805	$ 9,811	$ 11,371

Table 9-5

STATEMENT OF CHANGES IN

PLAN NET ASSETS

FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS

For Year Ended December 31, 2007

(In Thousands)

	Defined Benefit		Postemployment Healthcare		Comparative Totals	
	Firemen's Pension	Police Relief and Pension	Firemen's Pension	Police Relief and Pension	2007	2006
ADDITIONS						
Contributions						
Employer	$ 8,633	$ 5,885	$ 9,077	$ 10,478	$ 34,073	$ 33,207
Investment Income						
From Investment Activities						
Net Appreciation (Depreciation) in Fair Value of Investments	62	-	-	-	62	40
Interest	422	-	-	-	422	293
Total Net Investment Income	484	-	-	-	484	333
Total Additions	9,117	5,885	9,077	10,478	34,557	33,540
DEDUCTIONS						
Benefits	9,683	6,019	9,077	10,478	35,257	31,992
Administrative Expense	473	389	-	-	862	860
Total Deductions	10,156	6,408	9,077	10,478	36,119	32,852
Change in Net Assets	(1,039)	(523)	-	-	(1,562)	688
Net Assets - Beginning of Year	10,045	1,327	-	-	11,372	10,683
Net Assets - End of Year	$ 9,006	$ 804	$ -	$ -	$ 9,810	$ 11,371

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 fire fighters. Membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being a major exception. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for Plan 2. LEOFF retirement benefit provisions are established in state statute and may be amended only by the state Legislature. 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 2007 the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in Plan 1 and 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

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

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

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted, indexed to the Seattle Consumer Price Index. LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. The credit can only be purchased at the time of retirement and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide the member with a monthly annuity that is paid in addition to the member's retirement allowance.

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

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

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

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

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 ongoing health care insurance coverage. (SB 6723, Chapter 345, Laws 2006)

Effective July 1, 2006:

- The benefit cap of 60 percent of a LEOFF Plan 1 member's final average salary is removed for a member enrolled on or after February 19, 1974. (SHB 2688, Chapter 350, Laws 2006)

- LEOFF Plan 2 members may purchase up to five years of additional service credit at retirement. (HB 1269, Chapter 21, Laws 2005).

- LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement, and cannot be used to qualify for any retirement eligibility or benefit reductions based upon years of service. This credit is to be used exclusively to provide themember with a monthly annuity that is paid in addition to the member's retirement allowance. (HB 2690, Chapter 214, Laws 2006)

There were no other material changes in benefit provisions for the fiscal year ended June 30, 2007. LEOFF pension benefit provisions have been established by RCW 41.26.

There are 92 participating employers in LEOFF Plan 1 and 379 participating employers in Plan 2 as of June 30, 2007. Membership in LEOFF consisted of the following as of the latest actuarial valuation date of September 30, 2006.

	Plan 1	Plan 2
Retirees and Beneficiaries Receiving Benefits	8,172	779
Terminated Members Entitled To But Not Yet Receiving Benefits	5	597
Active Plan Members, Vested	595	12,116
Active Plan Members, Nonvested	1	3,602
Total	8,773	17,094

All law enforcement officers and fire fighters of the City of Seattle participate in LEOFF. Current active members (vested and non-vested) are 126 under Plan 1 and 2,200 under Plan 2.

DRS prepares a stand-alone financial report. A copy of the report that includes financial statements and required supplementary information for LEOFF may be obtained by writing to Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380; by calling 360-664-7000 in Olympia or 1-800-547-6657; or by accessing their 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
2005	$ -	N/A	$ 80.8	67 %
2006	-	N/A	101.3	79
2007	.1	N/A	94.9	101

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
2005	$ 23	$ 6,149
2006	21	8,082
2007	18	9,381

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, 2007	June 30,2006
Plan 1	$ 72,945	$ 85,326
Plan 2	1,232,440	1,107,722

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, 2007	June 30, 2006
Plan 1	$ 6,343,265	$ 5,478,118
Plan 2	3,952,783	3,020,542

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.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan description and funding policy

Health Care Blended Premium Subsidy. Employees retiring under City of Seattle or the LEOFF 2 retirement plans may continue their health insurance coverage under the City's health insurance plans for active employees. LEOFF 1 employees retiring under Washington State PERS are covered under the LEOFF 1 retiree health plan but are eligible to have their spouses and/or dependents covered under the City health insurance plans. When a retired participant dies, the spouse remains fully covered until age 65 and covered by the Medicare supplement plan thereafter. Employees that retire with disability retirement under the City of Seattle, Washington LEOFF 2 plan, or Social Security may continue their health coverage through the City with same coverage provisions as other retirees. Eligible retirees self-pay 100 percent of the premium based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The City provides implicit subsidy of the post-retirement health insurance costs and funds the subsidy on a pay-as-you-go basis. The postemployment benefit provisions are established and may be amended by City ordinances.

Firemen's Pension and Police Relief and Pension Plans. The Firemen's Pension and Police Relief and Pension plans provide medical benefits for eligible retirees. The benefits are authorized under state stature, RCW 41.18 and 41.26 for Firemen's Pension, and RCW 41.20 and 41.26 for Police Relief and Pension, and may be amended by the state legislature. The City funds these benefits on a pay-as-you go basis.

Annual OPEB Cost and Net OPEB Obligation

Based on the actuarial valuation dates noted under Funded Status and Funding Progress and in Table 9-7, the City's annual cost for fiscal year ended December 31, 2007, the amount of expected contributions to the plans and changes in net obligation in each plan are as follows:

Table 9-6 ANNUAL OPEB COST AND NET OPEB OBLIGATION

	Healthcare Blended Premium Subsidy	Firemen's Pension (LEOFF1)	Police Relief and Pension (LEOFF1)	Total
Annual Required Contribution	$ 9,328,990	$ 10,624,239	$ 12,653,428	$ 32,606,657
Interest on Net OPEB Obligation	-	-	-	-
Adjustment to Annual Required Contribution	-	-	-	-
Annual OPEB Cost (Expense)	9,328,990	10,624,239	12,653,428	32,606,657
Expected Contribution (Employer-Paid Benefits)	1,354,268	9,076,741	10,477,552	20,908,561
Increase in Net OPEB Obligation	7,974,722	1,547,498	2,175,876	11,698,096
Net OPEB Obligation – Beginning of Year	-	-	-	-
Net OPEB Obligation – End of Year	$ 7,974,722	$ 1,547,498	$ 2,175,876	$ 11,698,096

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation of each plan for 2007 are as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Healthcare Blended Premium Subsidy	12/31/2007	$ 9,328,990	14.5%	$ 7,974,722
Firemen's Pension (LEOFF1)	12/31/2007	10,624,239	85.0	1,547,871
Police Relief and Pension (LEOFF1)	12/31/2007	12,653,428	83.0	2,175,876

Funded Status and Funding Progress

As of December 31, 2007, based on the actuarial valuation dates for each of the plans, the unfunded actuarial accrued liability (UAAL) was equal to the actuarial accrued liability (AAL) due to the City's pay-as-you-go policy. Following is the funded status (in thousands) for the plans as of December 31, 2007:

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Normal AAL (b)	UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
Healthcare Blended Premium Subsidy	1/1/2006	-	$84,338	$84,338	-	NA	NA
Firemen's Pension (LEOFF1)	1/1/2008	-	198,150	198,150	-	NA	NA
Police Relief and Pension (LEOFF1)	1/1/2008	-	209,502	209,502	-	NA	NA

