Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

City of Seattle
King County

Audit Period
January 1, 2008 through December 31, 2008

Report No. 1001933

Issued **August 17, 2009**
Reissued **September 28, 2009**

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

September 28, 2009

Mayor and City Council
City of Seattle
Seattle, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Federal Summary

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

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

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

We issued an unqualified opinion on the City's compliance with requirements applicable to its major federal programs.

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

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
14.235	Supportive Housing Program
14.239	HOME Investment Partnerships Program
14.246	CDBG - Brownfields Economic Development Initiative
14.248	CDBG - Section 108 Loan Guarantees
20.507	Federal Transit Formula Grants
93.044/045/053	Aging Cluster
93.568	Low Income Home Energy Assistance
97.067/071	Homeland Security Cluster

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $2,764,194.

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

Schedule of Federal Audit Findings and Questioned Costs

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1. The City of Seattle Department of Transportation does not have adequate internal controls to ensure it requests reimbursement from the federal grantor only for allowable costs.

CFDA Number and Title: CFDA 20.507 Federal Transportation Formula Grants
Federal Agency: Federal Transit Administration
Federal Award Number: WA-90-X394-02
Questioned Cost Amount: $41,114
Pass-through Entity: N/A

Background

Seattle Department of Transportation project managers receive and review all contractor invoices and approve them for payment, which serves as the primary internal control to ensure the Department seeks reimbursement from federal grantors only for allowable costs. Once contractor invoices are approved for payment, Department accountants use project expenditure reports to prepare reimbursement requests.

Federal contracting regulations prohibit *cost-plus-percentage-of-cost* contracts, which allow the contractor to increase its fees by increasing construction costs so the contractor has no incentive to control costs.

The original $30.9 million construction contract for the South Lake Union Streetcar project includes a general contractor/construction management (GCCM) fee based on 4.2 percent of construction costs and capped at $1.1 million. The cap serves to ensure the GCCM fee does not create a *cost-plus-percentage-of-cost* situation. Since work began on this project in 2006, the Department approved numerous change orders totaling almost $10 million, resulting in increased payments to the contractor.

Description of Condition

Beginning in September 2006, the contractor automatically applied the 4.2 percent GCCM fee to the value of these change orders, creating a *cost-plus-percentage-of-cost* situation. The Program Manager approved the payments.

The Program Manager for the South Lake Union Streetcar project realized the contractor was being paid for more than it was owed and kept track of almost $1.2 million in questionable amounts. In April 2008, when the project was nearing completion, the Program Manager entered into negotiations with the contractor to recoup these costs;

the negotiations resulted in an additional $271,997 being paid to the contractor. The Department did not keep detailed documentation of these negotiations.

Department accountants rely on project managers' approval of contractor invoices for payment to ensure only allowable costs are paid and sought for reimbursement. However, in this case, the project manager approved the invoices for payment even when they included unallowable costs.

Cause of Condition

Department accountants erroneously believed contractor invoices approved for payment contained only allowable charges and used them to prepare requests for grant funding.

The South Lake Union Streetcar Program Manager failed to realize how payment of unallowable costs negatively affects the Department's compliance with federal grant requirements.

Effect of Condition and Questioned Costs

The contractor's GCCM fees on change orders created a *cost-plus-percentage-of-cost* situation and the City paid the contractor $388,596.56 in unallowable fees, in excess of the $1.1 million fee cap. The Department then included at least $41,114 of these unallowable costs in its request to the federal grantor for reimbursement; the remainder was charged to the City's other funding sources and/or departments such as Seattle City Light or Seattle Public Utilities. We question $41,114 of 2008 federal grant expenditures.

Recommendation

We recommend the Seattle Department of Transportation establish effective internal controls to ensure only allowable contractor costs are paid and sought for reimbursement.

City's Response

We concur with the finding and are looking to add an additional level of review of contractor payments to ensure adequate controls exist to prevent these types of issues in the future.

Auditor's Remarks

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

Applicable laws and Regulations

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

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

Title 49, Code of Federal Regulations, Section 18.36

> (f)(4) The cost plus a percentage of cost and percentage of construction cost methods of contracting shall not be used.

Schedule of Federal Audit Findings and Questioned Costs

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

CFDA Number and Title: 97.004, 97.071 and 97.067 Homeland Security Cluster
Federal Agency: U.S. Department of Homeland Security
Federal Award Number: E07-148 ; E08-107
Questioned Cost Amount: N/A
Pass-through Entity: Washington State Military Department

Background

Regulations require grantees that purchase goods and services with federal grant money to follow all applicable state laws as well as the federal Office of Management and Budget Circular A-102 Common Rule. Because no state law governs the City's procurement of consulting services, the City must adhere to the A-102 Common Rule, which requires grantees to obtain quotes for goods and services costing less than $100,000 and obtaining bids or requests for proposals for contracts of $100,000 or more. However, federal regulations permit grantees to solicit services from only one vendor in certain situations. For example, federal regulations permit noncompetitive transactions in instances in which awarding the contract is not feasible under bids or competitive proposals and the item is available only from a single source or competition is determined to be inadequate. Documentation must be maintained to support this procurement option.

Description of Condition

The City spent $3,352,643 of Homeland Security Cluster money during 2008. Because the Seattle Police Department spent most of this, we reviewed a total of six Department contracts, including four consulting contracts totaling $437,637.

We found the Department did not retain documentation to show consulting contracts were competitively awarded, the rationale for vendor selection, or how the price was determined.

Cause of Condition

Because operations at many City departments are not centralized, the Department of Executive Administration is not able to effectively monitor all Police Department procurement processes. The Police Department's own procurement policies do not fully conform with the Common Rule.

The City's and the Police Department's internal controls over procurement are inadequate. Department employees responsible for selection of contractors were not aware of the requirements to document consultant selection decisions.

Effect of Condition and Questioned Costs

The lack of clarity in the procedures resulted in the City not following federal procurement requirements for the two of the four consulting contracts we audited. Failure to comply with federal requirements may jeopardize the City's eligibility for future assistance.

The City cannot ensure it secures the best possible price and did not ensure that qualified vendors were given the opportunity to participate in the procurement process as intended by federal regulations.

Recommendation

We recommend the City establish and follow internal controls to ensure procurement records are retained to sufficiently demonstrate compliance with procurement requirements.

City's Response

We concur with the finding that the Police Department's procurement procedures for two out of six consultant contracts that were reviewed by the auditors were not fully documented. Other records show that the Department exercised due diligence in selecting the contractor, ensuring the price was reasonable and that the vendor was competent to perform the scope of work, and that the objectives of the grant were achieved.

To ensure that all federal grant procurement regulations are followed, 1) The Department's internal Contracting Manual shall be amended to clearly include federal requirements; 2) All affected staff shall be trained accordingly; and 3) the Department shall periodically review grant procurements to monitor compliance with the requirements. These changes will be implemented by October 15, 2009.

Auditor's Remarks

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

Applicable Laws and Regulations

Circular A-102 Common Rule, *Uniform Administrative Requirements For Grants And Cooperative Agreements To State And Local Governments* (codified for Homeland Security Emergency Management programs at Title 44 Code of Federal Regulations, Section 13.36 – Procurement).

Section 13.36(b)(9) states: Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Section 13.36(c)(1) states: All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of section 13.36 . . .

Section 13.36(d) prescribes methods to be used for procurement:

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

(2) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method for procuring construction, if the conditions in §13.36(d)(2)(i) apply.

- (i) In order for sealed bidding to be feasible, the following conditions should be present:
  - (A) A complete, adequate, and realistic specification or purchase description is available;
  - (B) Two or more responsible bidders are willing and able to compete effectively and for the business; and
  - (C) The procurement lends itself to a firm fixed price contract and the selection of the successful bidder can be made principally on the basis of price.
- (ii) If sealed bids are used, the following requirements apply:
  - (A) The invitation for bids will be publicly advertised and bids shall be solicited from an adequate number of known suppliers, providing them sufficient time prior to the date set for opening the bids;
  - (B) The invitation for bids, which will include any specifications and pertinent attachments, shall define the items or services in order for the bidder to properly respond;
  - (C) All bids will be publicly opened at the time and place prescribed in the invitation for bids;
  - (D) A firm fixed-price contract award will be made in writing to the lowest responsive and responsible bidder. Where specified in bidding documents, factors such as discounts, transportation cost, and life cycle costs shall be considered in determining which bid is lowest. Payment discounts will only be used to determine the low bid when prior

experience indicates that such discounts are usually taken advantage of; and

(E) Any or all bids may be rejected if there is a sound documented reason.

(3) Procurement by competitive proposals. The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed-price or cost-reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids. If this method is used, the following requirements apply:

(i) Requests for proposals will be publicized and identify all evaluation factors and their relative importance. Any response to publicized requests for proposals shall be honored to the maximum extent practical;

(ii) Proposals will be solicited from an adequate number of qualified sources;

(iii) Grantees and subgrantees will have a method for conducting technical evaluations of the proposals received and for selecting awardees;

(iv) Awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; and

(v) Grantees and subgrantees may use competitive proposal procedures for qualifications-based procurement of architectural/engineering (A/E) professional services whereby competitors' qualifications are evaluated and the most qualified competitor is selected, subject to negotiation of fair and reasonable compensation. The method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort.

(4) Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate.

(i) Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:

(A) The item is available only from a single source;

(B) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;

(C) The awarding agency authorizes noncompetitive proposals; or

(D) After solicitation of a number of sources, competition is determined inadequate.

(ii) Cost analysis, i.e., verifying the proposed cost data, the projections of the data, and the evaluation of the specific elements of costs and profits, is required.

(iii) Grantees and subgrantees may be required to submit the proposed procurement to the awarding agency for pre-award review in accordance with paragraph (g) of this section.

Section 13.36(f) prescribes requirements for contract cost and price:

(1) Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, grantees must make independent estimates before receiving bids or proposals. A cost analysis must be performed when the offeror is required to submit the elements of his estimated cost, e.g., under professional, consulting, and architectural engineering services contracts. A cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements, including contract modifications or change orders, unless price resonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation. A price analysis will be used in all other instances to determine the reasonableness of the proposed contract price.
(2) Grantees and subgrantees will negotiate profit as a separate element of the price for each contract in which there is no price competition and in all cases where cost analysis is performed. To establish a fair and reasonable profit, consideration will be given to the complexity of the work to be performed, the risk borne by the contractor, the contractor's investment, the amount of subcontracting, the quality of its record of past performance, and industry profit rates in the surrounding geographical area for similar work.

U S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:.

The auditee shall:

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

Schedule of Audit Findings and Responses

City of Seattle
King County
January 1, 2008 through December 31, 2008

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

Background

City management, including the Council and Mayor, the state Legislature, state and federal agencies, bondholders and other interested parties rely on financial statement information and reports to make decisions. It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. The City Council delegated these responsibilities to the Departments of Executive Administration and Finance.

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

Description of Condition

The City uses a sophisticated and highly functional accounting system. The City has established a structure within the system used by most City departments. This structure allows the Departments of Executive Administration and Finance to maintain internal control over accounting and financial statement preparation.

The City's Department of Transportation maintains a separate accounting structure that is significantly more complicated than the system used by most other City departments. The Department of Transportation tracks its revenue and expenditures in a way that does not allow consistent use of the system's accounting and reporting tools to prepare financial statements.

Cause of Condition

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

Effect of Condition

The City's financial reporting system is not being used to its fullest potential. The annual financial reports are based on numbers generated from an electronic worksheet and not by the general ledger, as would be the usual practice. As a result, the Department of Transportation and Executive Administration have to rely on manual internal control processes that create a greater risk of error. Also, having separate internal controls for the Department of Transportation and reliance on specialized knowledge create opportunities for future material misstatements.

The opportunities for errors due to this internal control weakness became clear when the former Finance Manager left in early 2009. We noted the Department's original 2008 financial statements presented for audit overreported capital outlays due to using both the general ledger and manual worksheets as the basis for determining the amounts. This undetected misclassification of expenditures on the operating statement also affected the accuracy of other statements and note disclosures. The misclassification we identified was $19 million, or 9.6 percent of total reported transportation expenditures. While the City has corrected the error, it is reasonably possible that this internal control deficiency could allow other large misstatements to go undetected.

Recommendation

We recommend the following:

- The Department of Executive Administration establish internal controls to ensure reported transportation expenditures are based on the City's general ledger.
- The Departments of Executive Administration, Finance and Transportation coordinate efforts on a consistent, citywide accounting structure.

City's Response

We concur with the finding. Although the Seattle Department of Transportation uses the same financial management system as other City departments, it currently maintains highly summarized information in the General Ledger and tracks more detailed information in Project Cost. The Department performs additional manual review of project data downloaded from the system onto spreadsheets to determine classification of costs. The misclassification of costs as capital instead of operating costs occurred during the manual review. However, the reported total expenditure amount is accurate and reconciles with the General Ledger.

The Department is currently working with the Department of Executive Administration as part of a citywide effort to review and develop standardized accounting policies and procedures to facilitate uniform reporting and implement effective controls over financial statement preparation throughout the City.

Auditor's Remarks

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

Applicable Laws and Regulations

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

> Internal control is a process – affected by those charged with governance, management and other personnel (collectively referred to as "management" throughout the rest of this section) – designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
>
> - Effectiveness and efficiency of operations
> - Compliance with applicable laws and regulations
> - Reliability of financial reporting
>
> Management is responsible for the entity's performance, compliance and financial reporting. Therefore, the adequacy of internal controls to provide reasonable assurance regarding the achievement of such objectives is also the responsibility of management.
>
> Internal controls should not be viewed as separate, distinct systems or processes. Rather, controls should be recognized as an integral or inherent part of the systems and policies management uses to operate and oversee the organization. This is not to say effective internal control will never require additional, incremental effort. Rather, controls exist to provide reasonable assurance about the achievement of objectives and so should be integrated into all of the organization's fundamental business processes. Controls are often most effective when they are built into the entity's infrastructure rather than being treated as an "add-on."

Government Auditing Standards, January 2007 Revision, Section 5.11, states:

> 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 GAAP such that there is more than a 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 Audit Findings and Responses

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

Background

City management, including the Council and Mayor, the state Legislature, state and federal agencies, bondholders and other interested parties rely on financial statement information and reports to make decisions. It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. The City Council delegated these responsibilities to the Departments of Executive Administration and Finance.

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

Generally accepted accounting principles for government funds allow recipients to record grant revenue before cash is received if "availability" criteria are met. City policy states the criteria are met if cash is received within 60 days. If grant receivables are not collected within the period of availability, related receivables are to be offset by deferred revenue.

Description of Condition

We noted the following deficiencies in the Department's internal controls over grant revenue and expense reporting:

- The Department recorded federal expenditures before securing a grant. The Department also recorded related grant revenue and grant reimbursement receivables at the same time. The Department did not request reimbursement or receive cash within 60 days; therefore, recognition of expenditures, revenue and receivables is inappropriate.

- Amounts reported on the Schedule of Expenditures of Federal Awards are based on recorded revenue rather than on expenses, as required.

Cause of Condition

The Department incorrectly interpreted grant guidance, which led staff to believe expense reporting and revenue recognition criteria were met. The Department's practice of recording federal grant revenues before it determines whether expenses will be submitted for reimbursement is inconsistent with generally accepted revenue recognition principles.

The Department reports revenue on the Schedule of Expenditures of Federal Awards.

Effect of Condition

The Department incorrectly reported revenue in the 2008 financial statements and incorrectly reported expenditures in the 2008 Schedule of Expenditures of Federal Awards:

- The Department reported expenditures of $788,900 in the schedule based on its interpretation of "pre-award authority." It also reported the $788,900 as revenue and receivables in the City's financial statements. However, the Department did not have the grant agreement it needed to do either of these.

- The Department reported $133,234 of federal grant revenue and expenditures under a completed grant agreement, but later determined those costs would not be billed or applied to the project.

Recommendation

We recommend the Departments of Executive Administration and Transportation establish control procedures to ensure:

- Accurate reporting of federal grant revenue and receivables in the financial statements.

- Correct reporting of grant expenses in its grant reimbursement requests and on the Schedule of Expenditures of Federal Awards.

City's Response

With regard to the $788,900 grant, the Seattle Department of Transportation (SDOT) agrees that a misapplication of revenue recognition has occurred as it applies to the 60-day "availability" criteria established under modified accrual accounting. SDOT has updated its procedures to ensure uniform compliance with the criteria. The revenue from this grant was not received at the end of February 2009 as initially expected but will be received later in 2009.

We disagree with the assertion that "The Department recorded federal expenditures before securing a grant." SDOT actually received a grant award letter dated March 2008, notifying it of the $788,900 award. Subsequently in November 2008, the administration of the grant was transferred to another agency. Although the agency administering the funds changed, the grant award letter was still in effect. SDOT has subsequently received approval from the new agency for this grant in the amount originally awarded. The $788,900 expenditures were therefore appropriately reported as grant expenditures although the revenues could not be recognized or accrued at year-end since they were not collected within the 60-day availability criteria.

In reference to the $133,234 grant expenditure reporting and revenue recognition issues, the Department agrees that the amount should not have been recorded as grant expenditure and the revenue accrual should not have occurred. We have added an additional level of review at the management level to ensure adequate controls exist to prevent these types of issues in the future. These charges were not billed and did not affect total funding for the project.

SDOT disagrees with the statement that "the Schedule of Expenditures of Federal Awards are based on recorded revenues, rather than on expenses, as required." Grant expenditures are reconciled with grant revenues at year end so that amounts reported in the SEFA would equal both expenditures and revenues. The misreporting of $133,234 expenditures in the SEFA was the result of error in initially attributing certain expenditures to a grant. After the SEFA was submitted for audit, subsequent review by the Department resulted in a determination that the expenditures were not applicable to the grant and adjustments were made accordingly. The Department will henceforth ensure that all grant transactions are reviewed in a timely manner to ensure accuracy of the SEFA report before the start of audit.

Auditor's Remarks

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

Applicable Laws and Regulations

Seattle Municipal Code 3.04.010 creates the Department of Executive Administration and charges it with establishing and monitoring departmental compliance with, accounting practices and procedures and preparing the City's comprehensive annual financial report in accordance with generally accepted accounting principles.

City of Seattle's Comprehensive Annual Financial Report (CAFR) describes the Transportation Fund as a governmental fund and contains a summary of significant accounting policies.