Actuarial methods and assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the time of the valuation and the pattern of sharing of benefit costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of any assets. Significant methods and assumptions are as follows:

Table 9-7 **OPEB INFORMATION**

Description	Healthcare Blended Rate Subsidy	Firemen's Pension (LEOFF1)	Police Relief and Pension (LEOFF1)
Actuarial Valuation Date	1/1/2006	1/1/2008	1/1/2008
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level amount over past and future service	30-year, closed as of 1/1/2007	30-year, closed as of 1/1/2007
Remaining Amortization Period	30 years, closed	29 years	29 years
Records and Data	N/A	Supplied by the City	Supplied by the City
Replacement of Terminated Employees	N/A	Closed. No new members permitted	Closed. No new members permitted
Valuation of Assets	NA. No assets as of valuation date.	NA. No assets as of valuation date.	NA. No assets as of valuation date.
Assumptions:			
Discount Rate	5.125%	5.125%	5.125%
Medical Inflation	12%, decreasing by 0.5% each year for 12 years until it reaches an ultimate rate of 6.0%.	9.5%, decreasing by 0.5% each year for 9 years until it reaches an ultimate rate of 5.0%	9.5%, decreasing by 0.5% each year for 9 years until it reaches an ultimate rate of 5.0%
Long-Term Care Inflation Rate	N/A	5.00%	5.00%
Participation/Service Retirement	45% of actives who retire are assumed to participate. This assumption was developed by comparing the count of pre-65 retirees currently covered under the Plan with the count of pre-65 retirees shown in the 2004 valuation report prepared by Mellon for the City of Seattle Employees' Retirement System.	All actives are assumed to retire at the valuation date.	All actives are assumed to retire at the valuation date.

Table 9-7 **OPEB INFORMATION (continued)**

Description	Healthcare Blended Rate Subsidy	Firemen's Pension (LEOFF1)	Police Relief and Pension (LEOFF1)
Assumptions (continued):			
Mortality	Mortality assumptions for LEOFF employees are based on the actuarial 2000 Combined Health Table for Males and Females. Mortality assumptions for general service actives and retirees are based on the Group Annuity Mortality (GAM) 1994 Static Table (Final) with ages set forward one year.	For active and service-retired employees, basis is RP 2000 Mortality Table (Combined Healthy). For disabled members, basis is RP 2000 Mortality Table (Combined Healthy) with ages set forward 2 years and a 0.005 minimum.	For active and service-retired employees, basis is RP 2000 Mortality Table (Combined Healthy). For disabled members, basis is RP 2000 Mortality Table (Combined Healthy) with ages set forward 2 years and a 0.005 minimum.
Marital Status	60% of members electing coverage are assumed to be married or to have a registered domestic partner. Male spouses are assumed to be two years older than their female spouses.	N/A	N/A
Morbidity Factors	Morbidity rate ranges assumed for ages 50 through 64 are as follows: 94.6% to 166.5% for male retirees, 106.9% to 134.3% for female retirees, 104.5% to 183.9% for male spouses, and 118.1% to 148.4% for female spouses. Because the retirees' spouses pay a lower premium for their health care coverage than the retirees, the net cost to the City for the spouse coverage is greater than for a retiree of the same gender and age. The morbidity factors were adjusted to reflect this discrepancy.	N/A	N/A
Other Considerations	Active employees with current spouse and/or dependent coverage are assumed to elect the same plan and coverage.	N/A	N/A

(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 to benefit and support the Seattle Public Library. The Foundation provides goods, services, and facilities above the tax-based funding of the Seattle Public Library. The Foundation is located in Seattle, governed by a Board of Directors, and possesses all the requisite corporate powers to carry out the purposes for which it was formed.

The City of Seattle is not financially accountable for the Seattle Public Library Foundation. The Foundation is considered a component unit in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14*, and is presented discretely in the City's financial statements because (1) the economic resources received or held by the Foundation are entirely for the direct benefit of the Seattle Public Library; (2) the Seattle Public Library is legally entitled to access a majority of the economic resources received or held by the Foundation; (3) the economic resources received or held by the Foundation are significant to the Seattle Public Library.

The Seattle Public Library Foundation reports on a fiscal year-end consistent with the City of Seattle, the primary government. The Foundation issues its own audited financial statements. Please note that the figures stated for 2007 are preliminary because the Foundation's annual audit was not completed in time for this publication. To obtain complete audited statements for all years, please contact: Seattle Public Library Foundation, 1000 Fourth Avenue, Seattle, WA 98104, phone (206) 386-4130.

Table 10-1

CONDENSED STATEMENT OF NET ASSETS
SEATTLE PUBLIC LIBRARY FOUNDATION
December 31, 2007
(In Thousands)

	2007	2006
ASSETS		
Cash, Investments, and Other Assets	$ 57,237	$ 54,633
Capital Assets, Net	8	11
Total Assets	57,245	54,644
LIABILITIES		
Current Liabilities	815	1,404
Total Liabilities	815	1,404
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	8	11
Restricted	43,099	42,267
Unrestricted	13,323	10,962
Total Net Assets	$ 56,430	$ 53,240

Table 10-2

CONDENSED STATEMENT OF ACTIVITIES
SEATTLE PUBLIC LIBRARY FOUNDATION
For Year Ended December 31, 2007
(In Thousands)

	2007	2006
EXPENSES		
Support to Seattle Public Library	$ 3,841	$ 7,063
Management and General	393	267
Fundraising	389	410
Depreciation	5	55
Total Expenses	4,628	7,795
PROGRAM REVENUES		
Contributions/Endowment Gain	4,281	4,322
Charges for Services	194	120
Total Program Revenues	4,475	4,442
Net Program (Expense) Received	(153)	(3,353)
GENERAL REVENUES		
Investment Income	3,343	5,675
Change in Net Assets	3,190	2,322
NET ASSETS		
Net Assets - Beginning of Year	53,240	50,918
Net Assets - End of Year	$ 56,430	$ 53,240

(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 from: 1) the agency creating the liability; 2) the insurance carrier; 3) future program years; and 4) as a final recourse, King County and the City of Seattle who each will be responsible for one-half of the disallowed amount. As of December 31, 2007, 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 2007, WDC has paid $0.6 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 2007-2008 Capital Improvement Program (CIP) which functions as a capital financing plan totaling $3.9 billion for the years 2007-2012. The adopted CIP for 2007 was $644.5 million, consisting of $368.7 million for City-owned utilities and $275.8 million for nonutility departments. The utility allocations are: $184.3 million for City Light, $104.2 million for Water, $52.0 million for Drainage and Wastewater, $17.1 million for Solid Waste, and $11.1 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)

	2007	2006
Bonneville Block	242.2	174.4
Bonneville Slice	411.3	451.1
Lucky Peak	31.2	46.5
British Columbia - Ross Dam	35.8	36.1
City of Klamath Falls	-	11.4
State Line Wind	44.0	43.9
Grant County Public Utility District	2.9	2.8
Grand Coulee Project Hydroelectric Authority	29.1	27.6
British Columbia-Boundary Encroachment	1.9	2.6
Exchange Energy - NCPA	6.3	0.7
Long-Term Purchased Power Booked Out	(22.5)	(26.2)
Total Long-Term Purchased Power	782.2	770.9

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 2007 or 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 with specified exceptions. Subsequent amendments to the contract provide that Bonneville will pay the Utility for qualified energy savings realized through specified programs and decrement Block purchases accordingly.

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. The project's debt matures in July 2008.

British Columbia-Ross Dam

In 1984 an agreement was reached between the Province of British Columbia and the City of Seattle under which British Columbia will provide the Utility with 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. Delivery of power 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 were deferred and are being amortized to purchase power expense over 35 years through 2035.

Power Exchanges

Northern California Power Agency (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 beginning May 31, 2014, or annually on the same date thereafter 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. (now PPM Energy) and PacifiCorp for wind energy and net integration and exchange services, and for transmission with BPA, ColumbiaGrid, and others for the period from 2008 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
2008		$ 245,567
2009		259,813
2010		261,997
2011	a	217,721
2012		93,205
2013 - 2017		485,795
2018 - 2022		451,692
2023 - 2027	b	213,507
2028 - 2032		33,139
2033 - 2037		33,556
2038 - 2042		9,536
2043 - 2065		20,458
Total		$ 2,325,986

[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 except for inclusion of costs associated with ColumbiaGrid. The Utility executed an agreement in January 2007 with ColumbiaGrid, a nonprofit membership corporation formed to improve the operational efficiency, reliability, and planned expansion of the Northwest transmission grid.

Payments under these long-term power contracts totaled $230.8 million and $231.2 million in 2007 and 2006, respectively. Payments under the transmission agreements amounted to $37.1 million and $37.5 million in 2007 and 2006, 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, excluding Endangered Species Act (ESA) costs, from the effective date until expiration of the federal operating license were estimated at December 31, 2007, to be $92.8 million, of which $62.9 million was expended. Estimated costs for South Fork Tolt were $4.2 million, and $1.1 million was expended through 2007. 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 $57.6 million; as of December 31, 2007, $23.0 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 were listed as threatened species in 1999 by the U.S. Fish and Wildlife Service (USFWS) and NOAA Fisheries, respectively. In 2007, NOAA Fisheries also listed steelhead as threatened in Puget Sound. These ESA listings affect City Light's Skagit, Tolt, and Cedar Falls hydroelectric projects. Bull trout are present in the waters of Skagit and Cedar River projects, including the reservoirs, and are present in the Tolt River downstream of Tolt Reservoir. Chinook salmon and steelhead are present downstream of all of these projects. 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. The Puget Sound bull trout recovery plan is expected to be finalized by the USFWS in 2008. Critical habitat was designated for bull trout by the USFWS and includes the Skagit, Tolt, and Cedar Rivers downstream of City Light's projects. The City of Seattle's reservoirs (Ross, Diablo, Gorge, Tolt, and Chester Morse) were not designated as critical habitat for bull trout. The final recovery plan for Puget Sound Chinook salmon was developed by regional stakeholders under the authority of NOAA Fisheries and was adopted by NOAA Fisheries in January 2007. Critical habitat has been designated for Puget Sound Chinook salmon and includes mainstream rivers downstream of the City's hydroelectric projects. The recovery planning process for Puget Sound steelhead will be initiated by NOAA Fisheries in 2008. 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 for bull trout, Chinook salmon, and steelhead. The Utility has been participating in the implementation of the Chinook salmon recovery plan on both 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. In addition to the ESA, 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, 2007, for the Endangered Species Act were $34.7 million, of which $30.1 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 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 $1.3 million and $1.2 million to Pend Oreille County, and $0.9 million and $0.8 million to Whatcom County in 2007 and 2006, respectively.

Streetlight Litigation

In November 2003 the Washington Supreme Court ruled that a 1999 ordinance related to inclusion of streetlight costs in the Utility's general rate base for Seattle and Tukwila customers was unlawful. As a result of this decision the Utility resumed billing the City 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 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's 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 and received accordingly.

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. All refunds to ratepayers were paid by December 2006, and 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'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's General Fund.

In 2006 the State Supreme Court also ruled that certain greenhouse gas offset contracts must be paid for by the City's General Fund, although the Court reconsidered that decision.

In 2007 the streetlight litigation ended with (1) the State Supreme Court's denial of a motion for reconsideration of its decision that certain greenhouse gas offset contracts must be paid for by the City's General Fund rather than the Utility and (2) the Court of Appeals award of approximately $1.3 million in attorney fees for causing for the Utility to change its ordinance governing certain utilities relocation expenses related to Sound Transit construction. The Utility paid just over $1.0 million of the award and another City of Seattle department paid the remainder.

SEATTLE PUBLIC UTILITIES (SPU)

Water Fund

Habitat Conservation Program Liability

SPU prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan (HCP) is to protect all species of concern that may be affected by SPU and City Light in the Cedar River Watershed while allowing the City to continue to provide high quality drinking water to the region. The federal government has accepted the HCP. The total cost of implementing the HCP is expected to be $99.6 million (in 2007 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 $52.3 million thru 2007. The remaining cost of $47.3 million is comprised of a $13.5 million liability and an estimate of $31.3 million for construction and operating commitments. The construction activities will be capitalized and the operating activities will be expensed. HCP costs expected to be spent in 2008 are $17.8 million.

Muckleshoot Liability

The City of Seattle is committed to work with the Muckleshoot Tribe in order to achieve salmon recovery in the 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 the Muckleshoot Tribe, the 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 $1.0 million in lieu of properties on the White River and at Yakima Pass. The Water Fund recorded a liability of $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 beginning in 2006. 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.

In 2007 due to expected delays in acquiring the Yakima Pass property, $0.5 million of the liability was transferred to other noncurrent liabilities. A $1.0 million liability is held for purchase of the White River properties, transferring the property or payment to the Tribe in lieu of the 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 approximately $129.5 million through the year 2012, and the cost beyond 2012 is not estimable at the time of this note. The total cost incurred as of December 31, 2007, was $42.6 million. Seattle Public Utilities is authorized a loan of $11.0 million from WDOH to fulfill its obligation to improve the security of the drinking water system. As of December 31, 2007, the loans from WDOH have been executed, and draws amounting to $8.0 million are expected to occur in 2008.

Untreated Water Supply Contract

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

Drainage and Wastewater Fund

Duwamish Site

The U.S. Environmental Protection Agency (EPA) has indicated that it will require the cleanup 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 cleanup sites, and generally evaluate the feasibility of cleanup 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 cleanup of certain early action sites identified during the RI under EPA-issued administrative orders on consent. The reserve includes SPU's share of the early-action site study, cleanup 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, the Port alone signed the order. Both the City and King County signed a memorandum of agreement with the Port to participate as cost-share partners in the work required by EPA. 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 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 2007 and 2006 payments to the Division were approximately $97.3 million and $89.4 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 consummated in April 2000. The contracts were scheduled to end on March 31, 2007. In 2007 the City extended the contracts until March 31, 2009. Total payments under the current contracts during 2007 and 2006 were $22.4 million and $23.6 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 $19.5 million in 2007 and $19.0 million in 2006 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 $15.8 million and $15.7 million in 2007 and 2006, respectively. The contracts will expire on March 31, 2008, but the City extended the contracts to March 31, 2009. 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 $1.8 million and $1.7 million in 2007 and 2006, respectively.

South Park

DOE indicated that it will require the cleanup and remediation of the historic South Park landfill sites under the State Model Toxics Control Act. No specific requirements for remediation by 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 cleanup options for use in the ultimate remedial actions that DOE will require. The Solid Waste Fund accrued $0.7 million liability 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 over a five-year period beginning in 2008. The remaining balance of the liability was $0.5 million as of December 31, 2007.