Governmental Accounting Standards Board Statement No. 34, *Measurement Focus and Basis of Accounting*, paragraph 79, states in part:

> Financial statements for governmental funds should be presented using the current financial resources measurement focus and the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 33 , Recognition Standards section, states in part:

> On the modified accrual basis, revenues should be recognized when all applicable eligibility requirements are met and the resources are available.

NCGA Statement 1, Par. 62, provides definitions of availability revenue recognition criteria:

> Revenues and other governmental fund financial resource increments are recognized in the accounting period in which they become susceptible to accrual—that is, when they become both measurable and available to finance expenditures of the fiscal period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Application of the "susceptibility to accrual" criteria requires judgment, consideration of the materiality of the item in question, and due regard for the practicality of accrual, as well as consistency in application.

Federal Register, vol. 73, no. 18, Monday January 28, 2008, Part II – Federal Transportation Administration; Section V, paragraph 3(a) states in part:

> Pre-award authority is not <u>a legal or implied commitment</u> that the subject project will be approved for FTA assistance or that FTA will obligate Federal funds. Furthermore, it is <u>not a legal or implied commitment</u> that all items undertaken by the applicant will be eligible for inclusion in the project.

Office of Management and Budget Circular A-102, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, Section 23 states in part:

> Any pre-award costs charged to the grant must be authorized by the Federal awarding agency.

Office of Management and Budget Circular A-133, Attachment A, Subpart C, Section 310 requires recipients of federal funds to prepare a Schedule of Expenditures of Federal Awards that shall:

> Provide total federal awards expended for each individual federal program . . . .

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

Background

City management, including the Council and Mayor, the state Legislature, state and federal agencies, bondholders and other interested parties rely on financial statement information and reports to make decisions. It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. The City Council delegated these responsibilities to the Departments of Executive Administration and Finance.

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

Description of Condition

We identified the following deficiency in internal controls over financial reporting that represent a significant deficiency:

The City's grants are managed at the department level. Departmental staff responsible for the administration and reporting of federal awards did not provide accurate information for the preparation of the Schedule of Expenditures of Federal Awards (SEFA) to the Department of Executive Administration. This schedule is required by the federal Office of Management and Budget Circular A-133 for entities spending federal grant money. Additionally, the Department of Executive Administration does not have adequate processes to ensure the accuracy of information it includes in the SEFA.

Cause of Condition

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

Effect of Condition

We identified $1.67 million of outstanding federal loans that were inappropriately omitted from the 2008 SEFA. Failure to include complete expenditures on the SEFA may result in not meeting federal audit requirements established by Circular A-133.

The 2007 SEFA also omitted $6.54 million for similar type loans. Because they were omitted from the 2007 SEFA, U.S. Department of Housing and Urban Development program (CFDA 14.248) expenditures were not subjected to audit, as required by Circular A-133.

Recommendation

We recommend:

- The Department of Executive Administration establish appropriate internal control processes to ensure information received from its departments and reported on the SEFA is accurate and complete.

- The City consult with the U.S. Department of Housing and Urban Development for a decision regarding audit of the loans omitted from the 2007 SEFA.

City's Response

We agree with the finding. We have corrected the 2008 SEFA to include the HUD Section 108 loans and have established procedures to ensure that similar information will be reported accurately and completely in the future.

The City has made inquiries to HUD's local office to determine if that agency will require an audit of the 2007 HUD Section 108 loans which were inadvertently omitted from the 2007 SEFA. A program manager indicated it is unlikely that HUD will ask for an audit of our 2007 grant activities based on her experience in monitoring and assessing the City's administration of the program over the last several years, but she will confirm HUD's official position on this issue after further consultation with staff. We will inform the State Auditor of HUD's position as soon as we hear from the agency.

Auditor's Remarks

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

Applicable Laws and Regulations

Seattle Municipal Code 3.04.010 creates the Department of Executive Administration and charges it with establishing and monitoring departmental compliance with, accounting practices and procedures and preparing the City's comprehensive annual financial report in accordance with generally accepted accounting principles.

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

> Internal control is a process – affected by those charged with governance, management and other personnel (collectively referred to as "management" throughout the rest of this section) – designed to provide

reasonable assurance regarding the achievement of objectives in the following categories:

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

Management is responsible for the entity's performance, compliance and financial reporting. Therefore, the adequacy of internal controls to provide reasonable assurance regarding the achievement of such objectives is also the responsibility of management.

Internal controls should not be viewed as separate, distinct systems or processes. Rather, controls should be recognized as an integral or inherent part of the systems and policies management uses to operate and oversee the organization. This is not to say effective internal control will never require additional, incremental effort. Rather, controls exist to provide reasonable assurance about the achievement of objectives and so should be integrated into all of the organization's fundamental business processes. Controls are often most effective when they are built into the entity's infrastructure rather than being treated as an "add-on."

Government Auditing Standards, January 2007 Revision, Section 5.11, states:

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 GAAP such that there is more than a 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.

Office of Management and Budget Circular A-133 provides guidance on reporting of federal expenditures:

Section 105 defines federal assistance and loans:

<u>Federal financial assistance</u> means assistance that non-Federal entities receive or administer in the form of grants, <u>loans, loan guarantees</u>, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals as described in §___.205(h) and §___.205(i).

Loan means a Federal loan or loan guarantee received or administered by a non-Federal entity.

Section 205 provides basis for determining Federal awards expended:

(b) Loan and loan guarantees (loans). Since the Federal Government is at risk for loans until the debt is repaid, the following guidelines shall be used to calculate the value of Federal awards expended under loan programs, except as noted in paragraphs (c) and (d) of this section:

(1) Value of new loans made or received during the fiscal year; plus

(2) Balance of loans from previous years for which the Federal Government imposes continuing compliance requirements; plus

(3) Any interest subsidy, cash, or administrative cost allowance received.

(d) Prior loan and loan guarantees (loans). Loans, the proceeds of which were received and expended in prior-years, are not considered Federal awards expended under this part when the laws, regulations, and the provisions of contracts or grant agreements pertaining to such loans impose no continuing compliance requirements other than to repay the loans.

Section 200, establishes annual audit requirements when federal expenditures reach $500,000.

Section 300 requires recipients of federal funds to prepare a Schedule of Expenditures of Federal Awards.

Section 310 establishes minimum reporting requirements for federal expenditures:

(a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received . . .

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310.

(e) Ensure that the audits required by this part are properly performed and submitted when due.

Schedule of Audit Findings and Responses

City of Seattle
King County
January 1, 2008 through December 31, 2008

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

Background

City management, the state Legislature, state and federal agencies and bondholders rely on information in financial statements and reports to make decisions. City management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. The Seattle City Employees' Retirement System's financial statements were audited by a certified public accounting firm that furnished reports on the statements to our Office. *Government Auditing Standards*, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses, as defined below in the Applicable Laws and Regulations section, as a finding. We are reporting on material weaknesses in controls identified by the firm that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the System's internal control.

Description of Condition

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

Monitoring and Valuation of Investments

The System's internal control over investments is inadequate. It does not have documentation to show monitoring and valuation take place throughout the year and at year-end, particularly for the System's alternative investments. Alternative investments are defined as any investment in which a readily determinable fair value does not exist (investments not listed on national exchanges or over-the-counter markets or for which quoted market prices are not available). Alternative investments were approximately 25 percent of the System's investment portfolio at December 31, 2008.

Management relies primarily on its investment fund managers to supply valuations for its alternative investments. Due to the volatility of global markets during late 2008 and the delayed financial reporting of many of the System's investment holdings, management was unable to ascertain the fair value of certain investments in a timely manner. Management has employed minimal procedures to monitor its alternative investments. Although management may look to the fund manager for the mechanics of the valuation, management should have sufficient information to evaluate and independently challenge each investment's valuation.

Financial Closing and Reporting Process

The System does not maintain an adequate internal control structure governing the year-end financial closing and reporting processes. The System did not accurately, reliably and timely account for the value of its investments in the general ledger.

Cause of Condition

During 2008, the control structure over investment monitoring deteriorated due to reduced personnel assigned to actively monitor the investment valuations and activity.

We believe the identified issues were a result of the System not employing a sufficient number or accounting staff with dedicated responsibilities to financial reporting. This issue is exacerbated by a lack of qualified personnel working directly with the System's investment holdings. The lack of a robust financial closing and reporting process prevented the System from being able to close its general ledger on a timely and accurate basis and resulted in material audit adjustments.

Effect of Condition

Significant audit adjustments were required to correct the System's reported investment values. Audit adjustments totaling $49.6 million were made that reduced the investment balances reported in the financial statements to reflect the estimated fair value of investments as of December 31, 2008. These adjustments represent unrealized losses, actual losses or possible gains would be realized when the investments are actually liquidated at a future date.

Many of the subledgers did not properly support the general ledger an December 31, 2008 and had not been reconciled during the year. System staff did not reconcile the differences until the second quarter of 2009. Additionally, material audit adjustments were made to the System's investment balances and assistance was provided by the auditors in drafting the financial statements and the notes to the financial statements. The identified financial closing and reporting matters had a pervasive and material effect on the accuracy and timeliness of the completion of the System's financial statements.

Recommendation

The firm recommended the System:

- Develop robust controls to effectively monitor its investments, especially its alternative investment holdings. As part of fulfilling its responsibility, management should establish procedures for determining fair value measurements and disclosures, select appropriate valuation methods, identify and adequately support any significant assumptions used, prepare the valuation and ensure the presentation of the fair value measurements are in accordance with generally accepted accounting principles. Key processes and controls to accomplish these objectives include physical site visits, a comprehensive understanding of the valuation techniques used by fund management and an independent determination of whether such valuation methods prove reasonable. Formal documentation of the evidence obtained to support the valuation for each investment holding should be updated on at least on a quarterly basis.

- Seek a qualified candidate for employment as an investment specialist. The System's investment portfolio is comprised of a number of complex, nonmarketable investments, which require significant monitoring and valuation consideration. A portfolio as large and complex as the System's requires constant and diligent oversight by qualified personnel. The employment of such an individual should result in more accurate, complete and timely financial reporting surrounding the System's investments.

- Management complete its planned hiring process and fill the open senior manager positions, which remained vacant for most of 2008. The addition of these manager positions and additional qualified accounting personnel would allow for executive management to effectively and efficiently perform its oversight and monitoring duties. Additional personnel would also allow the System to employ more effective and robust segregated controls.

City's Response

We agree with the finding and appreciate the auditor's recommendations. SCERS management is committed to strengthening internal controls over monitoring and valuation of investments, and the financial close and reporting process. SCERS has started the hiring process for an investments specialist to provide additional support in ensuring effective monitoring as well as accurate, complete and timely financial reporting on the System's investments. SCERS is also in the process of hiring a senior manager to strengthen overall accounting and reporting functions as well as implement effective internal controls. Operating procedures related to investments monitoring, accounting and reporting will be reviewed and strengthened; appropriate training will be provided to staff; and compliance with established procedures will be monitored regularly.

Auditor's Remarks

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

Applicable Laws and Regulations

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 Audit Findings and Responses

City of Seattle
King County
January 1, 2008 through December 31, 2008

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

Background

City management, the state Legislature, state and federal agencies and bondholders rely on information in financial statements and reports to make decisions. City management is responsible for designing and following internal controls that provide reasonable assurance regarding the reliability of financial reporting. The Seattle City Light Department's financial statements were audited by a certified public accounting firm that furnished reports on the statements to our Office. *Government Auditing Standards*, prescribed by the Comptroller General of the United States, require the auditor to communicate significant deficiencies, as defined below in the Applicable Laws and Regulations section, as a finding. We are reporting on significant deficiencies in controls identified by the firm that have the potential to adversely affect the City's ability to initiate, authorize, record, process or report inventory 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.

Although the firm notes the Department responded to the issues identified in the 2007 audit in a timely manner, it noted additional concerns related to internal controls over inventory in 2008.

Description of Condition

The firm noted several large reels of electrical power cable at a City Light service center were not recorded in the inventory system. The firm also noted that when unused materials issued for work orders are returned to the warehouse, they are not consistently recorded into inventory records. When warehouse employees discover returned materials, they conduct research to determine the materials' initial purpose (i.e. to be used in capital or maintenance work orders, other service centers, etc.). The employees then adjust inventory records to eliminate the returned amounts from work orders or record them as inventory at the service centers.

During the 2008 audit, the firm noted additional concerns related to the timeliness and accuracy of inventory adjustment documentation given to the Cost Accounting Unit. The firm found it is common practice for the warehouse staff to fail to notify the Cost Accounting Unit of inventory adjustments in a timely manner following physical counts. It also noted adjustments in the inventory system lack sufficient supporting documentation and appear to be recorded to merely reconcile the balance to the general ledger.

Cause of Condition

The cable was not a regular warehouse item and therefore was not recorded in the inventory.

The Department crew members and warehouse staff do not communicate effectively to ensure all issued and returned material is accounted for and recorded in the inventory system.

Effect of Condition

Due to the lack of communication, the Department risks a misstatement in its financial statements. For instance, if a significant amount of inventory is returned and the warehouse staff is not notified, this could result in overstating the value of materials used in capital and maintenance projects and understating the value of materials remaining in inventory.

Recommendation

The firm recommended the Department:

- Establish stronger controls to ensure information on returned materials is adequately communicated to the warehouse staff and properly recorded.
- Investigate all unidentified inventory discovered during physical counts and make sufficient supporting documentation available to the Cost Accounting Unit.
- Ensure that the Cost Accounting Unit obtain all supporting documentation related to inventory variances immediately following the physical test counts and prior to recording any adjustments.

City's Response

The Department has taken steps to enhance the controls over inventory issue and return procedures, controls over documentation, and for the timely recording of inventory variances. A work plan was developed in the second quarter of 2009 to define the actions needed to address the issues identified. New procedures have been implemented or in some cases are in the process of being implemented to resolve the control deficiencies.

The manager in charge of Energy Delivery Support Services issued a memo on June 8. This memo details new material handling and restocking procedures documenting material return document requirements, as well as new requirements for material requests, out-of-service material, and exempt material. City Light's Contracting and Purchasing staff will monitor and report on compliance with the procedures.

City Light Shipping now requires that any material transported, relocated or moved have identification on the actual material. This process includes all materials going to or from generation facilities, jobsites and substations. All warehouse staff received notification to comply with this requirement in June.

Based on guidelines developed in March of 2009, warehouse staff also now works directly with the Cost Accounting technician when cycle count audits are conducted and assists with documenting any adjusting transactions. By Cost Accounting and Warehouse staff working together to resolve discrepancies at the time they are found, inventory variances should be resolved immediately following the physical test counts and the need for adjustments should be minimized or eliminated completely.

City Light has begun the process to develop a report to search for open Material Requests tied to work closed or completed in City light's work tracking system. This report will be used to close Material Requests.

Auditor's Remarks

The City and Department were very helpful during our investigation and we appreciate their commitment to strengthening policies and procedures. We are committed to providing any help we can to ensure strong control systems are in place.

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, 2008 through December 31, 2008

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

Audit Period: 2007	**Report Reference No:** 75352	**Finding Reference No:** 1	**CFDA Number(s):** 20.507
Federal Program Name and Granting Agency: U.S. Federal Highway Administration - Federal Transit Formula Grants		**Pass-Through Agency Name:** N/A	
Finding Caption: The City of Seattle did not have internal controls in place to ensure compliance with Federal reporting requirements.			
Background: The Seattle Department of Transportation did not fully submit Disadvantaged Business Enterprises reports required by U.S. Federal Department of Transportation.			
Status of Corrective Action: (check one) ☒ Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid			
Corrective Action Taken: *Since issuance of the audit report, the Seattle Department of Transportation has complied with the reporting requirements and is submitting the Disadvantaged Business Enterprises reports to the US Federal Department of Transportation.*			

Audit Period: 2007	**Report Reference No:** 75352	**Finding Reference No:** 2	**CFDA Number(s):** 97.067
Federal Program Name and Granting Agency: U.S. Department of Homeland Security - Homeland Security Cluster		**Pass-Through Agency Name:** Washington State Military Department	
Finding Caption: The City of Seattle did not have internal controls in place to ensure compliance with federal suspension and debarment requirements.			
Background: The City did not maintain documentation to show that the City personnel checked that two contractors were not suspended or debarred from receiving federal money.			
Status of Corrective Action: (check one) ☒ Fully Corrected ☐ Partially Corrected ☐ No Corrective Action Taken ☐ Finding is considered no longer valid			

Corrective Action Taken:

Management acknowledged that written documentation of the verification of vendor suspension/debarment would be an important addition to the contract/project file record. Also, the Department decided that the inclusion in the basic consultant contract instrument of a vendor certification of non-suspension/debarment would be an important addition to the contract process, albeit not specifically required in our view. Therefore, the City took the following corrective actions to remedy these points:

1.) *The Department Contracting Manual was amended to also specify that written documentation of the verification of suspension/debarment is required for every contract, e.g., a "print-screen" of the search page from the Excluded Parties List System (EPLS) website was deemed to be the optimum verification.*
2.) *All Department consultant-contracting boilerplates were amended to include a vendor certification provision against suspension/debarment. The Seattle Police Department also recommended that this provision be included as a standard provision in all City consultant contracts. However, to our knowledge, this recommendation was not addressed.*

Status of Prior Audit Findings

City of Seattle
King County
January 1, 2008 through December 31, 2008

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

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

Report No. 75352, dated September 22, 2008

Background

A significant deficiency was identified in the control activities over unbilled revenue reported in the financial statements. Another significant deficiency in internal controls over inventory was also identified. Implementation of internal controls over these two systems was recommended by a Certified Public Accounting (CPA) firm that conducted the audit work.

Status

The conditions reported in the 2007 audit report were resolved. Management was responsive and implemented internal controls designed to remedy the conditions. The CPA firm evaluated the response and felt it is adequate and the prior control weaknesses are considered resolved relative to the 2008 audit. However, an additional significant deficiency was identified in the internal control over inventory and is reported as Finding 5 in the current audit.

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, 2008 through December 31, 2008

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, 2008, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 30, 2009. Our report is modified to include a reference to other auditors. During the year ended December 31, 2008, the City implemented Governmental Accounting Standards Board Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligation*s.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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 deficiencies described in the accompanying Schedule of Audit Findings and Responses to be significant deficiencies in internal control over financial reporting, and are reported as Findings 1 through 5.