Landfill Closure and Postclosure Care

At December 31, 2007 and 2006, 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, with a $25.0 million limit per occurrence and in the aggregate. Starting February 1, 2002 through 2006, the City's excess general liability insurance covers losses over $5.0 million per occurrence self-insured retention, with a $25.0 million limit per occurrence and in the aggregate. In June 2007 the limit was increased to $30.0 million over a $5.0 million self-insured retention.

The City also purchased an all-risk comprehensive property insurance policy that provides $500.0 million in limits, subject to various deductible levels depending upon the type of asset and value of the building. This includes $100.0 million in earthquake and flood limits. Hydroelectric and other utility producing and processing projects owned by the City are not covered by the property policy. The City also purchased insurance for excess workers' compensation, fiduciary and crime liability, inland marine transportation, volunteers, and an assortment of commercial general liability, medical, accidental death and dismemberment, and miscellaneous policies. Bonds are purchased for public officials, notaries public, pension exposures, and specific projects and activities as necessary.

The City did not purchase any annuity contracts in 2007 to resolve litigation. No structured settlements were entered into by the City in 2007. A liability settlement of $5.3 million was received from an insurer in 2007, and no large liability settlements were received in 2006. No settlements made in 2007, 2006, or 2005 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 2007 on data as of year-end 2006 and for health care as of year-end 2007. IBNR undiscounted totaled $7.2 million and $3.3 million at December 31, 2007 and 2006, respectively. The $3.9 million increase in the IBNR amount in 2007 compared to 2006 was mainly due to the higher estimates of liabilities by $23.6 million and offset by an increase of $21.3 million in claims liability reserves. Changes in the reserves and liability estimates for workers' compensation claims accounted for the remaining $1.6 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 amounted to $0.2 million in 2007 and $0.3 million in 2006. 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 5.075 percent for 2007 and 3.966 percent for 2006, the City's average annual rates of return on investments. The total discounted liability at December 31, 2007, was $94.8 million consisting of $67.0 million for general liability, $3.3 million for health care, and $24.5 million for workers' compensation.

Table 13-1

RECONCILIATION OF CHANGES IN AGGREGATE LIABILITIES FOR CLAIMS

(In Thousands)

	General Liability		Health Care		Workers' Compensation		Total City	
	2007	2006	2007	Restated 2006	2007	2006	2007	Restated 2006
UNDISCOUNTED								
Balance - Beginning of Fiscal Year	$ 53,536	$ 63,853	$ 3,188	$ 4,619	$ 25,197	$ 25,396	$ 81,921	$ 93,868
Less Payments and Expenses During the Year	(15,364)	(27,748)	(66,765)	(63,449)	(11,609)	(12,377)	(93,738)	(103,574)
Plus Claims and Changes in Estimates	38,967	17,431	67,001	62,018	15,361	12,178	121,329	91,627
Balance - End of Fiscal Year	$ 77,139	$ 53,536	$ 3,424	$ 3,188	$ 28,949	$ 25,197	$ 109,512	$ 81,921
UNDISCOUNTED BALANCE AT END OF FISCAL YEAR CONSISTS OF								
Governmental Activities	$ 56,388	$ 38,078	$ 3,424	$ 3,188	$ 21,109	$ 18,552	$ 80,921	$ 59,818
Business-Type Activities	20,750	15,457	-	-	7,840	6,644	28,590	22,101
Fiduciary Activities	1	1	-	-	-	1	1	2
Balance - End of Fiscal Year	$ 77,139	$ 53,536	$ 3,424	$ 3,188	$ 28,949	$ 25,197	$ 109,512	$ 81,921
DISCOUNTED/RECORDED BALANCE AT END OF FISCAL YEAR CONSISTS OF								
Governmental Activities	$ 49,012	$ 33,676	$ 3,259	$ 3,066	$ 17,843	$ 16,123	$ 70,114	$ 52,865
Business-Type Activities	18,035	13,670	-	-	6,627	5,923	24,662	19,593
Fiduciary Activities	1	1	-	-	-	-	1	1
Balance - End of Fiscal Year	$ 67,048	$ 47,347	$ 3,259	$ 3,066	$ 24,470	$ 22,046	$ 94,777	$ 72,459

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, Seattle Public Utilities (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, and 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 is estimated to cost $4.0 million to $6.0 million, which will be shared by four parties, including the City. The City's share will be paid equally by City Light and SPU. The City'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 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. The estimated cleanup costs at the other early action area known as Slip 4 is $8.0 million. The City has filed suit in King County Superior Court against the Boeing Company to require Boeing to pay its fair share of the costs. City Light's ultimate liability is indeterminate.

SPU is also 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.

- North Boeing Field/Georgetown Steam Plant. The Washington Department of Ecology has notified the City that it is a potentially liable party at a site which encompasses North Boeing Field, City Light's property known as the Georgetown Steam Plant, and part of the King County Airport. The costs for investigation and cleanup at this site are likely to be several million dollars. The three potentially liable parties have agreed to share costs equally on an interim basis, subject to a final allocation process. The City's share is split equally between City Light and SPU. SPU's involvement is due to present and former storm and sanitary sewer lines. City Light's and SPU's ultimate liability are indeterminate.

- Boeing West Substation. The Boeing Company alleges that City Light is responsible for PCB contamination found in soil adjacent to a former 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.

- 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 potentially liable party for investigation and cleanup of the former South Park Landfill due to SPU's historic 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.

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 state law. The State Supreme Court upheld the payments and ended the litigation in August 2007.

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

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

Pacific Northwest and remanded the consideration of refunds to FERC. Petitions for rehearing before the Ninth Circuit are pending.

- Joint Training Facility. In May 2005 the Army Corps of Engineers issued a stop-work order to the Fleets and Facilities Department regarding construction of the City's Joint Training Facility. The Corps contended that the City had violated the Federal Clean Water Act by filling a wetland without a permit. In 2006 the City and the Corps finalized a settlement agreement that required the City to perform mitigation on the Joint Training Facility site and also on a site adjacent to the Duwamish River. The mitigation work is now complete.

- 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 a material adverse outcome cannot be predicted. For the other lawsuit the jury found the City liable after trial in February 2007. 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.

- 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. Three cases involving potential tax refunds were filed as follows. (1) A telecommunications company filed a case with the City of Seattle Hearing Examiner in December 2005 challenging approximately $4.0 million to $5.5 million in 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) 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. (3) A health care organization is appealing an assessment of the City's business and occupation tax on income received for its provision of medical services to its members. The company has challenged the assessment, alleging that the income is exempt from the measure of tax because it is income derived from insurance premiums rather than from rendition of medical services. The amount of the contested taxes is unknown but may equal or exceed $2.0 million. The company also challenged the legality of B&O tax in general arguing that the City has not complied with state law requiring it to impose interest on delinquent taxes in accordance with state law, thus invalidating the City's B&O tax. If the company prevails on its claims, it is likely that other taxpayers will make similar claims. It is not possible to predict the likelihood of a material adverse outcome.

- Costs Charges to Ratepayers. The class action plaintiffs alleged that fire hydrant costs were improperly paid by SPU water ratepayers in Seattle and the suburbs. The plaintiffs sought refunds of the costs of fire hydrant service. Most of the issues in this case were resolved in prior years. In 2007 the City briefed and/or argued two issues on the appellate level: (1) the City's authority to increase an excise tax upon SPU in the amount necessary for the General Fund to pay the ongoing costs of fire hydrants and (2) whether statutory interest or a significantly less expensive "cost of money" approach should be applied to refunds previously made by SPU to ratepayers. In addition, the suburban cities appealed the trial court decision that their general funds should pay for fire hydrants. The Washington Supreme Court heard oral argument in February 2008 and a decision is pending. SPU's liability if any is indeterminate.

- 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 $14.5 million

- 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. In 2007 the streetlight expense litigation ended with (1) the State Supreme Court's denial of a motion for reconsideration of its decision that certain greenhouse gas offset contracts must be paid for by the City rather than City Light and (2) the Court of Appeals award of approximately $1.3 million in attorney fees to the plaintiffs for causing Seattle to change its ordinance governing certain utilities relocation expenses related to Sound Transit construction. The attorney's fees have been paid.

- Grand Coulee Project Hydro Authority (GCPHA) litigation. The City and the City of Tacoma (the "Cities") are in an ongoing contract dispute with the GCPHA over the amount of incentive payments due to the GCPHA under five identical long-term power purchase contracts. Seattle and Tacoma each are responsible for half of the incentive payments. The paid but disputed amount for contract years 2002 and 2003 (approximately $5.4 million) was submitted to an arbitrator in May 2006. Thereafter, the GCPHA claimed approximately $2.0 million for the 2004 contract year. The court prevented the GCPHA from collecting on that invoice while the arbitration proceeded, but required the Cities to deposit the 2004 disputed amount with the court. The GCPHA then claimed $3.4 million in incentive payments for the 2005 contract year, and the Cities again were ordered to deposit that amount with the court. The arbitrator ultimately decided against the Cities on the 2002 and 2003 contract years, and the court denied the Cities request for refunds. Based on this decision, the court released the disputed $5.4 million for contract years 2004 and 2005 to the GCPHA. The Cities have appealed the trial court's decision to confirm the arbitrator's decision.

- Other Miscellaneous Lawsuits and Claims. Two cases involving alleged injuries and damages sustained from a collision during a police pursuit and a police action were caused by City negligence. Another lawsuit was filed by a plaintiff's estate seeking damages for the plaintiff's alleged wrongful death as the result of a traffic collision involving a City vehicle. The likelihood of material recoveries in these lawsuits and claims are indeterminate.

There may be other litigation or claims involving alleged substantial sums of money owing; however, the prospect of material adverse outcomes therein is remote. Other than the aforementioned cases and the claim liabilities recorded in the financial statements, there were and are no outstanding material judgments against the City.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) SECTION 108 LOAN PROGRAM

The City of Seattle participates in the HUD Section 108 loan program. In the Section 108 program HUD obtains funds from private investors at a very low cost (i.e., low interest rate). Low-cost funds are available because HUD guarantees repayment to the private investors. HUD, in turn, provides the low-cost funds to jurisdictions nationwide including the City of Seattle. The City re-lends the funds to private borrowers. HUD deposits the funds directly with the City's loan servicing agent, the Bank of New York. The Bank of New York disburses funds on behalf of the City to the private borrowers.

The Brownfields Economic Development Initiative Grant (BEDI) program is a federal grant that is directly linked to the Section 108 loan program. The City uses BEDI grant funds as a loan loss reserve and interest subsidy on Section 108 loans. The U.S. Treasury deposits the grant funds with the City. The City then disburses the grant funds to the loan servicing agent.

Pursuant to RCW 35.21.735 the City is expressly authorized to participate in the Section 108 loan program. The state statute and the City's contracts/agreements with HUD clarify that the City never pledges its full faith and credit. Future block grant funds are pledged to HUD in the event of borrower default. Each loan is secured by a deed of trust and/or bank-issued letter of credit that provides the City with security in the event of borrower default. Additionally, the BEDI grant funds may be used by the City to protect against loan default.

On December 31, 2007, eight accounts remained outstanding with a combined total amount of $18.6 million. BEDI grant funds amounting to $1.6 million are being held as loan loss reserves for six of the eight 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, 2007. 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 $668,111 was outstanding at December 31, 2007. The bonds will be fully retired by November 1, 2011.

Special obligation refunding bonds issued November 1, 1996, in the amount of $6,210,000 to refund Series 1991A. The outstanding amount at December 31, 2007, was $4,865,000. 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, $4,775,000 of which was outstanding on December 31, 2007. The bonds will be fully retired on November 1, 2017.

Seattle Chinatown-International District Preservation and Development Authority

Special obligation bonds, Series A, issued on December 12, 2002, in the amount of $7,700,000. The outstanding amount at December 31, 2007, was $2,900,000. 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, 2007, was $2,625,000. The bonds will be fully retired by October 1, 2032.

Special obligation refunding bonds issued on September 26, 2007, in the amount of $7,355,000, which is outstanding at December 31, 2007. The bonds will be fully retired by August 1, 2026.

Seattle Indian Services Commission

Special obligation refunding bonds issued on March 28, 2002, in the amount of $3,710,000. The amount outstanding at December 31, 2007, was $2,945,000. The bonds will be fully retired on November 1, 2017.

Special obligation revenue refunding bonds issued on November 1, 2004, in the amount of $5,210,000, all of which was outstanding as of December 31, 2007. The bonds will be fully retired on November 1, 2024.

(14) RECLASSIFICATIONS, RESTATEMENTS, PRIOR-PERIOD ADJUSTMENTS, AND CHANGES IN ACCOUNTING PRINCIPLES

Prior-period adjustments in government-wide financial statements under governmental activities include the following: (1) Recognition of $1.8 million grant revenues inadvertently omitted in 2006; (2) Capitalization of $1.6 million construction in progress (CIP) and $0.9 million artwork costs which were previously reported as current expenditures; (3) Recording of $4.8 million previously unreported vacation credits for uniformed Fire personnel; and (4) Elimination of $6.1 million in health care claim liabilities which duplicated expenses that had been included as expenses.

A prior-period adjustment in government-wide financial statements under business-type activities pertains to segregating $12.8 million attributable to land from the $72.9 million paid for a parking garage located under a commercial building, resulting in a balance of $60.1 million attributable to a building asset. The 2006 Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Fund Net Assets, and Statement of Cash Flows were adjusted to reflect a reduction in accumulated depreciation through 2006 by $3.4 million, a reduction of 2006 depreciation expense by $0.4 million, and an adjustment of $3.0 million to the prior-period balance.

The above adjustments affected government-wide financial statements as follows: (1) Increased net assets by $9.3 million with government-wide assets going up by $7.8 million and liabilities going down $1.5 million; (2) Increased the net expense for governmental activities by $1.4 million, and increased the net revenue for the business activities by $470 thousand, which had the net impact of decreasing the change in net assets in the Statement of Activities by $911 thousand; (3) The adjustment for periods prior to 2006 reflects an increase of $10.2 million that is offset by the decreasing change in activities of $911 thousand leaving the net change in assets at $9.3 million.

Reclassifications were made in enterprise funds to reflect restricted cash and investments as noncurrent instead of current assets since those resources were designated to support construction of noncurrent assets. The reclassifications resulted in a net increase of noncurrent restricted cash by $47.8 million, an increase of noncurrent restricted investments by $55.8 million, and corresponding reductions in current restricted cash and investments in the government-wide Statement of Net Assets.