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, of the significant deficiencies described above, we consider Finding 4 to be a material weakness.

COMPLIANCE AND OTHER MATTERS

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

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

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

This report is intended for the information and use of management and the Mayor and City Council, 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

July 30, 2009

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, 2008 through December 31, 2008

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, 2008. 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, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1 and 2.

INTERNAL CONTROL OVER COMPLIANCE

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

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

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

The City's response to the finding 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 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 28, 2009

Independent Auditor's Report on Financial Statements

City of Seattle
King County
January 1, 2008 through December 31, 2008

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, 2008, which collectively comprise the City's basic financial statements as listed on page 42. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following funds:

- The Light Fund, Water Fund and Drainage and Wastewater Fund, which are major funds that collectively represent 95 percent, 98 percent and 89 percent, respectively, of the assets, net assets and revenues of the business-type activities.
- The financial statements of the Solid Waste Fund, which represent 3 percent, 1 percent and 8 percent, respectively, of the assets, net assets and revenues of the business-type activities, and 8 percent, 1 percent and 15 percent, respectively, of the assets, net assets and revenues of the aggregate discretely presented component unit and remaining fund information.
- The financial statements of the Seattle City Employees' Retirement System, which represent 65 percent, 88 percent and 15 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 2007 financial statements and, in our report dated June 30, 2008, 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 units and remaining fund information of the City of Seattle, as of December 31, 2008, 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, 2008, the City implemented Governmental Accounting Standards Board Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

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 43 through 62, budgetary comparison information on pages 158 through 160 and pension trust fund information on pages 161 through 162 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

July 30, 2009

Financial Section

City of Seattle
King County
January 1, 2008 through December 31, 2008

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2008

BASIC FINANCIAL STATEMENTS

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Statement of Activities – 2008
Balance Sheet – Governmental Funds – 2008
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2008
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2008
Statement of Net Assets – Proprietary Funds – 2008
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds – 2008
Statement of Cash Flows – Proprietary Funds – 2008
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REQUIRED SUPPLEMENTAL INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2008
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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, 2008. 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 2008 the assets of the City of Seattle exceeded its liabilities by $4.009 billion. Net assets invested in capital assets (net of depreciation and related debt) account for 82.6 percent of this amount ($3.312 billion). The remaining net assets of $696.7 million may be used to meet the City's ongoing obligations to citizens and creditors.

- The City's net assets increased by $269.4 million (7.2 percent) during the fiscal year. The governmental net assets increased by $121.4 million (4.8 percent) over the amount reported in 2007. Business-type net assets increased by $148.1 million (12.2 percent). The business-type increase included net income of $131.6 million for City Light, $0.5 million for the Water Utility, net income of $12.5 million for Drainage and Wastewater Utility, and $3.4 million for nonmajor funds. The balance of the offset is the result of the consolidation of the Internal Service Funds' activities related to the Enterprise Funds.

- At the close of 2008 the City's governmental funds reported a combined ending fund balance of $629.3 million, an increase of $37.5 million (6.3 percent). Of the major funds, the fund balance of the General Fund decreased $55.6 million, the Transportation Fund increased $9.2 million, and the Low-Income Housing Fund increased by $6.4 million. The fund balances of the nonmajor governmental funds increased by $77.5 million. The nationwide economic downturn had an impact on the City's tax revenues which decreased $22.7 million (2.4 percent). Approximately $227.5 million (36.2 percent) of the combined ending fund balance is unreserved fund balance available to the City for discretionary spending.

- At the end of 2008 the unreserved fund balance for the General Fund was $131.1 million or 18.3 percent of total General Fund expenditures of $714.9 million. The General Fund's unreserved fund balance decreased by approximately $66.6 million from the prior year's amount of $197.7 million, reflecting significant decreases in taxes and program income and interest, and the continued level of operating expenditures.

- The City's total outstanding bonded debt increased by approximately $442.4 million (13.1 percent) to $3.830 billion during the current fiscal year. During the year, general obligation bonded debt for limited tax (LTGO) and unlimited tax (UTGO) decreased by $44,000 while the total revenue bonds increased by $$442.5 million. On the special assessment bonds the City issued in 2006 for the design and construction of the South Union Streetcar and backed by the collection of assessments from property owners within the local improvement district, a bond maturity and call payment of $1.3 million (6.5 percent) in 2008 reduced the bonds outstanding further to $19.2 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

- **Internal service funds** report activities that provide supplies and services for various City programs and activities. The City uses internal service funds to account for its fleets and facilities services, 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 $4.009 billion.

Statement of Net Assets

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

(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2008	Restated 2007	2008	Restated 2007	2008	Restated 2007
Current and Other Assets	$ 1,220,441	$ 1,172,215	$ 1,399,274	$ 934,389	$ 2,619,715	$ 2,106,604
Capital Assets and Construction in Progress, Net of Accumulated Depreciation	2,866,199	2,744,196	3,480,050	3,297,785	6,346,249	6,041,981
Total Assets	4,086,640	3,916,411	4,879,324	4,232,174	8,965,964	8,148,585
Current Liabilities	240,768	226,541	427,874	298,654	668,642	525,195
Noncurrent Liabilities	1,195,545	1,160,893	3,092,584	2,722,705	4,288,129	3,883,598
Total Liabilities	1,436,313	1,387,434	3,520,458	3,021,359	4,956,771	4,408,793
Net Assets						
Invested in Capital Assets, Net of Related Debt	2,184,161	2,011,575	1,128,319	967,028	3,312,480	2,978,603
Restricted	271,204	194,617	63,913	48,562	335,117	243,179
Unrestricted	194,962	322,785	166,634	195,225	361,596	518,010
Total Net Assets	$ 2,650,327	$ 2,528,977	$ 1,358,866	$ 1,210,815	$ 4,009,193	$ 3,739,792

The largest portion of the City's net assets (82.6 percent) reflects an investment of $3.312 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, $335.1 million (8.4 percent), represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets, $361.6 million (9.0 percent), may be used to meet the government's obligation to citizens and creditors. Unrestricted net assets for governmental activities decreased 39.6 percent from $322.8 million in 2007 to $195.0 million in 2008.

The net assets for the business-type activities increased between 2007 and 2008 from $1.211 billion to $1.359 billion. The increase in net assets is attributed primarily to the performance of the City Light Utility, which in 2008 generated $877.4 million in charges for services and other revenues, up from $832.5 million in 2007. City Light generated an operating income of $146.7 million.

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

(In Thousands)

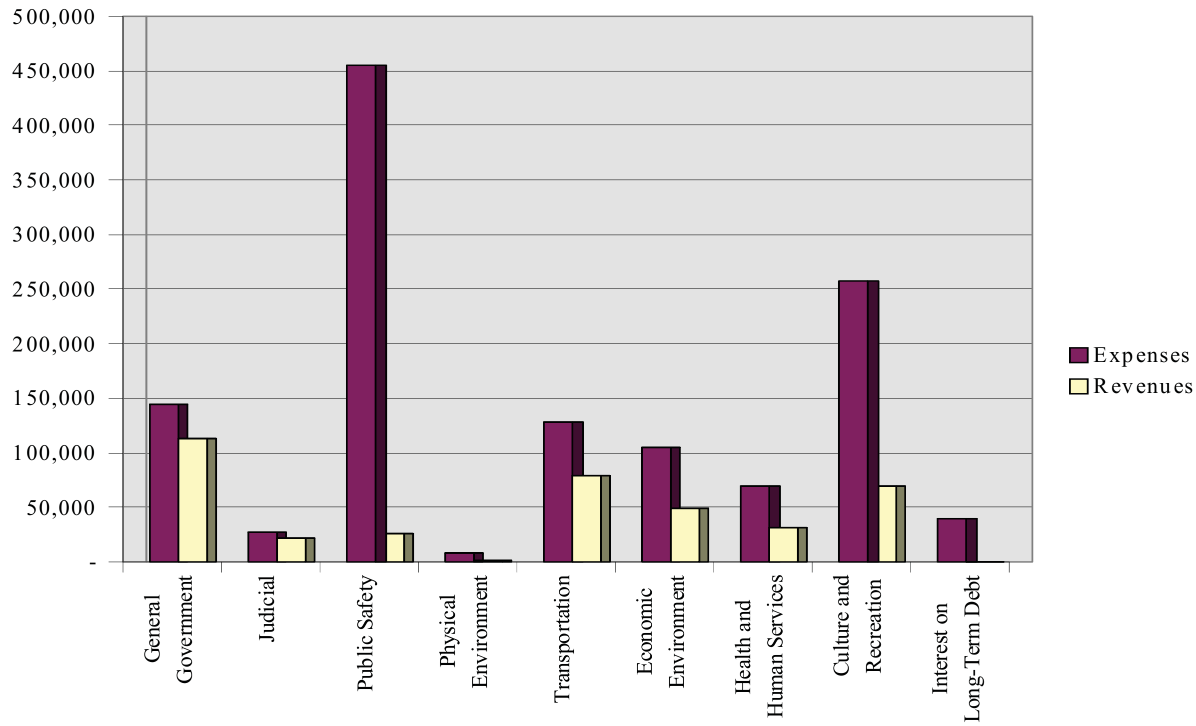
	Governmental Activities		Business-Type Activities		Total	
	2008	Restated 2007	2008	Restated 2007	2008	Restated 2007
Revenues						
Program Revenues						
Charges for Services	$ 263,746	$ 224,256	$ 1,426,864	$ 1,368,974	$ 1,690,610	$ 1,593,230
Operating Grants and Contributions	95,236	93,182	4,099	6,207	99,335	99,389
Capital Grants and Contributions	31,527	31,577	81,425	53,063	112,952	84,640
General Revenues						
Property Taxes	368,515	359,651	-	-	368,515	359,651
Sales Taxes	171,917	171,846	-	-	171,917	171,846
Business Taxes	330,369	332,238	-	-	330,369	332,238
Other Taxes	63,896	93,959	-	-	63,896	93,959
Other	39,601	34,047	15,238	19,382	54,839	53,429
Total Revenues	1,364,807	1,340,756	1,527,626	1,447,626	2,892,433	2,788,382
Expenses						
Governmental Activities						
General Government	143,855	103,324	-	-	143,855	103,324
Judicial	26,762	24,030	-	-	26,762	24,030
Public Safety	455,701	396,669	-	-	455,701	396,669
Physical Environment	7,707	9,991	-	-	7,707	9,991
Transportation	127,872	124,493	-	-	127,872	124,493
Economic Environment	104,660	98,337	-	-	104,660	98,337
Health and Human Services	69,181	63,275	-	-	69,181	63,275
Culture and Recreation	257,578	224,454	-	-	257,578	224,454
Interest on Long-Term Debt	39,336	34,048	-	-	39,336	34,048
Business-Type Activities						
Light	-	-	791,837	764,786	791,837	764,786
Water	-	-	180,855	169,631	180,855	169,631
Drainage and Wastewater	-	-	231,318	225,833	231,318	225,833
Solid Waste	-	-	120,941	119,714	120,941	119,714
Planning and Development	-	-	56,882	56,139	56,882	56,139
Downtown Parking Garage	-	-	8,545	8,336	8,545	8,336
Total Expenses	1,232,652	1,078,621	1,390,378	1,344,439	2,623,030	2,423,060
Excess Before Transfers	132,155	262,135	137,248	103,187	269,403	365,322
Transfers	(10,803)	(10,612)	10,803	10,612	-	-
Increase in Net Assets	121,352	251,523	148,051	113,799	269,403	365,322
Net Assets - Beginning of Year	2,528,975	2,277,452	1,210,815	1,097,016	3,739,790	3,374,468
Nets Assets - End of Year	$ 2,650,327	$ 2,528,975	$ 1,358,866	$ 1,210,815	$ 4,009,193	$ 3,739,790

Analysis of Changes in Net Assets

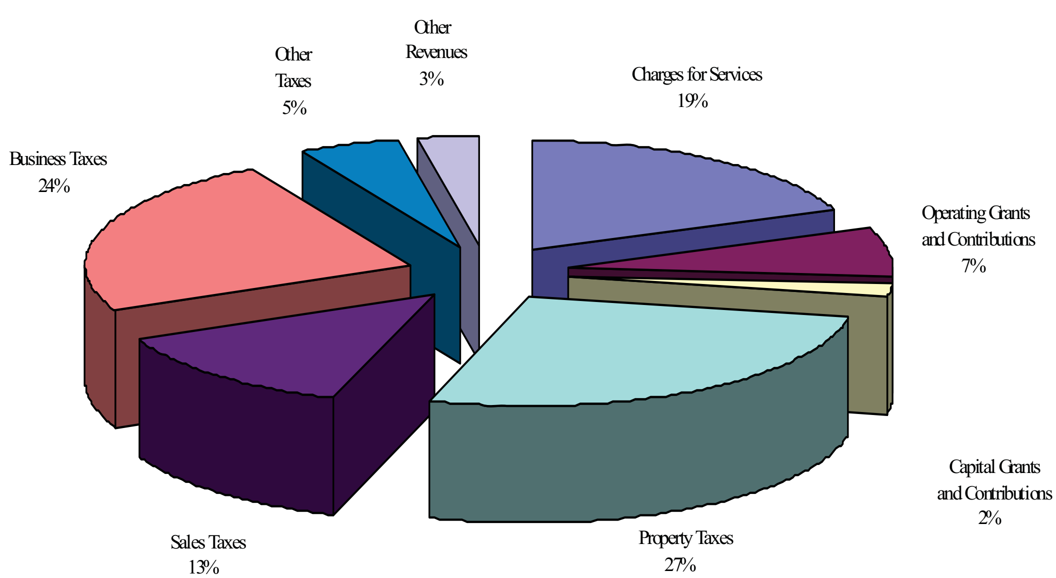
In 2008 the City's total net assets increased by $269.4 million (7.2 percent). The increase is explained in the following discussion of governmental and business-type activities.

Governmental Activities

EXPENSES AND PROGRAM REVENUES - GOVERNMENTAL ACTIVITIES
(In Thousands)



REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



Total $1,364.8 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, general government, transportation, economic environment, health and human services, 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 $121.4 million in 2008 compared to an increase of $251.5 million in 2007. Key factors in the change are as follows:

In 2008 total revenues for governmental activities were $1.365 billion, $24.1 million or 1.8 percent higher than 2007.

Program revenue related to services increased by $39.5 million or 18.0 percent in 2008. Revenue from licenses and permits were 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 $2.0 million in 2008. While 2008 operating grants increased by only 2.2 percent, capital grants decreased by 0.2 percent compared to 2007.

Property taxes, the largest source of revenue supporting governmental activities, increased by $8.9 million or 2.5 percent compared to 2007. Property tax is levied primarily on real estate owned by individuals and businesses. State law limits growth in the amount of tax that a jurisdiction can collect but does allow for additional voter approved lid lifts.

The retail sales and use (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. Sales tax revenues remained relatively constant between 2007 and 2008 holding at $172.0 million.

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 activities occurring in Seattle. The City also levies a B&O tax on the gross income derived from sales of utility services within Seattle. In 2008 B&O tax revenues remained constant, decreasing by only $1.9 million or 0.6 percent.

Other tax revenues decreased $30.1 million during 2008. Seattle's extraordinary activity in the commercial real estate market came to an end in 2008. The revenue from real estate excise taxes decreased by $40.7 million from $77.0 million in 2007 to $36.3 million in 2008.

Other revenues significantly increased in 2008 from $891 thousand to $15.3 million, resulting from the one-time sale of properties in 2008.

Also contributing to the change in revenues, investment earnings went down by $7.4 million (23.0 percent) in 2008. The rate of return for investments decreased from an average of 5.1 percent in 2007 to an average of 3.9 percent in 2008.

In 2008 total expenses for governmental activities were $1.233 billion compared to $1.079 billion in 2007, $154.0 million or 14.3 percent higher than 2007's expenses. General government expenses went up $40.5 million, a 39.2 percent increase over 2007.

Public safety expenses increased $59.0 million, a 14.9 percent increase over 2007. The increase is attributed to several factors: staffing increases at both the Police and Fire Departments, a cost-of-living salary adjustment, increased overtime and employee benefit expenses, and cost increases for technical and professional services.

Judicial expenses went up $2.7 million or 11.4 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 decreased $2.3 million, a 22.9 percent decrease compared to 2007. 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 of the Department of Executive Administration. 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 increased $3.4 million, a 2.7 percent increase compared to 2007. The overall level of expenditures is cyclical in nature as the majority of these are for capital projects. For capital spending, major projects are in the initial planning and development phases and have yet to commence major construction; these projects include the Alaskan Way Viaduct and Seawall Replacement projects.

Economic environment expenses went up by $6.3 million or 6.4 percent. The Office of Housing increased expenses by $0.8 million for the multifamily production and preservation program. The Office of Economic Development added one position and increased expenses by $0.8 million in its work force development program.

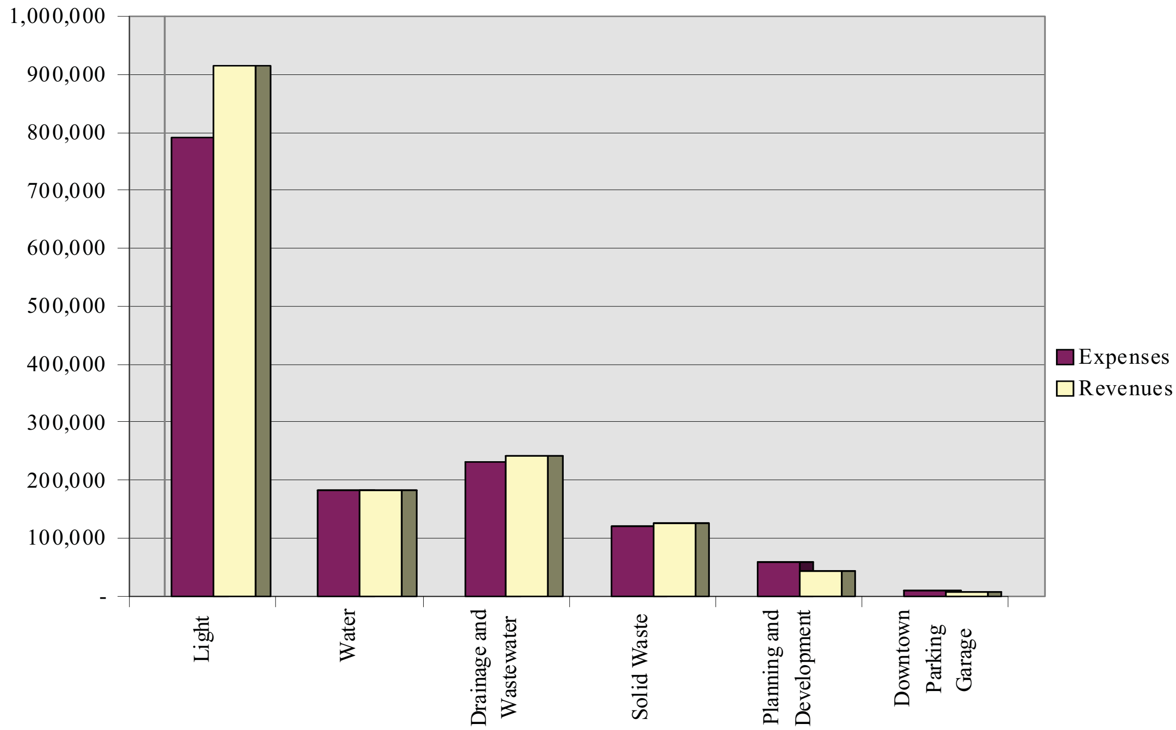
Health and human services expenses showed an increase of $5.9 million or 9.3 percent. The Educational Development Services levy which is supported by multiple departments increased expenses by $0.5 million. The increase of $5.0 million in the Human Services Department is mainly due to changes in the Aging and Disability Services programs.