(15) SUBSEQUENT EVENTS

Bond Issue. On April 16, 2008, the City issued the Drainage and Wastewater Revenue Bonds, 2008, in the amount of $84.6 million for the betterment of its drainage and wastewater system. The bonds have coupon rates that range from 4.0 percent to 5.0 percent. In 2008, Standard and Poor's upgraded the Drainage and Wastewater bonds rating from AA to AA+, while Moody's Investor Service maintained its rating at Aa2. Payments on the bonds will begin in 2009 with the final principal payment occurring in 2038.

Investment Market Valuation after December 31, 2007. Global financial markets have endured extensive volatility over the first quarter of 2008 in response to the decline in the U.S. housing market since the summer of 2007. The result has been to the benefit of the City's cash-pooled investments. The City's pool has strategically invested in internally researched and approved asset-backed commercial paper (ABCP) programs that have provided above-average yields to the pool and its participants. Given the short duration of the City's pool, the market's volatility has not had a significant impact on the market valuation of the City's investment holdings.

Change in Rating for Insurer of Certain General Obligation Bonds Issued by the City. MBIA insures a portion of the City's Limited Tax General Obligation Bonds, Series 2004, specifically those with CUSIP numbers 812626NS4, 812626NT2, 812626NU9, 812626NV7, 812626NW5, 812626NX3, 812626NY1, and 812626NZ8. On June 5, 2008, Standard & Poor's Ratings Services downgraded MBIA's rating from AAA to AA. On June 19, 2008, Moody's Investors Service downgraded MBIA's rating from Aaa to A2. On June 26, 2008, Fitch Ratings withdrew all of its outstanding ratings on MBIA. As a result, the insured MBIA ratings on the Bonds have been downgraded from AAA to AA by Standard & Poor's Rating Services and from Aaa to A2 by Moody's Investors Service. The Bonds no longer have an insured rating from Fitch Ratings. The underlying ratings on these bonds remain unchanged, at AAA from Standard & Poor's Rating Services, Aa1 from Moody's Investor Service, and AA+ from Fitch Ratings.

C-1

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL

For the Year Ended December 31, 2007

(In Thousands)

	Budgeted Amounts			
	Original	Final	Actual	Variance
REVENUES				
Taxes				
General Property Taxes	$ 216,103	$ 216,103	$ 213,694	$ (2,409)
Retail Sales and Use Taxes	164,606	164,606	171,847	7,241
Business Taxes	209,035	209,035	225,470	16,435
Excise Taxes	53,562	53,562	77,101	23,539
Other Taxes	-	-	3,859	3,859
Interfund Business Taxes	74,686	74,686	78,169	3,483
Total Taxes	717,992	717,992	770,140	52,148
Licenses and Permits	17,977	17,977	22,680	4,703
Grants, Shared Revenues, and Contributions	15,160	30,659	18,061	(12,598)
Charges for Services	56,500	58,380	64,750	6,370
Fines and Forfeits	17,587	17,587	19,498	1,911
Parking Fees and Space Rent	21,719	21,719	21,360	(359)
Program Income, Interest, and Miscellaneous Revenues	145,327	145,402	41,390	(104,012)
Total Revenues	992,262	1,009,716	957,879	(51,837)
EXPENDITURES AND ENCUMBRANCES				
Current				
General Government	298,088	300,329	149,247	151,082
Judicial	25,138	25,412	24,297	1,115
Public Safety	375,911	389,843	374,366	15,477
Utilities and Environment	7,395	10,672	10,803	(131)
Transportation	12,728	12,722	11,221	1,501
Economic Environment	19,696	24,556	19,184	5,372
Health and Human Services	639	389	280	109
Culture and Recreation	4,956	4,982	4,256	726
Capital Outlay				
General Government	34,185	35,576	12,849	22,727
Judicial	1,224	1,102	-	1,102
Public Safety	7,489	7,473	6,325	1,148
Utilities and Environment	26	26	10	16
Transportation	16,233	16,233	-	16,233
Economic Environment	8,007	2,829	192	2,637
Health and Human Services	-	-	-	-
Culture and Recreation	56,898	66,175	25,739	40,436
Total Expenditures and Encumbrances	868,613	898,319	638,769	259,550
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	123,649	111,397	319,110	207,713
OTHER FINANCING SOURCES (USES)				
Sales of Fixed Assets	865	865	3,868	3,003
Transfers In	18,190	8,538	5,389	(3,149)
Transfers Out	(253,409)	(244,363)	(248,494)	(4,131)
Total Other Financing Sources (Uses)	(234,354)	(234,960)	(239,237)	(4,277)
Net Change in Fund Balance	$ (110,705)	$ (123,563)	79,873	$ 203,436
Fund Balance - Beginning of Year			228,105	
Encumbrances Continued from Last Year			5,312	
Changes in Unappropriable Reserves			2,468	
Fund Balance (Budgetary) - End of Year			315,758	
Adjustments to Conform to Generally Accepted Accounting Principles				
Reserves not Available for Appropriation			5,414	
Encumbrances			5,856	
Reimbursements				
Budgeted as Revenues			(21,892)	
Budgeted as Expenditures			21,892	
Fund Balance (GAAP) - End of Year			$ 327,028	

C-2

TRANSPORTATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended December 31, 2007
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance
REVENUES				
Taxes				
General Property Taxes	$ -	$ -	$ 36,049	$ 36,049
Business Taxes	-	-	5,419	5,419
Other Taxes	-	-	1,893	1,893
Interfund Business Taxes	-	-	95	95
Total Taxes	-	-	43,456	43,456
Licenses and Permits	1,885	1,885	9,820	7,935
Grants, Shared Revenues, and Contributions	46,571	40,548	33,572	(6,976)
Charges for Services	44,171	43,587	30,638	(12,949)
Fines and Forfeits	-	-	10	10
Parking Fees and Space Rent	-	-	73	73
Program Income, Interest, and Miscellaneous Revenues	450	450	838	388
Total Revenues	93,077	86,470	118,407	31,937
EXPENDITURES AND ENCUMBRANCES				
Current				
Transportation	157,094	104,362	84,325	20,037
Capital Outlay				
Transportation	109,699	173,349	105,079	68,270
Debt Service				
Principal	5,139	5,139	2,185	2,954
Interest	-	-	391	(391)
Total Expenditures and Encumbrances	271,932	282,850	191,980	90,870
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	(178,855)	(196,380)	(73,573)	122,807
OTHER FINANCING SOURCES (USES)				
Proceeds of Long-Term Debt	378	378	-	(378)
Transfers In	50,572	69,735	88,928	19,193
Transfers Out	-	(2,536)	(2,536)	-
Total Other Financing Sources (Uses)	50,950	67,577	86,392	18,815
Net Change in Fund Balance	$ (127,905)	$ (128,803)	12,819	$ 141,622
Fund Balance - Beginning of Year			10,023	
Encumbrances Continued from Last Year			480	
Fund Balance (Budgetary) - End of Year			23,322	
Adjustments to Conform to Generally Accepted Accounting Principles				
Reserves not Available for Appropriation			2	
Encumbrances			40	
Reimbursements				
Budgeted as Revenues			(82)	
Budgeted as Expenditures			82	
Fund Balance (GAAP) - End of Year			$ 23,364	

C-3

LOW-INCOME HOUSING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended December 31, 2007
(In Thousands)

	Budgeted Amounts			
	Original	Final	Actual	Variance
REVENUES				
Taxes				
General Property Taxes	$ 12,337	$ 12,337	$ 11,849	$ (488)
Grants, Shared Revenues, and Contributions	9,084	9,084	7,601	(1,483)
Charges for Services	1,832	1,832	19	(1,813)
Parking Fees and Space Rent	-	-	27	27
Program Income, Interest, and Miscellaneous Revenues	7,648	7,648	17,514	9,866
Total Revenues	30,901	30,901	37,010	6,109
EXPENDITURES AND ENCUMBRANCES				
Current				
Economic Environment	41,088	47,387	33,021	14,366
Capital Outlay				
Economic Environment	41,796	35,757	78	35,679
Total Expenditures and Encumbrances	82,884	83,144	33,099	50,045
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	(51,983)	(52,243)	3,911	56,154
OTHER FINANCING SOURCES (USES)				
Sales of Fixed Assets	99	99	-	(99)
Transfers In	2,000	2,000	-	(2,000)
Total Other Financing Sources (Uses)	2,099	2,099	-	(2,099)
Net Change in Fund Balance	$ (49,884)	$ (50,144)	3,911	$ 54,055
Fund Balance - Beginning of Year			45,279	
Encumbrances Continued from Last Year			7,210	
Fund Balance (Budgetary) - End of Year			56,400	
Adjustments to Conform to Generally Accepted Accounting Principles				
Encumbrances			7,186	
Fund Balance (GAAP) - End of Year			$ 63,586	

SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The schedules of revenues, expenditures, and changes in fund balances – budget and actual are presented on a budgetary basis (Non-GAAP). A reconciliation of the budgetary fund balance to the GAAP fund balance is shown on the face of each schedule.

The budgetary basis of accounting is substantially the same as the modified accrual basis of accounting in all governmental funds except for the treatment of encumbrances that do not lapse, those whose budgets were approved by the Department of Finance to carry over to the following year. These encumbrances are included with expenditures in the City's budgetary basis of accounting.

C-4

PENSION PLAN INFORMATION
SCHEDULE OF FUNDING PROGRESS
December 31, 2007
(In Thousands)

Retirement System	Actuarial Valuation Date January 1, 2008	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)	1998 [d]	$ 1,224,600	$ 1,266,700	$ 42,100	96.7 %	$ 341,500	12.3 %
	1999	1,375,000	1,326,600	(48,400)	103.6	370,400	(13.1)
	2000	1,582,700	1,403,100	(179,600)	112.8	383,600	(46.5)
	2002	1,383,700	1,581,400	197,700	87.5	405,100	48.8
	2004	1,527,500	1,778,900	251,400	85.9	424,700	59.2
	2006	1,791,800	2,017,500	225,800	88.8	447,000	50.5
	2008 [e]	2,119,400	2,294,600	175,200	92.4	501,900	34.9
Firemen's Pension Fund	2003	3,573	98,471	94,898	4.0	N/A	N/A
	2004	4,803	89,071	84,268	5.0	N/A	N/A
	2005	6,221	88,705	82,484	7.0	N/A	N/A
	2006	8,717	107,295	98,578	8.0	N/A	N/A
	2007	10,045	154,518	144,473	7.0	N/A	N/A
	2008	9,005	168,384	159,379	5.0	N/A	N/A
Police Relief and Pension Fund	2004	801	65,418	64,617	1.0	N/A	N/A
	2005	1,752	65,693	63,941	3.0	N/A	N/A
	2006	1,967	69,935	67,968	3.0	N/A	N/A
	2007	1,327	119,280	117,953	1.0	N/A	N/A
	2008	805	138,897	138,092	1.0	N/A	N/A

[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 biennial actuarial valuations. The latest actuarial valuation was completed as of January 1, 2008.

C-5

PENSION PLAN INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
December 31, 2007
(In Thousands)

Retirement System	Fiscal Year Ending December 31	Covered Employee Payroll [a]	Actual Employer Contribution [b]	Actual Employer Contribution Percentage	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	472,500	37,900	8.03	8.03	100
	2007 [d]	501,900	40,300	8.03	8.03	100
Firemen's Pension Fund						
	2003	N/A	9,167	N/A	9,167	100
	2004	N/A	9,315	N/A	9,315	100
	2005	N/A	9,704	N/A	9,704	100
	2006	N/A	9,385	N/A	9,385	100
	2007 [e]	N/A	8,633	N/A	9,533	91
Police Relief and Pension Fund	2003	N/A	7,403	N/A	7,403	100
	2004	N/A	8,244	N/A	8,244	100
	2005	N/A	7,187	N/A	7,187	100
	2006	N/A	6,056	N/A	6,056	100
	2007 [e]	N/A	5,885	N/A	7,783	76

[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 the $12 per employee assessment made for the death benefits. This assessment per employee is included in the actual employer contributions reported and has been previously recognized by the actuary in determining the ARC.

[c] The City makes employer contributions as a percentage of actual payroll for SCERS as set in City ordinance. Thus, as long as the percentage equals the percentage required by the most recent actuarial valuation, the dollar amount of the ARC is equal to the actual dollar amount of the employer contributions. The City ordinance does not permit a reduction in the employer contribution rate less than the employee contribution rate. 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 biennial actuarial valuations. The latest actuarial valuation was completed as of January 1, 2008.

[e] Projected benefit payments and liabilities increased significantly between the 2005 actuarial valuation and the valuation completed in 2007. The primary contributing factor was the change in actuarial assumptions to reflect that long-run wages were expected to increase faster than the Consumer Price Index.

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, 2007

Grantor Agency/Program		Passthru Agency	J/F	CFDA#	Grant Total
DEPARTMENT OF AGRICULTURE					
	Child and Adult Care Food Program	Department of Agriculture	J	10.558	1,429,409.81
	Summer Food Service Program for Children	Dept of Social and Health Svcs	J	10.559	16,090.14
	State Administrative Matching Grants for Food Stamp Program	Department of Agriculture	J	10.561	18,317.32
	Commodity Supplemental Food Program	Public Health Seattle King County	J	10.565	-
	Senior Farmers Market Nutrition Program	Department of Agriculture	J	10.576	15,256.00
	Sub Total				**1,479,073.27**
DEPARTMENT OF COMMERCE					
	Economic Development Support for Planning Organizations		F	11.302	82,818.29
	Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program	Washington State Recreation and Conservation Office (formerly the Office of the Interagency Committee)	J	11.438	52,512.69
	Sub Total				**135,330.98**
DEPARTMENT OF EDUCATION					
	TRIO-Upward Bound		F	84.047	374,269.12
	Early Reading First		F	84.359	184,566.44
	Sub Total				**558,835.56**
DEPARTMENT OF ENERGY					
	Weatherization Assistance for Low-Income Persons	DCTED	J	81.042	446,956.59
	Sub Total				**446,956.59**
DEPARTMENT OF JUSTICE					
	Urban Areas Security Initiative		F	16.011	1,707.78
	Urban Areas Security Initiative	Military Department	J	16.011	-
	Services for Trafficking Victims		F	16.320	158,312.46
	Services for Trafficking Victims	Other Agencies PJ1652	J	16.320	-
	Juvenile Accountability Incentive Block Grant	King County	J	16.523	21,847.01
	Grants to Reduce Violent Crimes Against Women on Campus		F	16.525	12,469.36
	Missing Childrens Assistance		F	16.543	342,005.85
	Edward Byrne Memorial State and Local Law Enforcem		F	16.580	451,426.35
	Grants to Encourage Arrest Policies and Enforcemen		F	16.590	436,560.02
	Local Law Enforcement Block Grants Program		F	16.592	47,707.91
	Community Capacity Development Office		F	16.595	150,209.87
	Bulletproof Vest Partnership Program		F	16.607	-
	Community Prosecution and Project Safe Neighborhoo		F	16.609	47,235.11
	Public Safety Partnership, Community Policing Grts		F	16.710	978,215.61
	Transitional Housing Assistance for Victims of Domestic Violence, Stalking, or Sexual Assault		F	16.736	3,841.65
	Edward Byrne Memorial Justice		F	16.738	36,707.01
	Sub Total				**2,688,245.99**
DEPARTMENT OF LABOR					
	Senior Community Service Employment Program	Dept of Social and Health Svcs	J	17.235	229,291.11
	WIA-Adult Program	Workforce Development Council	J	17.258	-
	WIA Youth Activities	Workforce Development Council	J	17.259	635,490.90
	Sub Total				**864,782.01**
DEPARTMENT OF TRANSPORTATION					
	Federal Transit Formula Grants		F	20.507	2,018,708.66
	Highway Planning and Construction	Department of Transportation	J	20.205	12,909,704.98
	Sub Total				**14,928,413.64**
ENVIRONMENTAL PROTECTION AGENCY					
	Brownfields Assessment & Cleanup Cooperative Agree		F	66.818	-
	Sub Total				-
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION					
	Employment Discrimination Title VII of the Civil R		F	30.001	62,466.51
	Sub Total				**62,466.51**
FEMA					
	Public Assistance Grants	Military Department	J	83.544	-