At $257.6 million, culture and recreation expenses were up $33.1 million in 2008 or 14.8 percent higher than 2007. Library's expenses increased approximately $4.0 million, mainly for increasing the library's public book collections and operating new or remodeled facilities. Expenses for the Department of Parks and Recreation increased $8.6 million primarily due to the opening of new facilities, new community center hours, and the expansion of specialized programs.

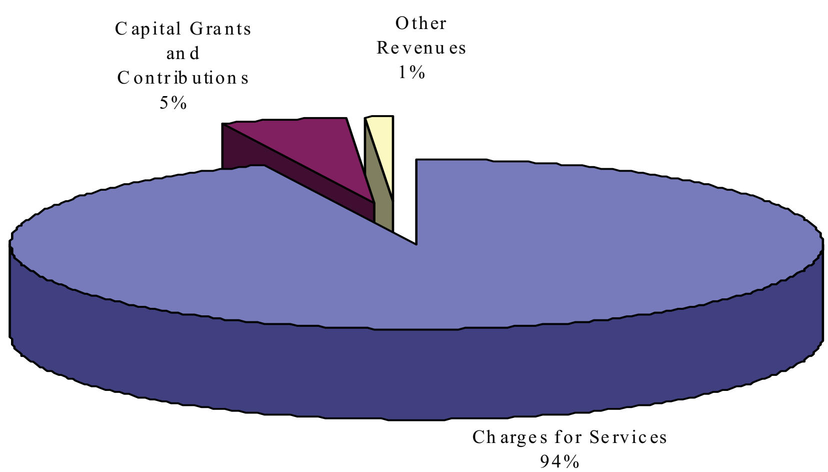
In July 2008 the City issued LTGO bonds in the amount of $139.8 million; a portion of the bond proceeds were used to defease the LTGO 96C bonds for $5.6 million and the LTGO 96 D bonds for $51.9 million and a portion to finance capital improvement projects. The City's total outstanding general obligation bonded debt decreased $44,000 to $785.7 million during the current fiscal year. Interest on long-term debt went up by $5.3 million or 15.5 percent for 2008.

Business-Type Activities

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



REVENUES BY SOURCE - BUSINESS-TYPE ACTIVITIES



Total $1,527.6 Million

Business-Type Activities. Business-type activities increased the City's net assets by $148.0 million to $1.359 billion, an increase of 12.2 percent. In addition an adjustment of $2.7 million was made to reflect the consolidation of internal service fund activities related to enterprise funds. Key factors for the change were as follows:

The City Light Utility realized a net increase of $131.6 million in net assets in 2008; an increase of $10.8 million compared to net income of $120.8 million in 2007, as restated, was due to higher retail revenues and lower Bonneville Power Administration (BPA) costs, primarily as a result of colder temperatures experienced in the earlier and later parts of the year and substantial cash payments from BPA for the Residential Exchange Program. The increase in operating revenues was higher or more than offset the increase in operating expenses.

The Water Utility experienced an increase of $0.5 million in net assets in 2008. Operating revenues increased by $4.2 million mainly due to an increase in retail services. Operating expenses increased by $8.2 million due to several factors, the most significant of which was a $3.2 million increase in depreciation. This resulted from an increase in capital assets which began depreciating during 2008. Additional expenses were incurred for tank improvements, security and emergency management programs, and claims. Capital contributions and grants revenue increased by $10.0 million in 2008, primarily from the receipt of infrastructure assets donated by Sound Transit.

The Drainage and Wastewater Utility net assets increased $12.5 million in 2008. Operating revenues increased by $21.7 million primarily due to rate increases for both wastewater and drainage services. The increase was offset by a rise in operating expenses of $8.5 million, including a $2.2 million increase in tax expense due to higher revenues and a $3.3 million increase in depreciation expense for capital assets that began depreciating in 2008. Contributions and grants funding increased by $20.7 million in 2008, primarily from the receipt of infrastructure assets donated by Sound Transit.

The Solid Waste Utility net assets increased $6.6 million 2008. Operating revenues increased by $2.4 million mainly due to rate increases in 2008. The revenue increase was offset by an increase of $0.9 million in operating expenses.

The Planning and Development Fund net assets decreased by $1.3 million in 2008 as compared to an increase of $5.5 million in 2007. Operating revenues decreased by $6.3 million mainly due to a significant decline in building construction revenues in 2008. Operating contributions and grants increased by $0.4 million and transfers in from other City funds increased by $0.2 million. The increases were offset by a rise in operating expenses of $0.7 million. Investment income declined by $0.3 million in 2008.

The Downtown Parking Garage Fund experienced a decrease of $2.0 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	
	2008	2007	2008	2007	2008	2007
Revenues						
Taxes	$ 745,455	$ 770,140	$ 54,787	$ 43,455	$ 11,725	$ 11,849
Licenses and Permits	18,269	22,680	10,036	9,821	-	-
Grants, Shared Revenues, and Contributions	19,725	18,916	34,279	33,490	8,059	7,601
Charges for Services	62,547	64,750	25,336	30,638	35	18
Fines and Forfeits	22,110	19,497	10	10	-	-
Parking Fees and Space Rent	20,625	21,360	63	73	27	27
Program Income, Interest, and Miscellaneous Revenues	25,932	41,390	389	838	15,070	17,514
Total Revenues	914,663	958,733	124,900	118,325	34,916	37,009
Expenditures	714,897	633,766	196,988	191,859	30,606	25,913
Other Financing Sources and Uses						
Long-Term Debt Issued and Refunding Payments, Net	-	-	-	-	-	-
Sales of Capital Assets	373	3,868	-	-	32	-
Transfers In (Out)	(255,757)	(243,105)	81,329	86,392	2,074	-
Total Other Financing Sources and Uses	(255,384)	(239,237)	81,329	86,392	2,106	-
Fund Balances						
Reserves Legally Segregated for Future Use	139,067	123,935	32,602	23,361	17,228	53,108
Reserves Not Available for Appropriation	1,258	5,415	2	2	-	-
Unreserved	131,085	197,678	-	-	52,773	10,477
Total Fund Balances	$ 271,410	$ 327,028	$ 32,604	$ 23,363	$ 70,001	$ 63,585

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

GOVERNMENTAL FUNDS (continued)

(In Thousands)

	Nonmajor Funds			
	Special Revenue Funds		Debt Service Funds	
	2008	2007	2008	2007
Revenues				
Taxes	$ 58,733	$ 56,081	$ 20,592	$ 26,206
Licenses and Permits	786	938	-	-
Grants, Shared Revenues, and Contributions	64,606	61,882	2	2
Charges for Services	54,852	53,448	-	-
Fines and Forfeits	3,452	3,194	-	-
Parking Fees and Space Rent	16,771	16,188	248	259
Program Income, Interest, and Miscellaneous Revenues	52,598	11,782	1,088	1,459
Total Revenues	251,798	203,513	21,930	27,926
Expenditures	362,041	335,293	118,300	97,708
Other Financing Sources and Uses				
Long-Term Debt Issued and Refunding Payments, Net	-	-	246	147
Sales of Capital Assets	3	479	-	-
Transfers In (Out)	116,138	141,418	95,232	69,170
Total Other Financing Sources and Uses	116,141	141,897	95,478	69,317
Fund Balances				
Reserves Legally Segregated for Future Use	11,862	23,914	15,104	15,996
Reserves Not Available for Appropriation	11,399	7,902	-	-
Unreserved	43,564	29,112	-	-
Total Fund Balances	$ 66,825	$ 60,928	$ 15,104	$ 15,996

	Nonmajor Funds				Total Governmental Funds	
	Capital Projects Funds		Permanent Funds			
	2008	2007	2008	2007	2008	2007
Revenues						
Taxes	$ 43,252	$ 49,510	$ -	$ -	$ 934,544	$ 957,241
Licenses and Permits	-	-	-	-	29,091	33,439
Grants, Shared Revenues, and Contributions	7,053	8,956	48	21	133,772	130,868
Charges for Services	27	198	-	-	142,797	149,052
Fines and Forfeits	-	-	-	-	25,572	22,701
Parking Fees and Space Rent	227	123	-	-	37,961	38,030
Program Income, Interest, and Miscellaneous Revenues	6,904	8,092	96	128	102,077	81,203
Total Revenues	57,463	66,879	144	149	1,405,814	1,412,534
Expenditures	54,066	96,724	75	55	1,476,973	1,381,318
Other Financing Sources and Uses						
Long-Term Debt Issued and Refunding Payments, Net	90,209	38,731	-	-	90,455	38,878
Sales of Capital Assets	-	-	-	-	408	4,347
Transfers In (Out)	(21,194)	(35,032)	(10)	(15)	17,812	18,828
Total Other Financing Sources and Uses	69,015	3,699	(10)	(15)	108,675	62,053
Fund Balances						
Reserves Legally Segregated for Future Use	171,057	100,494	26	2	386,946	340,810
Reserves Not Available for Appropriation	-	-	2,183	2,186	14,842	15,505
Unreserved	-	(1,846)	121	83	227,543	235,504
Total Fund Balances	$ 171,057	$ 98,648	$ 2,330	$ 2,271	$ 629,331	$ 591,819

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 $629.3 million, an increase of $37.5 million in comparison to 2007. Approximately $227.5 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, $3.1 million; (2) funding of continuing projects and programs in future periods, $333.7 million; (3) payment of debt service, $29.4 million; and (4) a variety of other purposes, $35.6 million.

Revenues for governmental funds overall totaled approximately $1.406 billion in the fiscal year ended December 31, 2008, which represents a decrease of approximately $6.7 million or 0.5 percent from the prior fiscal year of $1.413 billion. Expenditures in governmental funds amounted to $1.477 billion, an increase of approximately $95.6 million or 6.9 percent compared to $1.381 billion spent in 2007. In the aggregate, expenditures for governmental funds exceeded revenues by approximately $71.2 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 2008.

At the end of 2008 the total fund balance of the General Fund was $271.4 million. Fund balance decreased by $55.6 million in 2008 compared to 2007.

Total revenues for the General Fund amounted to $914.7 million, a decrease of $44.1 million, 4.6 percent lower than 2007. Tax revenues decreased by $24.7 million, a 3.2 percent drop. Tax revenues in 2008 were down due to the economic slow down in the region, declining new construction, and the dramatic decline in real estate sales.

Program income, interest, and miscellaneous revenues decreased by $15.5 million. Revenues derived from charges for services went down $2.2 million, parking fees and space rent down $0.7 million, and license revenue down $4.4 million. Against the overall downward trend of revenues, fines and forfeits went up by $2.6 million.

General Fund expenditures increased by $81.1 million or 12.8 percent in 2008, from $633.8 million to $714.9 million. Public safety current expenditures were up 43.1 million (11.6 percent). The current expenditures for general government increased $37.9 million (25.7 percent). The capital outlay for culture and recreation increased $5.5 million. Judicial current expenditures went up $2.4 million.

The other financing sources and uses category decreased the General Fund's fund balance position by $255.4 million in 2008 compared to $239.2 million in 2007. The net transfers out increased by $12.6 million in 2008.

The **Transportation Fund**, a special revenue fund, develops, maintains, and operates the transportation system inclusive of streets, bridges, ramps, retaining walls, sea walls, bike trails, street lights, and other road infrastructure. At the end of the fiscal year the fund balance increased by $9.2 million. The revenues consist of an excess property tax levy, an employee hours tax, and a commercial parking tax. Transportation's expenditures totaled $197.0 million for 2008, up $5.1 million or 2.7 percent.

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 a fund balance of $70.0 million, the Low-Income Housing Fund ended the year with an increase of $6.4 million. Revenues from 2007 to 2008 decreased by $2.1 million or 5.6 percent. The expenditures increased from $25.9 million to $30.6 million. The increase in expenditures is attributed to the cyclical nature of the fund. Multifamily construction projects can span several years from acquisition to final construction. Further driving the variations is the cyclical nature of downtown construction and their associated costs.

In 2008 the other **special revenue funds** showed a $5.9 million or 9.7 percent increase in fund balance as a result of operations. Total revenues for the special revenue funds were up $48.3 million, a 23.7 percent increase from 2007. Program income, interest, and miscellaneous revenues increased by $40.8 million. This was mainly due to the Key Arena Settlement for $45.0 million. Expenditures increased by $26.7 million, up 8.0 percent from 2007. The largest increases were in the Human Services Operating Fund (up $9.3 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 where expenditures increased $8.9 million. The other financing sources and uses category decreased in 2008, down $25.8 million or 18.2 percent compared to 2007. This decrease resulted from a decrease in net transfers among other funds of $25.3 million.

The fund balance in the **capital projects funds** showed a $72.4 million or 73.4 percent increase in 2008. The most significant increases came from the 2008 Multipurpose Long-Term General Obligation Fund increasing the fund balance $73.0 million for the bond proceeds received. Fire Facilities fund balance increased $11.8 million as development work on the City's fire stations continued. Revenues for the capital projects funds went down $9.4 million or 14.1 percent compared to 2007. Grants, shared revenues, and contributions decreased by $1.9 million or 21.2 percent. Tax revenues decreased by $6.3 million or 12.6 percent. Expenditures for capital projects decreased $42.6 million, a 44.1 percent decrease compared to the 2007 expenditures of $96.7 million.

The 2008 fund balances of the **debt service funds** decreased by $0.9 million. The **permanent funds** remained at about the same levels as 2007.

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	$ 715,135	$ -	$ -	$ -	$ 30,320
Licenses and Permits	11,882	-	-	6,387	-
Grants, Shared Revenues, and Contributions	17,678	-	-	-	2,047
Charges for Services	50,928	9,695	-	-	1,255
Fines and Forfeits	22,110	-	-	-	-
Parking Fees and Space Rent	20,607	-	-	-	18
Program Income, Interest, and Miscellaneous Revenues	7,177	-	48	276	3,771
Total Revenues	845,517	9,695	48	6,663	37,411
Expenditures	633,302	14,676	992	6,979	38,594
Other Financing Sources and Uses					
Sales of Capital Assets	3	-	-	-	370
Transfers In (Out)	(236,697)	-	-	-	(18,041)
Total Other Financing Sources and Uses	(236,694)	-	-	-	(17,671)
Fund Balances					
Reserves Legally Segregated for Future Use	18,213	13,975	896	-	79,915
Reserves Not Available for Appropriation	1,258	-	-	-	-
Unreserved	25,298	(4)	221	7,063	26,960
Total Fund Balances	$ 44,769	$ 13,971	$ 1,117	$ 7,063	$ 106,875

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

GENERAL FUND SUBFUNDS (continued)

(In Thousands)

	Neighborhood Matching	Development Rights	Emergency	Special Employment Program	Industrial Insurance
Revenues					
Taxes	$ -	$ -	$ -	$ -	$ -
Licenses and Permits	-	-	-	-	-
Grants, Shared Revenues, and Contributions	-	-	-	-	-
Charges for Services	-	-	-	258	411
Fines and Forfeits	-	-	-	-	-
Parking Fees and Space Rent	-	-	-	-	-
Program Income, Interest, and Miscellaneous Revenues	-	(638)	48	-	1,494
Total Revenues	-	(638)	48	258	1,905
Expenditures	4,169	-	4,150	275	-
Other Financing Sources and Uses					
Sales of Capital Assets	-	-	-	-	-
Transfers In (Out)	(93)	-	(926)	-	-
Total Other Financing Sources and Uses	(93)	-	(926)	-	-
Fund Balances					
Reserves Legally Segregated for Future Use	4,315	-	974	-	-
Reserves Not Available for Appropriation	-	-	-	-	-
Unreserved	581	21	39,923	88	6,681
Total Fund Balances	$ 4,896	$ 21	$ 40,897	$ 88	$ 6,681

	Unemployment Compensation	Health Care	Group Term Life Insurance	Total General Fund 2008	Total General Fund 2007
Revenues					
Taxes	$ -	$ -	$ -	$ 745,455	$ 770,140
Licenses and Permits	-	-	-	18,269	22,680
Grants, Shared Revenues, and Contributions	-	-	-	19,725	18,916
Charges for Services	-	-	-	62,547	64,750
Fines and Forfeits	-	-	-	22,110	19,497
Parking Fees and Space Rent	-	-	-	20,625	21,360
Program Income, Interest, and Miscellaneous Revenues	(961)	14,673	44	25,932	41,390
Total Revenues	(961)	14,673	44	914,663	958,733
Expenditures	-	11,760	-	714,897	633,766
Other Financing Sources and Uses					
Sales of Capital Assets	-	-	-	373	3,868
Transfers In (Out)	-	-	-	(255,757)	(243,105)
Total Other Financing Sources and Uses	-	-	-	(255,384)	(239,237)
Fund Balances					
Reserves Legally Segregated for Future Use	-	20,779	-	139,067	123,935
Reserves Not Available for Appropriation	-	-	-	1,258	5,415
Unreserved	4,398	19,441	414	131,085	197,678
Total Fund Balances	$ 4,398	$ 40,220	$ 414	$ 271,410	$ 327,028

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 $131.6 million in 2008 compared to $120.8 million in 2007, as restated, or an increase of $10.8 million (8.9 percent) higher than 2007. Higher retail revenues along with lower Bonneville Power Administration (BPA) costs, primarily as a result of substantial cash payments from BPA for the Residential Exchange Program, more than offset the decrease in net short-term wholesale power revenues and related transactions and higher non-power operating expenses.

Net cash provided by operating activities increased by $18.7 million to $236.8 million in 2008 compared to $218.1 million in 2007. Restricted assets increased considerably by $235.9 million to $267.0 million in 2008 compared to $31.1 million in 2007. Nearly all of the increase is attributable to the $235.9 million in bond proceeds remaining from $257.4 million in bonds issued in December 2008. The bond proceeds were deposited in the Construction Account, which had a balance of $164.0 million at year end comprised of $37.8 million in cash and $126.2 million in short-term investments. An additional $72.0 million was set aside for the purpose of refunding all the Utility's variable rate bonds in early February 2009. The Contingency Reserve Account remained constant at $25.0 million as established in 2005. Utility plant and other capital assets were $1.662 billion and $1.591 billion in 2008 and 2007, respectively, a net increase of $70.9 million. The majority of the capital asset additions were in the distribution system, hydraulic production, and transmission.

Total net revenue bonds payable were $1.529 billion in 2008 and $1.342 billion in 2007, a net increase of $186.9 million. Interest expenses were $61.1 million in 2008 and $66.4 million in 2007. Future debt service requirements on the subordinate lien bonds, based on 2008 end-of-year actual interest rates, range from 0.5 percent to 0.65 percent through year 2021. Including long-term debt, the total liabilities were $1.702 billion in 2008 and $1.512 billion in 2007, as restated.

Total net assets were $790.1 million in 2008 and $658.5 million in 2007, as restated.

Water Utility. The net operating income of the Water Utility decreased by $4.0 million to $17.7 million in 2008 from $21.7 million in 2007. Operating expenses increased by $8.2 million due to several factors, the most significant of which was an increase in depreciation expense of $3.2 million. This resulted from capital assets that were placed in service in 2007 and began depreciating in 2008. Engineering services expenses rose by $1.5 million, mainly for water tank improvements and coating projects, cathodic protection inspections, and water design studies. Field operations expenses increased by $1.3 million, mainly for security and emergency management projects, and water main maintenance. General and administrative expenses increased by $1.1 million due to increases in claims costs for emergency response during the December 2008 snow storms and water treatment contract costs. The Utility realized a net income of $0.5 million in 2008 as compared to a net income of $1.2 million in 2007.

Net cash provided by operating activities increased to $59.7 million in 2008 from $58.3 million in 2007, an increase of $1.4 million. Total operating and restricted cash and investments were $204.4 million in 2008 compared to $56.3 million in 2007, an increase of $148.1 million. This increase in cash and investments is primarily due to a bond issue in December 2008.

Utility plant, net of accumulated depreciation, and other capital assets for the year ended December 31, 2008, amounted to $1.132 billion. This represents a net increase of approximately $46.7 million in 2008. Significant asset acquisitions included $18.0 million for new distribution pipelines, $13.2 million for water pipeline replacements, and $12.0 million for reservoir covering projects. The Water Utility has $105.3 million in construction work in progress as of December 31, 2008.

The Water Utility had revenue bonds totaling $1.025 billion in 2008 as compared to $841.8 million in 2007. In December 2008 the Seattle Public Utilities (SPU) issued $205.1 million of revenue and refunding bonds for its water system. A portion of the proceeds from the issuance was set aside in the fund's restricted cash to be used in early 2009 to refund all $93.0 million of the 1995 and 2002 adjustable-rate revenue bonds. The remaining proceeds will be used for certain capital improvement projects and conservation programs for the Utility.

Total net assets were $304.3 million in 2008 and $303.8 million in 2007.

Drainage and Wastewater Utility. The Utility realized operating income of $2.3 million in 2008 as compared to an operating loss of $10.9 million in 2007. Operating revenue increased $21.7 million and operating expenses increased $8.5 million between 2008 and 2007. The Utility realized a net income of $12.5 million in 2008 and a net loss of $17.8 million in 2007. The net income in 2008 was primarily due to drainage and wastewater rate increases as well as an increase in capital contributions and grants.

Net cash provided by operating activities increased to $26.3 million in 2008 from $5.5 million in 2007. Total operating and restricted cash and investments were $72.4 million in 2008 as compared to $26.8 million in 2007, an increase of $45.6 million, primarily due to bonds issued in 2008.

Utility plant, net of accumulated depreciation, and other capital assets increased to $570.5 million in 2008 from $516.9 million in 2007, an increase of $53.6 million. Acquisition of new assets included $43.2 million for pipe and maintenance rehabilitation, channel improvements at Delridge Basin, and drainage improvements at 30th Avenue SW. Significant capital was spent on storm water and local drainage infrastructure, improvements to facilities and equipment, and the Protection of Beneficial Uses improvement projects.

The Drainage and Wastewater Utility had $402.0 million outstanding revenue bond liabilities in 2008, as compared to $325.5 million in 2007. In 2008 the SPU issued $84.6 million of revenue bonds for its drainage and wastewater system. Interest expense was $16.7 million in 2008 and $14.9 million in 2007. Total liabilities, including revenue bonds, were $473.2 million in 2008 and $382.5 million in 2007.

Total net assets were $240.2 million in 2008 and $227.6 million in 2007.

Fiduciary Funds

The City maintains fiduciary funds for the assets of the City of Seattle Employees' Retirement system (SCERS), the Firemen's Pension Fund, the Police Relief and Pension Fund, the S.L. Denny Private Purpose Trust, and various agency funds. Total net assets of the combined fiduciary funds at the end of 2008 were $1.528 billion; SCERS represents 99.2 percent of this amount.

SCERS assets that are held in trust for the payment of future benefits exceeded current amounts owed as of December 31, 2008, by $1.477 billion. SCERS fund assets decreased in valuation by $642.0 million (30.3 percent) during 2008, primarily due to market conditions and volatility experienced by all investors in 2008. The fund's portfolio is a diversified fund, invested in U.S. equities and fixed income, as well as non-U.S. equities. Additionally, there are allocations to real estate and other alternative asset classes. The fund uses the services of both active and index fund professional money managers. The fund experienced dividend and interest receipts in excess of $23.0 million during 2008. The 2008 employee and employer contributions increased from 2007 by $11.1 million for total contributions of $91.9 million. The largest part of the 2008 increase in total expenses (deductions) resulted from retiree benefits increasing by 4.4 percent to $102.7 million.

During 2008 retroactive escalator payments totaling $4.7 million were paid to members of the Firemen's Pension and the Police Pension pursuant to a labor agreement between the City of Seattle and the Seattle Police Officers' Guild, Seattle Firefighters Local 27 and Seattle Fire Chiefs Association Local 2898. At December 31, 2008, 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 $11.5 million and $0.4 million, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's final 2008 budget that includes support to other funds for the General Fund was $1.133 billion. This amount differed from the original budget due to supplemental legislation/appropriations approved by the City Council during the year. In fiscal year 2008 the General Fund's original budget was $1.079 billion, which was increased $53.6 million (5.0 percent) for supplemental appropriation and budget carry forward for continuing capital and grant project.

The most significant budget revisions are described below:

- At year-end 2008 actual expenditures were $151.8 million less than budgeted. Of this amount $114.5 million of the budget was carried over into 2009 to cover outstanding encumbrances, grants, and capital spending.

- The recent slowdown in the local real estate market has resulted in a significantly lower real estate excise tax revenue forecast for 2008. Actual revenues for 2008 were $36.3 million, down from $77.0 million or 52.9 percent decrease.

- The Real Estate Excise Tax (REET I and II) Cumulative Reserve Subfunds had supplemental budget appropriations approved by Council that reduced the original budget by $8.6 million. The majority of this amount was identified during a review of the capital projects with abandoned or excess budget.

- The majority of the carry forward budget for capital and grant projects is within the General Fund, 25.4 percent, and the REET I and REET II Cumulative Reserve Subfunds at 19.6 percent and 30.0 percent. The amount of carry forward budgets in 2007 was $93.1 million; this amount increased 19.0 percent to $114.5 million for 2008. Of this amount, $98.5 million is budgeted for capital spending and $16.0 million for grant obligations.

- The Police Department's revised budget was $253.4 million; actual expenditures were $241.8 million or 95.4 percent of the budget. The original budget was increased by supplemental ordinance for $30.5 million which includes the acceptance of $11.5 million in grants.

- The Fire Department's revised budget was $152.1 million; actual expenditures were $149.6 million or 98.3 percent of the budget. The original budget was increased by supplemental ordinance for $2.4 million which includes the acceptance of $1.7 million in grants. The Fire Department's carryforward budget is $2.4 million, of which $1.6 million relates to grant projects, and the remaining $800,000 is for continuing capital spending.

- 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 2008 over $13.8 million in additional grant funds were appropriated. The majority of grant awards totaling $10.6 million went to the Police Department and $1.6 million was given to the Fire Department.

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	
	2008	Restated 2007	2008	2007	2008	Restated 2007
Land	$ 436,123	$ 415,811	$ 100,800	$ 99,323	$ 536,923	$ 515,134
Plant in Service, Excluding Land	-	-	3,017,123	2,856,738	3,017,123	2,856,738
Buildings and Improvements	1,490,857	1,376,754	40,088	42,092	1,530,945	1,418,846
Machinery and Equipment	122,506	125,083	7,290	8,168	129,796	133,251
Infrastructure	629,263	587,456	-	-	629,263	587,456
Construction in Progress	175,990	228,130	296,594	273,533	472,584	501,663
Other Capital Assets	11,460	10,961	18,155	17,932	29,615	28,893
Total Capital Assets	$ 2,866,199	$ 2,744,195	$ 3,480,050	$ 3,297,786	$ 6,346,249	$ 6,041,981

Capital assets, net of depreciation, for governmental activities increased by $122.0 million in 2008. Major increases included the following:

- Seattle Center capitalized improvements, amounting to $4.0 million, to various facilities. The completion cost of $15.4 million for the construction of Parking Garage Building held in trust during the sale of Parking Lot #2 in 2006 was also capitalized. Construction in progress increased by $2.5 million over last year.

- The Department of Parks and Recreation completed construction of various community centers and parks at a cost of $40.7 million, such as Sand Point Magnusson Park, $5.4 million; Sand Point Magnusson wetland, $2.5 million; Washington Park Arboretum, $1.6 million; South Lake Union Park II, $1.7 million; Urban Forestry, $1.1 million; Southwest Pool renovation, $1.6 million; Ballfield lighting replacement, $1.1 million; Georgetown playfield, $1.3 million; and others, $16.3 million. Several parcels of land were purchased at $6.4 million, including Denny Triangle, $2.5 million; Ballard Park Baker addition, $3.1 million; and others, $0.8 million. Construction in progress at December 31, 2008, stood at $3.6 million, a decrease of $0.4 million over last year.

- The Department of Transportation capitalized $75.2 million for various infrastructure assets (roads, bridges, sidewalks, signs, illuminations, and others). Land and land rights of $33,147 were also capitalized. Construction in progress at December 31, 2008, increased by $26.0 million over the last year.

- The Library expended $9.8 million for various library improvements and renovations, such as Magnolia Branch, $4.1 million; Northgate Branch, $2.1 million; and others, $3.6 million. Construction in Progress at December 31, 2008, was $4.5 million.

- The Fleets and Facilities Department incurred $6.9 million to complete construction of various City facility improvements. Land parcels were acquired for various fire stations for $3.4 million. Construction of the Fire Station No. 10 at a cost of $44.2 million and the Joint Training Facility Building in the amount of $25.9 million were completed and capitalized. Transportation equipment and vehicles were purchased for $19.2 million. Construction in progress at December 31, 2008, was $20.0 million.

Capital assets, net of depreciation, for business-type activities increased $182.2 million as follows:

- City Light capital assets increased by $70.9 million which included (1) a $98.9 million increase in distribution plant for underground conduit ($24.2 million), transformers ($13.1 million), underground conductors ($10.0 million), network underground conduit ($9.9 million), poles ($9.4 million), overhead, underground, and network services ($9.1 million), network underground conductors ($7.4 million), overhead conductors, streetlights, meters, substation equipment, and lighting upgrades; (2) an $11.0 million increase in general plant for system developments, purchases of vehicles, computer equipments, communication equipment, other equipment and tools, and structure improvement, including lighting upgrade and lobby upgrade at the Seattle Municipal Tower; (3) an $8.9 million increase in hydroelectric production plant for replacements of generator, runner cone, transformer, and transformer bank, installations of drain valve, control boxes and joint volt controller, governor control, inverter, battery, and transformer bushings, seismic upgrade, emergency generator, overhaul of turbine at Gorge, and purchase of equipment; and (4) a $5.4 million increase in transmission plant for transmission lines replacement, water system, transmission poles and towers, other transmission plant assets and replacement of disconnect, breaker, other station equipment, and relays. The additions were offset by a corresponding increase in accumulated depreciation of $62.8 million which along with an increase in construction in progress of $8.1 million contributed $69.8 million to the net increase in the capital assets. In addition, there were an increase of $0.8 million in land and land rights for the wildlife habitat development projects at Skagit and an acquisition of easement for distribution plant assets, net of land transfer of two 4KV substations, and $0.3 million in the One Percent for Art inventory.

- Drainage and Wastewater Utility capital assets increased by $53.6 million. Major capital improvements included pipe and maintenance rehabilitation at the Thorton Creek water quality channel; heavy equipment purchases, such as vactor trucks; drainage improvements at 30th Avenue SW; channel improvements at Delridge Basin; infrastructure at the Madison Valley Detention Pond; and an information billing system. Construction in progress at December 31, 2008, amounted to $48.6 million.

- Water Utility capital assets, increased by $46.7 million. Increases included new distribution pipelines, pipeline replacement for the Sound Transit project, completed reservoir covering projects, pump stations, improvements at the Cedar River watershed, water tanks upgrades, and operations facilities and security improvements. Construction in progress at December 31, 2008, amounted to $105.3 million.

- Nonmajor enterprise funds capital assets increased by $11.1 million, largely due to the increase in construction in progress for the South Recycling and Disposal Station and the acquisition of land for the expansion of solid waste facilities.

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 the fiscal year 2008 the City had $3.830 billion in outstanding bonded debt that included general obligation and revenue bonds, compared to $3.387 billion in 2007. This represents an increase of approximately $442.5 million (13.1 percent). Additionally, the special assessments bonds that the City issued in 2006, without lending its full faith and credit but obligated in some manner for the design and construction of the South Lake Union Streetcar, decreased to $19.2 million. A maturity and bond call payment of $1.3 million occurred in 2008 using special assessment collections from property owners within Local Improvement District No. 6750.

In 2008 the City issued LTGO bonds to finance various capital improvement projects and improvements including the Spokane-Mercer-Lander Streets ($50.9 million), King Street Station ($3.1 million) Bridge Seismic ($1.5 million), Pay Stations ($2.1 million), Fire Station ($21.7 million), South Lake Union ($1.9 million) and refunding bonds ($54.9 million) to payoff and redeem the LTGO variable-rate bonds Series 1996C and 1996D totaling $56.9 million on the date of the bond sale. The City also issued revenue bonds: $257.4 million for the Light Fund to finance certain capital improvements and conservation programs and to pay off all of its adjustable-rate subordinate lien bonds ($70.2 million) in February 2009 when the bonds will be called; $205.1 million for the Water Fund for certain capital improvements and conservation programs and to pay off all of its adjustable-rate bonds ($93.0 million) in February 2009 when the bonds will be called; $84.6 million for Drainage and Wastewater Fund to finance certain capital improvements and additions to the drainage and wastewater system.

The City defeased $31.6 million of the remaining Key Arena outstanding LTGO bonds issued in 2002, 2003, and 2005 using $34.2 million of the proceeds of the Key Arena Settlement, and defeased $0.4 million of the McCaw Hall outstanding portion of the 2003 LTGO bonds using 1999 levy money for Seattle Center approved by the voters in 1998.

The City's bond ratings remained the same as in the previous year. The City's UTGO bonds are rated Aaa by Moody's Investors Service, AAA by Fitch Ratings, and AAA by Standard & Poor's. The City's LTGO bonds are rated Aa1 by Moody's Investors Service, AA+ by Fitch Ratings, and AAA by Standard & Poor's. The City maintained its high bond ratings on its Light, Water, Drainage and Wastewater, and Solid Waste revenue bonds.

The City's limited and unlimited general obligation debt is capped at 7.5 percent of assessed value by state law. The 2009 assessed value of taxable properties for the City is $137.830 billion. At the end of 2008 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 $925.5 million, well below the limit of $10.337 billion, rendering the City's legal debt margin of $9.412 billion. Within the 7.5 percent limitation, state law restricts outstanding LTGO bonds to 1.5 percent of assessed value. At year-end 2008 the net outstanding LTGO debt was $781.1 million.

The City is self-insured for workers compensation and for most health care costs. The City carries general liability insurance with a self-insured retention. For these claims, including those incurred but not reported, the City recognized a total liability of $117.4 million ($85.7 million for governmental activities and $31.7 million for business-type activities) at the end of the year. In addition, City utilities recognized $34.7 million in estimated environmental liabilities. Other obligations were accrued compensation absences and other notes and contracts. The other notes and contracts included draws from the State's Public Works Trust Loan (PWTL) Program which are serviced with revenues from two participating City departments, one with a governmental-type fund and one whose PWTL activities are reported in two of its business-type funds.

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

ECONOMIC FACTORS

In 2008 after fully recovering from the recession early in the decade, the Puget Sound region has been affected by a period of considerable economic uncertainty. The national economy continues to suffer from a dramatic downturn in the housing market, turmoil among financial institutions, and increasing job losses. It is in this economic condition that the City's 2009 budget was prepared. However, the economy in the Puget Sound area is considerably stronger that the nation as a whole. The Seattle area is benefiting from continued strength in the software, biotechnology, aerospace, and construction industries despite setbacks in employment due to layoffs. But during the ensuing months the national and international economies adversely affect the regional economy. The City projected a decline in the aggregate General Fund revenue estimate for the years 2008 through 2010 by about $19.0 million, requiring additional budget cuts during the City Council review process.