City of Seattle
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2007

	Grantor Agency/Program	Passthru Agency	J/F	CFDA#	Grant Total
	Emergency Management Performance	Military Department	J	83.552	6,157.42
	Sub Total				**6,157.42**
HEALTH AND HUMAN SERVICES					
	Public Health and Social Services Emergency Fund		F	93.003	(18,345.76)
	Special Programs for the Aging_Title VII, Chapter	Dept of Social and Health Svcs	J	93.041	21,915.00
	Special Programs for the Aging_Title III, Part D_D	Dept of Social and Health Svcs	J	93.043	128,197.00
	Special Programs for the Aging_Title III, Part B_G	Dept of Social and Health Svcs	J	93.044	2,235,705.47
	Special Programs for the Aging_Title III, Part C_N	Dept of Social and Health Svcs	J	93.045	2,253,024.10
	National Family Caregiver Support	Dept of Social and Health Svcs	J	93.052	778,628.00
	Nutrition Services Incentive Program	Dept of Social and Health Svcs	J	93.053	469,720.63
	Centers for Research and Demonstration for Health	Dept of Social and Health Svcs	J	93.135	10,327.50
	Drug-Free Communities Support Program Grants	Other Agencies	J	93.276	-
	Centers For Disease Control and Prevention	Department of Health	J	93.283	2,401.89
	Low-Income Home Energy Assistance	DCTED	J	93.568	587,901.26
	Child Care and Development Block Grant	Department of Agriculture	J	93.575	33,456.14
	Refugee and Entrant Assistance_Discretionary Grant	Dept of Social and Health Svcs	J	93.576	44,460.00
	Medical Assistance Program	Dept of Social and Health Svcs	J	93.778	18,210,748.58
	Sub Total				**24,758,139.81**
HOMELAND SECURITY					
	State Domestic Preparedness Equipment Support Program		F	97.004	-
	State Domestic Preparedness Equipment Support Program	Military Department	J	97.004	200,000.00
	Urban Areas Security Initiative		F	97.008	485,271.56
	Urban Areas Security Initiative	Military Department	J	97.008	985,536.95
	National Urban Search and Rescue (US&R) Response System	King County	J	97.025	38,723.27
	Flood Mitigation Assistance	Military Department	J	97.029	-
	Public Assistance Grants		F	97.036	7,002.57
	Public Assistance Grants	Public Assistance Grants	J	97.036	6,805,590.07
	Emergency Management Performance Grants		F	97.042	29,794.90
	Emergency Management Performance Grants	Military Department	J	97.042	335,785.43
	Assistance to Firefighters Grant		F	97.044	745,134.80
	Interoperable Communications Equipment		F	97.055	-
	FY05 Homeland Security Grant		F	97.067	-
	FY05 Homeland Security Grant	King County	J	97.067	2,758,114.78
	Metropolitan Medical Response System	Military Department	J	97.071	373,377.83
	Law Enforcement Terrorism Prevention Program	King County Office of Emergency Management	J	97.074	44,943.02
	Rail and Transit Security Grant Program	King County Transit Division	J	97.075	28,529.13
	Buffer Zone Protection Plan (BZPP)	Military Department	J	97.078	259,740.34
	Sub Total				**13,097,544.65**
HOUSING AND URBAN DEVELOPMENT					
	Community Development Block Grants/Entitlement Grants		F	14.218	20,273,359.76
	Community Development Block Grants/Entitlement Grants	King County	J	14.218	(22,629.76)
	Emergency Shelter Grants Program		F	14.231	537,569.00
	Supportive Housing Program		F	14.235	7,996,257.61
	Supportive Housing Program	King County	J	14.235	350,431.83
	HOME Investment Partnerships Program		F	14.239	5,233,154.93
	Housing Opportunities for Persons with AIDS		F	14.241	1,804,940.86
	CDBG/Brownfileds Economic Development Initiative		F	14.246	618,635.47
	Fair Housing Assistance Program State and Local		F	14.401	238,250.00
	Public and Indian Housing	Seattle Housing Authority	J	14.850	746,794.52
	Sub Total				**37,776,764.22**
NATIONAL FOUNDATION OF ARTS&H					
	IMLS State Library Program	Library Commission	J	45.310	331,096.79
	Sub Total				**331,096.79**
	Federal Grants				**97,133,807.44**

CITY OF SEATTLE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2007

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.

Proceeds from the HUD Section 108 loan in the amount of $15,500,000 and proceeds from the federal Brownfields Economic Development Initiative (BEDI) grant in the amount of $1,750,000 are deposited with a trustee/custodian, JP Morgan Chase ("Custodian"). According to an agreement with the Custodian, the City directs the Custodian to disburse Section 108 and BEDI grant funds to the borrowers, and the Custodian is also authorized to receive repayments from the borrowers.

The guaranteed loan funds are used to create a loan pool targeted to projects that will have positive economic and community development benefits within targeted communities. BEDI Grant funds are applied to subsidize interest obligations on the Section 108 loan and to provide loan loss reserves on the Section 108 loans.

Six projects have been made from the loan and BEDI grant funds. They are 211 First Avenue, the Buttnick Building, the City Loan Building, Compass Center, the Cadillac Hotel and the Northgate South Commons, LLC.

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.

State Auditor	**Brian Sonntag, CGFM**
Chief of Staff	**Ted Rutt**
Chief Policy Advisor	**Jerry Pugnetti**
Director of Administration	**Doug Cochran**
Director of State and Local Audits	**Chuck Pfeil, CPA**
Director of Performance Audit	**Linda Long, CPA, CGFM**
Director of Special Investigations	**Jim Brittain, CPA**
Director for Legal Affairs	**Jan Jutte**
Local Government Liaison	**Mike Murphy**
Communications Director	**Mindy Chambers**
Public Records Officer	**Mary Leider**
Main number	**(360) 902-0370**
Toll-free hotline for government efficiency	**(866) 902-3900**
Web Site	**www.sao.wa.gov**