General Subfund. Revenue estimates in 2009 are projected to increase to $872.3 million compared to the revised 2008 projection of $852.8 million, a 2.3 percent increase. The projected tax revenues growth rate is 1.6 percent overall to $779.9 million from $767.5 million. This includes property taxes (3.1 percent increase), sales tax revenues (1.6 percent decrease), external business and occupation (B&O) taxes (1.1 percent increase), and internal B&O taxes from sales by the City utilities (8.1 percent increase). External service charges and receipts from fines and forfeitures are expected to increase at 9.7 percent and 9.2 percent, respectively. While interest on investments will decline 26.4 percent, parking meter collections are expected to increase by 31.5 percent.

Utilities. The 2009 budget for City Light promotes the City's goal of maintaining carbon neutrality by mitigating greenhouse gas emissions and researching the effect of climate change on City Light watersheds, providing customer incentives and programs to increase energy conservation, funding green City building improvements with the creation of an Energy Efficiency Fund, and acquiring new renewable resources as required by Initiative 937. Capital budget reductions of $91.5 million are adopted, relative to the capital spending originally planned for 2009 on account of deferring projects including the utility relocation of the Alaskan Way Project costing $65.0 million. The adopted budget projected a reduction in operations and maintenance including spending on the Boundary Relicensing Program. There will be no rate increases in 2009. City Light's recent financial performance has been very strong and the utility's financial position continues to improve. However, although City Light earned considerable revenue in the wholesale energy market in previous years, this source of revenue is both volatile and unpredictable, thus uncertain, as it depends heavily on weather conditions and natural gas prices that are outside the City's control.

The Seattle Public Utilities (SPU) 2009 budget continues to provide funding for services benefiting its customers in a variety of ways while achieving new efficiencies. Investments in basic infrastructure and operations will enable SPU to provide reliable high-quality water to customers, manage stormwater and wastewater properly, and provide the residents of Seattle with innovative recycling and solid waste service. The Department has begun applying the asset management process to its operating budget and programs as part of achieving efficiencies. It includes using the "triple bottom line" approach which evaluates the projects and procedures based on their economic, social, and environmental benefits, as well as being able to meet customer service levels.

While the City had a net increase of 167 projected full-time-equivalent positions in 2008, the 2009 Adopted Budget projected a net decrease of just 34 positions that includes position abrogations, a reflection of economic uncertainties.

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 3 **December 31, 2008**

(In Thousands)

	Primary Government				Component Unit
			Comparative Totals		
	Governmental Activities	Business-Type Activities	2008	Restated 2007	Seattle Public Library Foundation
ASSETS					
Current Assets					
Operating Cash and Equity in Pooled Investments	$ 656,851	$ 137,373	$ 794,224	$ 765,726	$ 5,000
Restricted Cash and Equity in Pooled Investments	-	35,344	35,344	3,626	-
Restricted Investments	-	60,274	60,274	-	-
Restricted Investment Interest Receivable	-	1,108	1,108	-	-
Investments	-	-	-	-	34,667
Receivables, Net of Allowances	84,935	191,615	276,550	276,328	526
Internal Balances	12,272	(12,272)	-	-	-
Due from Other Governments	73,125	8,748	81,873	76,535	-
Hydrant Settlement Receivable	-	10,088	10,088	-	-
Inventories	2,787	33,961	36,748	34,966	-
Prepaid and Other Current Assets	666	1,337	2,003	1,187	1
Total Current Assets	830,636	467,576	1,298,212	1,158,368	40,194
Noncurrent Assets					
Restricted Cash and Equity in Pooled Investments	325	263,544	263,869	122,123	-
Restricted Investments	-	198,472	198,472	18,652	-
Restricted Investment Interest Receivable	-	849	849	279	-
Unamortized Debt Costs	3,042	18,767	21,809	17,672	-
Contracts and Notes	284,996	41	285,037	282,987	-
Capitalized Purchased Power Commitment	-	-	-	4,749	-
Deferred Conservation Costs, Net	-	185,895	185,895	180,927	-
Deferred Landfill Closure and Postclosure Costs, Net	-	26,979	26,979	30,211	-
Net Pension Asset	81,899	-	81,899	78,434	-
Deferred Muckleshoot Settlement Costs	-	2,275	2,275	2,400	-
Other Deferred Charges and Noncurrent Assets	19,543	234,876	254,419	209,802	2,459
Capital Assets, Net of Accumulated Depreciation					
Land and Land Rights	436,123	100,800	536,923	515,134	-
Plant in Service, Excluding Land	-	3,017,123	3,017,123	2,856,738	-
Buildings and Improvements	1,490,857	40,088	1,530,945	1,418,846	-
Machinery and Equipment	122,506	7,290	129,796	133,251	7
Infrastructure	629,263	-	629,263	587,456	-
Construction in Progress	175,990	296,594	472,584	501,663	-
Other Capital Assets	11,460	18,155	29,615	28,893	-
Total Noncurrent Assets	3,256,004	4,411,748	7,667,752	6,990,217	2,466
Total Assets	4,086,640	4,879,324	8,965,964	8,148,585	42,660

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

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STATEMENT OF NET ASSETS
December 31, 2008
(In Thousands)

	Primary Government				Component Unit
			Comparative Totals		
	Governmental Activities	Business-Type Activities	2008	Restated 2007	Seattle Public Library Foundation
LIABILITIES					
Current Liabilities					
Accounts Payable	$ 75,306	$ 65,790	$ 141,096	$ 129,292	$ 866
Salaries, Benefits, and Taxes Payable	38,326	18,068	56,394	47,239	-
Contracts Payable	7,405	176	7,581	8,004	-
Due to Other Governments	7,764	8,542	16,306	17,348	-
Interest Payable	10,803	39,440	50,243	50,358	-
Taxes Payable	38	9,446	9,484	9,852	-
Deposits Payable	963	-	963	1,227	-
Deferred Credits	4,328	18,619	22,947	19,519	148
Current Portion of Long-Term Debt					
Bonds Payable	49,645	219,640	269,285	154,974	-
Special Assessment Bonds with Governmental Commitment	940	-	940	1,060	-
Deferred Bond Interest	-	790	790	666	-
Compensated Absences Payable	15,712	2,520	18,232	18,041	-
Purchased Power Obligation	-	-	-	11,970	-
Notes and Contracts Payable	2,134	863	2,997	2,824	-
Claims Payable	27,013	19,587	46,600	39,330	-
Habitat Conservation Program Liability	-	5,453	5,453	9,528	-
Muckleshoot Liability	-	-	-	1,000	-
Landfill Closure and Postclosure Liability	-	1,115	1,115	1,465	-
Arbitrage Rebate Liability	-	-	-	26	-
Other Current Liabilities	391	17,825	18,216	1,472	-
Total Current Liabilities	240,768	427,874	668,642	525,195	1,014
Noncurrent Liabilities					
Bonds Payable, Net of					
Unamortized Premiums, Discounts, and Other	692,295	2,908,340	3,600,635	3,256,002	-
Deferred Bond Interest	-	3,467	3,467	3,664	-
Special Assessment Bonds with Governmental Commitment	18,265	-	18,265	19,485	-
Compensated Absences Payable	57,773	23,372	81,145	75,928	-
Claims Payable	58,708	46,812	105,520	82,680	-
Notes and Contracts Payable	17,604	19,377	36,981	26,150	-
Purchased Power Obligation	-	-	-	(7,221)	-
Landfill Closure and Postclosure Liability	-	24,925	24,925	25,612	-
Vendor Deposits Payable	325	913	1,238	525	-
Habitat Conservation Program Liability	-	4,154	4,154	4,018	-
Muckleshoot Liability	-	495	495	495	-
Deferred Credits	326,949	55,881	382,830	379,591	-
Arbitrage Rebate Liability	445	-	445	406	-
Unfunded Other Post Employment Benefits	21,066	4,531	25,597	11,699	-
Net Pension Obligation	1,398	-	1,398	2,797	-
Other Noncurrent Liabilities	717	317	1,034	1,767	-
Total Noncurrent Liabilities	1,195,545	3,092,584	4,288,129	3,883,598	-
Total Liabilities	1,436,313	3,520,458	4,956,771	4,408,793	1,014

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

B-1 **STATEMENT OF NET ASSETS**
Page 3 of 3 **December 31, 2008**
(In Thousands)

	Primary Government				Component Unit
			Comparative Totals		
	Governmental Activities	Business-Type Activities	2008	Restated 2007	Seattle Public Library Foundation
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 2,184,161	$ 1,128,319	$ 3,312,480	$ 2,978,603	$ 7
Restricted for					
Debt Service	29,349	15,120	44,469	35,034	-
Contingency Reserve Account	-	25,000	25,000	25,000	-
Capital Projects	201,573	-	201,573	117,416	101
Education and Development Services	17,173	-	17,173	16,724	3,675
Special Deposits	20,779	388	21,167	23,552	-
Deferred Conservation and Environmental Costs	-	7,171	7,171	9,256	-
Bonneville Power Administration Projects	-	1,891	1,891	2,393	-
Deferred External Infrastructure Costs	-	8,255	8,255	7,016	-
Muckleshoot Settlement	-	542	542	545	-
Other Deferred Charges	-	5,546	5,546	4,057	-
Other Purposes	-	-	-	-	183
Nonexpendable	2,330	-	2,330	2,186	26,474
Unrestricted	194,962	166,634	361,596	518,010	11,206
Total Net Assets	$ 2,650,327	$ 1,358,866	$ 4,009,193	$ 3,739,792	$ 41,646

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, 2008**

(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	$ 145,143	$ (1,288)	$ 102,697	$ 10,515	$ -
Judicial	26,762	-	22,032	182	-
Public Safety	456,534	(833)	16,254	9,341	-
Physical Environment	7,707	-	1,632	10	-
Transportation	127,366	506	44,093	13,579	20,701
Economic Environment	104,660	-	17,440	25,498	5,508
Health and Human Services	69,181	-	12	31,050	-
Culture and Recreation	257,578	-	59,586	5,061	5,318
Interest on Long-Term Debt	39,336	-	-	-	-
Total Governmental Activities	1,234,267	(1,615)	263,746	95,236	31,527
BUSINESS-TYPE ACTIVITIES					
Light	791,057	780	872,099	2,308	39,926
Water	180,534	321	163,996	167	17,172
Drainage and Wastewater	231,110	208	216,957	310	24,323
Solid Waste	120,840	101	124,353	724	4
Planning and Development	56,677	205	42,929	590	-
Downtown Parking Garage	8,545	-	6,530	-	-
Total Business-Type Activities	1,388,763	1,615	1,426,864	4,099	81,425
Total Government-Wide Activities	$ 2,623,030	$ -	$ 1,690,610	$ 99,335	$ 112,952
COMPONENT UNIT	$ 5,503	$ -	$ -	$ 3,342	$ -

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

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STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008
(In Thousands)

	Net Revenue (Expense) and Changes in Net Assets				
	Primary Government				Component Unit
			Comparative Totals		
	Governmental Activities	Business-Type Activities	2008	Restated 2007	Seattle Public Library Foundation
GOVERNMENTAL ACTIVITIES					
General Government	$ (30,643)	$ -	$ (30,643)	$ (22,403)	
Judicial	(4,548)	-	(4,548)	(3,907)	
Public Safety	(430,106)	-	(430,106)	(364,109)	
Physical Environment	(6,065)	-	(6,065)	(8,315)	
Transportation	(49,499)	-	(49,499)	(62,144)	
Economic Environment	(56,214)	-	(56,214)	(41,476)	
Health and Human Services	(38,119)	-	(38,119)	(35,843)	
Culture and Recreation	(187,613)	-	(187,613)	(157,359)	
Interest on Long-Term Debt	(39,336)	-	(39,336)	(34,048)	
Total Governmental Activities	(842,143)	-	(842,143)	(729,604)	
BUSINESS-TYPE ACTIVITIES					
Light	-	122,496	122,496	111,006	
Water	-	480	480	(1,778)	
Drainage and Wastewater	-	10,272	10,272	(20,109)	
Solid Waste	-	4,140	4,140	2,751	
Planning and Development	-	(13,363)	(13,363)	(6,534)	
Downtown Parking Garage	-	(2,015)	(2,015)	(1,530)	
Total Business-Type Activities	-	122,010	122,010	83,806	
Total Government-Wide Activities	(842,143)	122,010	(720,133)	(645,798)	
COMPONENT UNIT					$ (2,161)
General Revenues					
Property Taxes	368,515	-	368,515	359,651	-
Sales Taxes	171,917	-	171,917	171,846	-
Business Taxes	330,369	-	330,369	332,238	-
Excise Taxes	36,091	-	36,091	76,918	-
Other Taxes	25,395	-	25,395	12,765	-
Penalties and Interest on Delinquent Taxes	2,410	-	2,410	4,276	-
Unrestricted Investment Earnings (Loss)	24,140	13,530	37,670	52,261	(10,485)
Gain on Sale of Capital Assets	15,461	1,708	17,169	1,167	-
Transfers	(10,803)	10,803	-	-	-
Total General Revenues (Loss) and Transfers	963,495	26,041	989,536	1,011,122	(10,485)
Divested Activities					
Transfer of Net Assets to Washington Talking Book & Braille Library	-	-	-	-	(1,964)
Changes in Net Assets	121,352	148,051	269,403	365,324	(14,610)
Net Assets - Beginning of Year	2,528,975	1,210,815	3,739,790	3,389,074	53,120
Prior-Year Adjustments	-	-	-	(14,606)	3,136
Net Assets - Beginning of Year as Restated	2,528,975	1,210,815	3,739,790	3,374,468	56,256
Net Assets - End of Year	$ 2,650,327	$ 1,358,866	$ 4,009,193	$ 3,739,792	$ 41,646

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, 2008
(In Thousands)

	General	Transportation	Low-Income Housing
ASSETS			
Cash and Equity in Pooled Investments	$ 237,915	$ 22,418	$ 71,956
Receivables, Net of Allowances			
Taxes	49,173	5,145	90
Accounts	2,307	3,570	16
Contracts and Notes	4	6	-
Special Assessments - Delinquent	-	-	-
Interest and Dividends	116	408	181
Unbilled and Others	-	2,088	-
Due from Other Funds	14,634	11,527	2
Due from Other Governments	39,326	12,290	175
Inventories	75	-	-
Prepaid and Other Current Assets	639	-	-
Deposits With Vendor	2	-	-
Contracts and Notes - Noncurrent	7,973	-	234,893
Advances to Other Funds	-	-	-
Deferred Charges and Other Assets	-	-	-
Total Assets	$ 352,164	$ 57,452	$ 307,313
LIABILITIES			
Accounts Payable	$ 19,570	$ 12,718	$ 95
Contracts Payable	576	4,520	-
Due to Other Funds	6,165	2,345	2,153
Due to Other Governments	2,640	3	1
Salaries, Benefits, and Taxes Payable	23,149	3,679	-
Interest Payable	174	27	1
Deposits Payable	367	228	117
Revenue Collected/Billed in Advance - Current	1,847	1	-
Other Current Liabilities	206	-	-
Advances from Other Funds	-	-	-
Deferred Revenues	26,060	1,327	234,945
Total Liabilities	80,754	24,848	237,312

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

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Page 2 of 4

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2008
(In Thousands)

	Other Governmental	Comparative Totals 2008	Comparative Totals Restated 2007
ASSETS			
Cash and Equity in Pooled Investments	$ 271,470	$ 603,759	$ 563,490
Receivables, Net of Allowances			
Taxes	7,277	61,685	63,025
Accounts	8,092	13,985	9,524
Contracts and Notes	3	13	2,316
Special Assessments - Delinquent	150	150	53
Interest and Dividends	672	1,377	2,986
Unbilled and Others	1,053	3,141	2,595
Due from Other Funds	8,393	34,556	25,133
Due from Other Governments	20,651	72,442	68,177
Inventories	532	607	963
Prepaid and Other Current Assets	-	639	52
Deposits With Vendor	4	6	-
Contracts and Notes - Noncurrent	42,130	284,996	282,922
Advances to Other Funds	-	-	1,696
Deferred Charges and Other Assets	19,542	19,542	20,863
Total Assets	$ 379,969	$ 1,096,898	$ 1,043,795
LIABILITIES			
Accounts Payable	$ 25,310	$ 57,693	$ 58,430
Contracts Payable	2,309	7,405	7,340
Due to Other Funds	15,502	26,165	16,039
Due to Other Governments	5,119	7,763	8,669
Salaries, Benefits, and Taxes Payable	8,873	35,701	29,771
Interest Payable	10	212	128
Deposits Payable	250	962	1,227
Revenue Collected/Billed in Advance - Current	2,480	4,328	3,336
Other Current Liabilities	184	390	308
Advances from Other Funds	-	-	1,696
Deferred Revenues	64,616	326,948	325,032
Total Liabilities	124,653	467,567	451,976

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, 2008
(In Thousands)

	General	Transportation	Low-Income Housing
FUND BALANCES			
Reserves Legally Segregated for Future Use			
Capital Improvements	$ 93,312	$ 32,602	$ -
Continuing Appropriations	8,719	-	17,228
Debt Service	13,975	-	-
Encumbrances	2,282	-	-
Health Care Rate Stabilization	20,779	-	-
Reserves Not Available for Appropriation			
Endowments	-	-	-
Gifts	-	-	-
Interfund Loans	-	-	-
Inventories	-	-	-
Petty Cash	1,258	2	-
Unreserved, Reported in			
Major Funds			
Designated for Special Purpose	29,497	-	-
Undesignated	101,588	-	52,773
Special Revenue Funds			
Designated for Special Purpose	-	-	-
Undesignated	-	-	-
Capital Projects Funds	-	-	-
Permanent Funds	-	-	-
Total Fund Balance	271,410	32,604	70,001
Total Liabilities and Fund Balance	$ 352,164	$ 57,452	$ 307,313

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

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BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2008
(In Thousands)

	Other Governmental	Comparative Totals 2008	Comparative Totals Restated 2007
FUND BALANCES			
Reserves Legally Segregated for Future Use			
Capital Improvements	$ 174,501	$ 300,415	$ 158,827
Continuing Appropriations	7,313	33,260	109,688
Debt Service	15,375	29,350	34,834
Encumbrances	860	3,142	14,003
Health Care Rate Stabilization	-	20,779	23,458
Reserves Not Available for Appropriation			
Endowments	2,050	2,050	2,050
Gifts	10,976	10,976	7,350
Interfund Loans	-	-	1,696
Inventories	532	532	663
Petty Cash	24	1,284	3,746
Unreserved, Reported in			
Major Funds			
Designated for Special Purpose	-	29,497	29,758
Undesignated	-	154,361	178,397
Special Revenue Funds			
Designated for Special Purpose	879	879	670
Undesignated	42,685	42,685	28,442
Capital Projects Funds	-	-	(1,846)
Permanent Funds	121	121	83
Total Fund Balance	255,316	629,331	591,819
Total Liabilities and Fund Balance	$ 379,969		

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

	2008	Restated 2007
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,776,854	2,660,925
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	6,642	6,489
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.	130,963	122,856
Net pension asset net of pension obligations	80,501	75,637
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	(36,791)	(25,105)
Accrued Interest Payable	(10,591)	(11,366)
Current Portion of Long-Term Debt	(52,719)	(57,974)
Compensated Absences Payable	(15,423)	(15,448)
General Obligation Bonds Payable	(671,515)	(664,440)
Less Bond Discount and Premium	(22,222)	(16,522)
Special Assessment Bonds	(18,265)	(19,485)
Unamortized Losses on Refunding	1,443	3,016
Deferred Credits	3,042	2,674
Notes and Other Long-Term Liabilities	(17,603)	(19,738)
Compensated Absences - Long-Term	(54,612)	(51,288)
Claims Payable - Long-Term	(45,770)	(32,935)
Workers' Compensation	(12,074)	(10,860)
Arbitrage	(445)	(432)
Unfunded Other Post Employment Benefits	(20,419)	(8,846)
Net Adjustments	2,020,996	1,937,158
Net Assets of Governmental Activities	$ 2,650,327	$ 2,528,977

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

B-4 **STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**
Page 1 of 2 **IN FUND BALANCES**
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2008
(In Thousands)

	General	Transportation	Low-Income Housing
REVENUES			
Taxes	$ 745,455	$ 54,787	$ 11,725
Licenses and Permits	18,269	10,036	-
Grants, Shared Revenues, and Contributions	19,725	34,279	8,059
Charges for Services	62,547	25,336	35
Fines and Forfeits	22,110	10	-
Parking Fees and Space Rent	20,625	63	27
Program Income, Interest, and Miscellaneous Revenues	25,932	389	15,070
Total Revenues	914,663	124,900	34,916
EXPENDITURES			
Current			
General Government	185,390	-	-
Judicial	26,584	-	-
Public Safety	415,201	-	-
Physical Environment	8,180	-	-
Transportation	11,355	93,811	-
Economic Environment	20,871	-	30,594
Health and Human Services	272	-	-
Culture and Recreation	5,545	-	-
Capital Outlay			
General Government	7,877	-	-
Public Safety	2,426	-	-
Physical Environment	5	-	-
Transportation	-	100,636	-
Economic Environment	-	-	12
Culture and Recreation	31,191	-	-
Debt Service			
Principal	-	2,185	-
Advance Refunding to Escrow	-	-	-
Interest	-	356	-
Bond Issuance Cost	-	-	-
Total Expenditures	714,897	196,988	30,606
Excess (Deficiency) of Revenues over Expenditures	199,766	(72,088)	4,310
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	373	-	32
Transfers In	7,440	86,673	2,074
Transfers Out	(263,197)	(5,344)	-
Total Other Financing Sources (Uses)	(255,384)	81,329	2,106
Net Change in Fund Balance	(55,618)	9,241	6,416
Fund Balances - Beginning of Year	327,028	23,363	63,585
Fund Balances - End of Year	$ 271,410	$ 32,604	$ 70,001

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, 2008
(In Thousands)

	Other Governmental	Comparative Totals 2008	Comparative Totals 2007
REVENUES			
Taxes	$ 122,577	$ 934,544	$ 957,242
Licenses and Permits	786	29,091	33,439
Grants, Shared Revenues, and Contributions	71,709	133,772	130,869
Charges for Services	54,879	142,797	149,049
Fines and Forfeits	3,452	25,572	22,701
Parking Fees and Space Rent	17,246	37,961	38,029
Program Income, Interest, and Miscellaneous Revenues	60,686	102,077	81,200
Total Revenues	331,335	1,405,814	1,412,529
EXPENDITURES			
Current			
General Government	12,201	197,591	154,672
Judicial	-	26,584	24,142
Public Safety	5,904	421,105	377,367
Physical Environment	274	8,454	10,752
Transportation	2,366	107,532	95,474
Economic Environment	58,438	109,903	103,350
Health and Human Services	69,760	70,032	64,490
Culture and Recreation	210,569	216,114	199,214
Capital Outlay			
General Government	3,432	11,309	16,823
Public Safety	10,217	12,643	38,345
Physical Environment	-	5	10
Transportation	-	100,636	105,079
Economic Environment	10	22	270
Culture and Recreation	40,475	71,666	88,641
Debt Service			
Principal	49,670	51,855	61,236
Advance Refunding to Escrow	35,152	35,152	6,270
Interest	35,382	35,738	34,923
Bond Issuance Cost	632	632	256
Total Expenditures	534,482	1,476,973	1,381,314
Excess (Deficiency) of Revenues over Expenditures	(203,147)	(71,159)	31,215
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	84,960	84,960	36,365
Refunding Debt Issued	54,870	54,870	60,870
Premium on Bonds Issued	7,545	7,545	4,178
Payment to Refunded Bond Escrow Agent	(56,920)	(56,920)	(62,535)
Sales of Capital Assets	3	408	4,348
Transfers In	253,891	350,078	306,914
Transfers Out	(63,725)	(332,266)	(288,087)
Total Other Financing Sources (Uses)	280,624	108,675	62,053
Net Change in Fund Balance	77,477	37,516	93,268
Fund Balances - Beginning of Year	177,839	591,815	498,551
Fund Balances - End of Year	$ 255,316	$ 629,331	$ 591,819

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

B-5 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, 2008

(In Thousands)

	Comparative Totals 2008	Comparative Totals 2007
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balance - total governmental funds	$ 37,516	$ 93,268
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	(91,613)	(78,800)
Capital outlay reported as expenditures	173,364	235,074
Retirement and sale of capital assets	15,053	(3,457)
Capital assets received as donations	18,874	-
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(9,914)	446
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	(84,960)	(36,365)
Premium on general obligation bonds	(7,545)	(4,178)
Proceeds from bond refunding	(54,870)	(60,870)
Principal payments bonds/notes	51,859	61,237
Bond interest	(1,520)	462
Remittance to refunding escrow using City funds	35,152	6,270
Bond issuance costs	615	233
Remittance to refunding escrow using refunding proceeds	56,920	62,535
Amortization of debt expense	(247)	(257)
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	(3,299)	(7,112)
Injury and damage claims	(13,898)	(15,659)
Workers' compensation	(1,618)	(1,600)
Arbitrage	(13)	(432)
Unfunded OPEB liabilities	(11,574)	(8,846)
Net pension asset	4,864	(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	33	(2,178)
Net revenue of internal service funds activities reported with governmental activities	8,173	14,182
Change in Net Assets of Governmental Activities	$ 121,352	$ 251,525

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2008	Restated 2007	2008	2007
ASSETS				
Current Assets				
Operating Cash and Equity in Pooled Investments	$ 63,121	$ 87,724	$ 7,340	$ 6,799
Restricted Cash and Equity in Pooled Investments	-	-	33,639	1,883
Restricted Investments	-	-	60,274	-
Restricted Investment Interest Receivable	-	-	1,108	-
Receivables, Net of Allowances				
Accounts	63,135	67,660	10,063	9,329
Interest and Dividends	686	617	-	-
Unbilled	60,079	59,515	8,936	8,291
Energy Contracts, Notes, and Other Contracts	6,631	855	22	2,775
Due from Other Funds	476	692	656	1,245
Due from Other Governments	5,457	2,712	1,253	2,160
Hydrant Settlement Receivable	-	-	10,088	-
Materials and Supplies Inventory	28,949	26,936	4,996	4,514
Prepayments and Other Current Assets	1,228	1,052	103	68
Total Current Assets	229,762	247,763	138,478	37,064
Noncurrent Assets				
Restricted Cash and Equity in Pooled Investments	140,840	31,109	30,892	32,996
Restricted Investments	126,179	-	72,293	14,661
Restricted Investment Interest Receivable	-	-	849	251
Unamortized Bond Issue Costs, Net	9,435	6,497	5,123	4,733
Notes and Contracts Receivable	-	-	42	66
Capitalized Purchased Power Commitment	-	4,749	-	-
Deferred Conservation Costs, Net	149,512	141,584	36,382	39,344
Deferred Landfill Closure and Postclosure Costs, Net	-	-	-	-
Deferred External Infrastructure Costs	-	-	-	-
Capitalized Relicensing Costs	54,374	40,917	-	-
Deferred Muckleshoot Settlement Costs	-	-	2,275	2,400
Other Deferred Charges	120,039	106,099	10,661	4,316
Capital Assets				
Land and Land Rights	41,852	41,051	33,784	33,493
Plant in Service, Excluding Land	2,730,371	2,605,862	1,435,137	1,350,949
Less Accumulated Depreciation	(1,237,407)	(1,174,568)	(443,119)	(406,556)
Building and Improvements	-	-	-	-
Less Accumulated Depreciation	-	-	-	-
Machinery and Equipment	-	-	-	-
Less Accumulated Depreciation	-	-	-	-
Construction in Progress	112,390	104,241	105,279	106,449
Other Property, Net	14,983	14,708	811	855
Total Noncurrent Assets	2,262,568	1,922,249	1,290,409	1,183,957
Total Assets	2,492,330	2,170,012	1,428,887	1,221,021

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2008	2007	2008	2007
ASSETS				
Current Assets				
Operating Cash and Equity in Pooled Investments	$ 20,870	$ 18,075	$ 46,043	$ 41,728
Restricted Cash and Equity in Pooled Investments	1,705	1,743	-	-
Restricted Investments	-	-	-	-
Restricted Investment Interest Receivable	-	-	-	-
Receivables, Net of Allowances				
Accounts	13,727	12,710	14,129	14,643
Interest and Dividends	188	73	217	331
Unbilled	13,521	13,245	281	194
Energy Contracts, Notes, and Other Contracts	1	1	-	-
Due from Other Funds	1,336	1,203	1,018	1,383
Due from Other Governments	705	1,209	1,332	845
Hydrant Settlement Receivable	-	-	-	-
Materials and Supplies Inventory	-	-	16	36
Prepayments and Other Current Assets	6	-	-	-
Total Current Assets	52,059	48,259	63,036	59,160
Noncurrent Assets				
Restricted Cash and Equity in Pooled Investments	49,810	2,953	42,001	54,867
Restricted Investments	-	3,991	-	-
Restricted Investment Interest Receivable	-	28	-	-
Unamortized Bond Issue Costs, Net	2,910	2,360	1,299	1,408
Notes and Contracts Receivable	-	-	-	-
Capitalized Purchased Power Commitment	-	-	-	-
Deferred Conservation Costs, Net	-	-	-	-
Deferred Landfill Closure and Postclosure Costs, Net	-	-	26,978	30,211
Deferred External Infrastructure Costs	21,288	21,433	-	-
Capitalized Relicensing Costs	-	-	-	-
Deferred Muckleshoot Settlement Costs	-	-	-	-
Other Deferred Charges	16,768	14,149	11,746	2,026
Capital Assets				
Land and Land Rights	10,492	10,107	14,672	14,672
Plant in Service, Excluding Land	705,747	638,751	52,872	49,807
Less Accumulated Depreciation	(194,929)	(179,895)	(31,550)	(27,612)
Building and Improvements	-	-	60,131	60,131
Less Accumulated Depreciation	-	-	(20,044)	(18,039)
Machinery and Equipment	-	-	15,160	14,439
Less Accumulated Depreciation	-	-	(7,869)	(6,271)
Construction in Progress	48,621	47,355	30,305	15,488
Other Property, Net	597	603	1,765	1,766
Total Noncurrent Assets	661,304	561,835	197,466	192,893
Total Assets	713,363	610,094	260,502	252,053

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds Comparative Totals		Governmental Activities - Internal Service Funds	
	2008	Restated 2007	2008	Restated 2007
ASSETS				
Current Assets				
Operating Cash and Equity in Pooled Investments	$ 137,374	$ 154,326	$ 53,092	$ 47,910
Restricted Cash and Equity in Pooled Investments	35,344	3,626	-	-
Restricted Investments	60,274	-	-	-
Restricted Investment Interest Receivable	1,108	-	-	-
Receivables, Net of Allowances				
Accounts	101,054	104,342	537	1,359
Interest and Dividends	1,091	1,021	136	221
Unbilled	82,817	81,245	-	79
Energy Contracts, Notes, and Other Contracts	6,654	3,631	-	-
Due from Other Funds	3,486	4,523	6,410	9,130
Due from Other Governments	8,747	6,926	682	1,431
Hydrant Settlement Receivable	10,088	-	-	-
Materials and Supplies Inventory	33,961	31,486	2,180	2,516
Prepayments and Other Current Assets	1,337	1,120	21	14
Total Current Assets	483,335	392,246	63,058	62,660
Noncurrent Assets				
Restricted Cash and Equity in Pooled Investments	263,543	121,925	325	198
Restricted Investments	198,472	18,652	-	-
Restricted Investment Interest Receivable	849	279	-	-
Unamortized Bond Issue Costs, Net	18,767	14,998	-	-
Notes and Contracts Receivable	42	66	-	-
Capitalized Purchased Power Commitment	-	4,749	-	-
Deferred Conservation Costs, Net	185,894	180,928	-	-
Deferred Landfill Closure and Postclosure Costs, Net	26,978	30,211	-	-
Deferred External Infrastructure Costs	21,288	21,433	-	-
Capitalized Relicensing Costs	54,374	40,917	-	-
Deferred Muckleshoot Settlement Costs	2,275	2,400	-	-
Other Deferred Charges	159,214	126,590	-	-
Capital Assets				
Land and Land Rights	100,800	99,323	39	39
Plant in Service, Excluding Land	4,924,127	4,645,369	-	-
Less Accumulated Depreciation	(1,907,005)	(1,788,631)	-	-
Building and Improvements	60,131	60,131	3,688	2,890
Less Accumulated Depreciation	(20,044)	(18,039)	(916)	(853)
Machinery and Equipment	15,160	14,439	168,689	161,261
Less Accumulated Depreciation	(7,869)	(6,271)	(84,227)	(81,923)
Construction in Progress	296,595	273,533	2,072	1,858
Other Property, Net	18,156	17,932	-	-
Total Noncurrent Assets	4,411,747	3,860,934	89,670	83,470
Total Assets	4,895,082	4,253,180	152,728	146,130

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2008	Restated 2007	2008	2007
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 47,458	$ 43,370	$ 5,231	$ 7,363
Salaries, Benefits, and Payroll Taxes Payable	9,703	8,304	3,481	2,653
Compensated Absences Payable	1,327	1,223	441	403
Due to Other Funds	7,162	11,452	3,362	3,593
Due to Other Governments	-	23	62	-
Interest Payable	18,505	19,445	12,471	12,463
Deferred Bond Interest	-	-	-	-
Taxes Payable	8,607	8,987	430	426
General Obligation Bonds Due Within One Year	-	-	-	-
Revenue Bonds Due Within One Year	80,620	70,460	121,495	21,385
Energy and Other Contracts Payable	176	664	-	-
Claims Payable	6,948	5,980	1,505	1,240
Purchased Power Obligation	-	11,970	-	-
Notes and Contracts Payable	-	285	555	118
Habitat Conservation Program Liability	-	-	5,453	9,528
Muckleshoot Liability	-	-	-	1,000
Landfill Closure and Postclosure Liability	-	-	-	-
Deferred Credits	9,819	8,512	2,417	2,246
Other Current Liabilities	820	958	16,211	-
Total Current Liabilities	191,145	191,633	173,114	62,418
Noncurrent Liabilities				
Compensated Absences Payable	12,336	11,343	4,124	3,876
Claims Payable	24,419	24,368	3,689	2,473
Long-Term Purchased Power Obligation	-	4,749	-	-
Less Obligation Due Within One Year	-	(11,970)	-	-
Public Works Trust Loan	-	-	7,679	591
Landfill Closure and Postclosure Liability	-	-	-	-
Vendor and Other Deposits Payable	-	-	167	120
Habitat Conservation Program Liability	-	-	4,154	4,019
Muckleshoot Liability	-	-	495	495
Deferred Credits	27,373	26,659	14,219	12,571
Unfunded Other Post Employment Benefits	2,247	1,257	875	486
Other Noncurrent Liabilities	140	194	67	637
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	1,529,375	1,342,460	1,025,480	841,785
Less Bonds Due Within One Year	(80,620)	(70,460)	(121,495)	(21,385)
Bond Discount and Premium, Net	28,318	28,551	29,354	27,862
Deferred Loss on Advanced Refunding	(32,499)	(37,277)	(17,335)	(18,727)
Total Noncurrent Liabilities	1,511,089	1,319,874	951,473	854,803
Total Liabilities	1,702,234	1,511,507	1,124,587	917,221

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2008	2007	2008	2007
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 6,992	$ 4,155	$ 8,784	$ 9,098
Salaries, Benefits, and Payroll Taxes Payable	2,422	1,858	2,462	2,171
Compensated Absences Payable	340	311	412	385
Due to Other Funds	3,679	4,198	1,617	1,762
Due to Other Governments	8,181	8,239	298	417
Interest Payable	5,981	5,750	2,483	1,130
Deferred Bond Interest	-	-	790	666
Taxes Payable	204	186	205	216
General Obligation Bonds Due Within One Year	-	-	1,205	1,179
Revenue Bonds Due Within One Year	9,785	8,070	6,535	4,690
Energy and Other Contracts Payable	-	-	-	-
Claims Payable	5,603	5,917	5,531	668
Purchased Power Obligation	-	-	-	-
Notes and Contracts Payable	308	233	-	-
Habitat Conservation Program Liability	-	-	-	-
Muckleshoot Liability	-	-	-	-
Landfill Closure and Postclosure Liability	-	-	1,115	1,465
Deferred Credits	3,558	2,739	2,826	2,686
Other Current Liabilities	-	-	795	141
Total Current Liabilities	47,053	41,656	35,058	26,674
Noncurrent Liabilities				
Compensated Absences Payable	3,179	2,988	3,734	3,447
Claims Payable	12,858	10,615	5,846	636
Long-Term Purchased Power Obligation	-	-	-	-
Less Obligation Due Within One Year	-	-	-	-
Public Works Trust Loan	11,698	5,821	-	-
Landfill Closure and Postclosure Liability	-	-	24,925	25,612
Vendor and Other Deposits Payable	745	189	-	17
Habitat Conservation Program Liability	-	-	-	-
Muckleshoot Liability	-	-	-	-
Deferred Credits	-	-	14,289	15,329
Unfunded Other Post Employment Benefits	674	358	735	391
Other Noncurrent Liabilities	103	110	6	16
General Obligation Bonds, Due Serially	-	-	64,524	65,702
Less Bonds Due Within One Year	-	-	(1,205)	(1,179)
Bond Discount and Premium, Net	-	-	4,019	4,222
Deferred Loss on Advanced Refunding	-	-	-	(738)
Deferred Bond Interest	-	-	4,258	4,330
Less Accrued Interest Due Within One Year	-	-	(790)	(666)
Revenue Bonds	402,035	325,460	87,005	91,695
Less Bonds Due Within One Year	(9,785)	(8,070)	(6,535)	(4,690)
Bond Discount and Premium, Net	9,204	8,154	3,442	3,701
Deferred Loss on Advanced Refunding	(4,567)	(4,818)	(376)	(605)
Total Noncurrent Liabilities	426,144	340,807	203,877	207,220
Total Liabilities	473,197	382,463	238,935	233,894

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds Comparative Totals		Governmental Activities - Internal Service Funds	
	2008	Restated 2007	2008	Restated 2007
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 68,465	$ 63,986	$ 7,393	$ 9,434
Salaries, Benefits, and Payroll Taxes Payable	18,068	14,986	2,628	2,484
Compensated Absences Payable	2,520	2,322	289	271
Due to Other Funds	15,820	21,005	2,677	1,742
Due to Other Governments	8,541	8,679	-	-
Interest Payable	39,440	38,788	-	76
Deferred Bond Interest	790	666	-	-
Taxes Payable	9,446	9,815	37	37
General Obligation Bonds Due Within One Year	1,205	1,179	-	860
Revenue Bonds Due Within One Year	218,435	104,605	-	-
Energy and Other Contracts Payable	176	664	-	-
Claims Payable	19,587	13,805	441	421
Purchased Power Obligation	-	11,970	-	-
Notes and Contracts Payable	863	636	-	-
Habitat Conservation Program Liability	5,453	9,528	-	-
Muckleshoot Liability	-	1,000	-	-
Landfill Closure and Postclosure Liability	1,115	1,465	-	-
Deferred Credits	18,620	16,183	-	-
Other Current Liabilities	17,826	1,099	2	65
Total Current Liabilities	446,370	322,381	13,467	15,390
Noncurrent Liabilities				
Compensated Absences Payable	23,373	21,654	3,161	2,985
Claims Payable	46,812	38,092	863	793
Long-Term Purchased Power Obligation	-	4,749	-	-
Less Obligation Due Within One Year	-	(11,970)	-	-
Public Works Trust Loan	19,377	6,412	-	-
Landfill Closure and Postclosure Liability	24,925	25,612	-	-
Vendor and Other Deposits Payable	912	326	325	198
Habitat Conservation Program Liability	4,154	4,019	-	-
Muckleshoot Liability	495	495	-	-
Deferred Credits	55,881	54,559	-	-
Unfunded Other Post Employment Benefits	4,531	2,492	647	360
Other Noncurrent Liabilities	316	957	717	810
General Obligation Bonds, Due Serially	64,524	65,702	-	860
Less Bonds Due Within One Year	(1,205)	(1,179)	-	(860)
Bond Discount and Premium, Net	4,019	4,222	-	18
Deferred Loss on Advanced Refunding	-	(738)	-	-
Deferred Bond Interest	4,258	4,330	-	-
Less Accrued Interest Due Within One Year	(790)	(666)	-	-
Revenue Bonds	3,043,895	2,601,400	-	-
Less Bonds Due Within One Year	(218,435)	(104,605)	-	-
Bond Discount and Premium, Net	70,318	68,268	-	-
Deferred Loss on Advanced Refunding	(54,777)	(61,427)	-	-
Total Noncurrent Liabilities	3,092,583	2,722,704	5,713	5,164
Total Liabilities	3,538,953	3,045,085	19,180	20,554

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

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STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2008	Restated 2007	2008	2007
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 604,153	$ 450,344	$ 290,311	$ 295,738
Restricted for				
Debt Service	844	200	8,936	-
Contingency Reserve Account	25,000	25,000	-	-
Special Deposits and Other	388	94	-	-
Deferred Conservation and Environmental Costs	-	-	6,918	7,035
Bonneville Power Administration Projects	-	-	1,891	2,393
Deferred External Infrastructure Costs	-	-	-	-
Muckleshoot Settlement	-	-	542	545
Other Deferred Charges	-	-	1,089	1,001
Unrestricted	159,711	182,867	(5,387)	(2,912)
Total Net Assets	$ 790,096	$ 658,505	$ 304,300	$ 303,800
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, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2008	2007	2008	2007
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 216,579	$ 206,654	$ 17,276	$ 14,292
Restricted for				
Debt Service	5,340	-	-	-
Contingency Reserve Account	-	-	-	-
Special Deposits and Other	-	-	-	-
Deferred Conservation and Environmental Costs	203	2,222	50	-
Bonneville Power Administration Projects	-	-	-	-
Deferred External Infrastructure Costs	8,255	7,016	-	-
Muckleshoot Settlement	-	-	-	-
Other Deferred Charges	4,115	2,410	342	646
Unrestricted	5,674	9,329	3,899	3,221
Total Net Assets	$ 240,166	$ 227,631	$ 21,567	$ 18,159
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, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds Comparative Totals		Governmental Activities - Internal Service Funds	
	2008	Restated 2007	2008	Restated 2007
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 1,128,319	$ 967,028	$ 89,345	$ 82,394
Restricted for				
Debt Service	15,120	200	-	-
Contingency Reserve Account	25,000	25,000	-	-
Special Deposits and Other	388	94	-	-
Deferred Conservation and Environmental Costs	7,171	9,257	-	-
Bonneville Power Administration Projects	1,891	2,393	-	-
Deferred External Infrastructure Costs	8,255	7,016	-	-
Muckleshoot Settlement	542	545	-	-
Other Deferred Charges	5,546	4,057	-	-
Unrestricted	163,897	192,505	44,203	43,182
Total Net Assets	1,356,129	1,208,095	$ 133,548	$ 125,576
Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds	2,737	2,720		
Net Assets of Business-Type Activities	$ 1,358,866	$ 1,210,815		

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, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2008	Restated 2007	2008	2007
OPERATING REVENUES				
Charges for Services and Other Revenues	$ 877,393	$ 832,525	$ 164,405	$ 160,161
OPERATING EXPENSES				
Long-Term Purchased Power	181,689	220,194	-	-
Short-Term Wholesale Power Purchases	52,501	33,431	-	-
Generation	27,978	24,974	-	-
Transmission	48,790	45,138	-	-
Distribution	60,699	53,754	-	-
Energy Management and Other Power Expenses	119,534	90,541	-	-
Utility Systems Management	-	-	20,839	20,839
Field Operations	-	-	19,911	18,653
Engineering Services	-	-	6,200	4,724
Customer Services	33,402	31,242	8,163	7,549
Wastewater Treatment	-	-	-	-
Solid Waste Collection	-	-	-	-
Operations and Maintenance	-	-	-	-
General and Administrative	66,141	59,476	26,152	25,070
City Business and Occupation Taxes	33,842	33,396	19,029	18,561
Other Taxes	28,062	25,711	5,762	5,609
Amortization of Landfill and Postclosure Costs	-	-	-	-
Depreciation and Other Amortization	78,055	77,066	40,616	37,436
Total Operating Expenses	730,693	694,923	146,672	138,441
Operating Income (Loss)	146,700	137,602	17,733	21,720
NONOPERATING REVENUES (EXPENSES)				
Investment and Interest Income	5,956	10,217	1,066	3,909
Interest Expense	(61,087)	(66,386)	(34,378)	(37,378)
Amortization of Debt Costs	(2,008)	(2,176)	(283)	(291)
Gain (Loss) on Sale of Capital Assets	3,150	530	(1,020)	(199)
Contributions and Grants	2,308	3,909	167	695
Others, Net	(3,355)	(5,136)	43	5,531
Total Nonoperating Revenues (Expenses)	(55,036)	(59,042)	(34,405)	(27,733)
Income (Loss) Before Capital Contributions and Grants and Transfers	91,664	78,560	(16,672)	(6,013)
Capital Contributions and Grants	39,927	42,203	17,172	7,191
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Change in Net Assets	131,591	120,763	500	1,178
Net Assets - Beginning of Year	658,505	547,561	303,800	302,622
Prior-Year Adjustment	-	(9,819)	-	-
Net Assets - Beginning of Year as Restated	658,505	537,742	303,800	302,622
Net Assets - End of Year	$ 790,096	$ 658,505	$ 304,300	$ 303,800
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, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2008	2007	2008	2007
OPERATING REVENUES				
Charges for Services and Other Revenues	$ 224,109	$ 202,408	$ 175,724	$ 179,893
OPERATING EXPENSES				
Long-Term Purchased Power	-	-	-	-
Short-Term Wholesale Power Purchases	-	-	-	-
Generation	-	-	-	-
Transmission	-	-	-	-
Distribution	-	-	-	-
Energy Management and Other Power Expenses	-	-	-	-
Utility Systems Management	21,518	21,369	1,731	5,006
Field Operations	16,134	13,601	9,548	8,868
Engineering Services	11,934	8,045	257	191
Customer Services	5,280	4,985	11,948	10,162
Wastewater Treatment	98,294	98,425	-	-
Solid Waste Collection	-	-	59,689	59,450
Operations and Maintenance	-	-	47,556	47,714
General and Administrative	22,169	25,908	20,095	18,622
City Business and Occupation Taxes	25,567	23,688	17,203	17,307
Other Taxes	2,753	2,404	1,725	1,674
Amortization of Landfill and Postclosure Costs	-	-	3,233	3,195
Depreciation and Other Amortization	18,182	14,931	8,489	7,429
Total Operating Expenses	221,831	213,356	181,474	179,618
Operating Income (Loss)	2,278	(10,948)	(5,750)	275
NONOPERATING REVENUES (EXPENSES)				
Investment and Interest Income	2,758	2,549	3,750	2,430
Interest Expense	(16,742)	(14,947)	(7,061)	(5,477)
Amortization of Debt Costs	(116)	(110)	(105)	(63)
Gain (Loss) on Sale of Capital Assets	(508)	(40)	86	(15)
Contributions and Grants	310	944	1,314	659
Others, Net	232	1,092	367	(963)
Total Nonoperating Revenues (Expenses)	(14,066)	(10,512)	(1,649)	(3,429)
Income (Loss) Before Capital Contributions and Grants and Transfers	(11,788)	(21,460)	(7,399)	(3,154)
Capital Contributions and Grants	24,323	3,641	4	28
Transfers In	-	-	10,803	10,612
Transfers Out	-	-	-	-
Change in Net Assets	12,535	(17,819)	3,408	7,486
Net Assets - Beginning of Year	227,631	245,450	18,159	10,673
Prior-Year Adjustment	-	-	-	-
Net Assets - Beginning of Year as Restated	227,631	245,450	18,159	10,673
Net Assets - End of Year	$ 240,166	$ 227,631	$ 21,567	$ 18,159
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, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds Comparative Totals 2008	Business-Type Activities - Enterprise Funds Comparative Totals Restated 2007	Governmental Activities - Internal Service Funds 2008	Governmental Activities - Internal Service Funds Restated 2007
OPERATING REVENUES				
Charges for Services and Other Revenues	$ 1,441,631	$ 1,374,987	$ 162,499	$ 171,183
OPERATING EXPENSES				
Long-Term Purchased Power	181,689	220,194	-	-
Short-Term Wholesale Power Purchases	52,501	33,431	-	-
Generation	27,978	24,974	-	-
Transmission	48,790	45,138	-	-
Distribution	60,699	53,754	-	-
Energy Management and Other Power Expenses	119,534	90,541	-	-
Utility Systems Management	44,088	47,214	-	123
Field Operations	45,593	41,122	-	-
Engineering Services	18,391	12,960	-	7,583
Customer Services	58,793	53,938	-	-
Wastewater Treatment	98,294	98,425	-	-
Solid Waste Collection	59,689	59,450	-	-
Operations and Maintenance	47,556	47,714	99,595	94,549
General and Administrative	134,557	129,076	14,622	14,407
City Business and Occupation Taxes	95,641	92,952	5	5
Other Taxes	38,302	35,398	300	259
Amortization of Landfill and Postclosure Costs	3,233	3,195	-	-
Depreciation and Other Amortization	145,342	136,862	14,512	14,538
Total Operating Expenses	1,280,670	1,226,338	129,034	131,464
Operating Income (Loss)	160,961	148,649	33,465	39,719
NONOPERATING REVENUES (EXPENSES)				
Investment and Interest Income	13,530	19,105	2,468	2,672
Interest Expense	(119,268)	(124,188)	51	14
Amortization of Debt Costs	(2,512)	(2,640)	-	-
Gain (Loss) on Sale of Capital Assets	1,708	276	(251)	130
Contributions and Grants	4,099	6,207	849	968
Others, Net	(2,713)	524	-	176
Total Nonoperating Revenues (Expenses)	(105,156)	(100,716)	3,117	3,960
Income (Loss) Before Capital Contributions and Grants and Transfers	55,805	47,933	36,582	43,679
Capital Contributions and Grants	81,426	53,063	6	85
Transfers In	10,803	10,612	-	-
Transfers Out	-	-	(28,616)	(29,440)
Change in Net Assets	148,034	111,608	7,972	14,324
Net Assets - Beginning of Year			125,576	112,570
Prior-Year Adjustment			-	(1,318)
Net Assets - Beginning of Year as Restated			125,576	111,252
Net Assets - End of Year			$ 133,548	$ 125,576
Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds	17	2,191		
Change in Net Assets of Business-Type Activities	$ 148,051	$ 113,799		

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, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2008	Restated 2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 782,043	$ 763,543	$ 157,382	$ 156,057
Cash Paid to Suppliers	(300,357)	(321,518)	(19,802)	(25,298)
Cash Paid to Employees	(181,802)	(164,781)	(53,237)	(46,879)
Cash Paid for Taxes	(63,105)	(59,144)	(24,659)	(25,575)
Net Cash from Operating Activities	236,779	218,100	59,684	58,305
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Principal and Interest Paid on Loan/Note	(291)	(290)	-	-
Operating Grants Received	2,416	3,894	167	695
Service for Others	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Receipts for Energy Conservation Augmentation	782	1,917	-	-
Payments for Energy Conservation Augmentation	(18,996)	(13,693)	-	-
Other Non-Operating Cash Inflows	-	-	732	1,181
Other Non-Operating Cash Outflows	-	-	(689)	(171)
Gains from Bankruptcy Distributions	718	525	-	-
Net Cash from Noncapital Financing Activities	(15,371)	(7,647)	210	1,705
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Sale of Bonds and Other Long-Term Debt	260,619	-	216,114	-
Principal Payments on Long-Term Debt and Refunding	(70,460)	(71,049)	(21,940)	(20,003)
Capital Expenditures and Deferred Charges Paid	(165,893)	(156,979)	(73,947)	(82,574)
Interest Paid on Long-Term Debt	(65,218)	(69,955)	(38,807)	(38,945)
Capital Fees and Grants Received	25,271	37,456	4,805	7,191
Premium from Sale of Long-Term Debt	-	-	-	-
Loss from Advanced Refunding of Long-Term Debt	-	-	-	-
Interest Received for Suburban Infrastructure Improvements	440	-	-	-
Debt Issuance Costs	(3,358)	-	(673)	-
Interfund Proceeds on Sale of Property	2,653	-	-	-
Proceeds from Sale of Capital Assets	-	5	158	4,683
Net Cash from Capital and Related Financing Activities	(15,946)	(260,522)	85,710	(129,648)
CASH FLOWS FROM INVESTING ACTIVITIES [a]				
Proceeds from Sale of Investments	-	-	14,675	77,548
Purchases of Investments	(125,780)	-	(131,250)	(31,688)
Interest Received on Investments	5,446	10,251	1,164	3,513
Net Cash from Investing Activities	(120,334)	10,251	(115,411)	49,373
Net Increase (Decrease) in Cash and Equity in Pooled Investments	85,128	(39,818)	30,193	(20,265)
CASH AND EQUITY IN POOLED INVESTMENTS				
Beginning of Year	118,833	158,651	41,678	61,943
End of Year	$ 203,961	$ 118,833	$ 71,871	$ 41,678
CASH AT THE END OF THE YEAR CONSISTS OF				
Operating Cash and Equity in Pooled Investments	$ 63,121	$ 87,724	$ 7,340	$ 6,799
Current Restricted Cash and Equity in Pooled Investments	-	-	33,639	1,883
Noncurrent Restricted Cash and Equity in Pooled Investments	140,840	31,109	30,892	32,996
Total Cash at the End of the Year	$ 203,961	$ 118,833	$ 71,871	$ 41,678

[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, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2008	2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 224,007	$ 201,006	$ 176,735	$ 179,880
Cash Paid to Suppliers	(129,946)	(139,160)	(102,000)	(104,311)
Cash Paid to Employees	(39,582)	(30,246)	(48,883)	(46,335)
Cash Paid for Taxes	(28,141)	(26,149)	(20,152)	(19,792)
Net Cash from Operating Activities	26,338	5,451	5,700	9,442
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Principal and Interest Paid on Loan/Note	-	-	-	-
Operating Grants Received	310	944	1,314	659
Service for Others	-	-	-	(1,002)
Transfers In	-	-	10,803	10,612
Transfers Out	-	-	-	-
Receipts for Energy Conservation Augmentation	-	-	-	-
Payments for Energy Conservation Augmentation	-	-	-	-
Other Non-Operating Cash Inflows	-	-	367	40
Other Non-Operating Cash Outflows	(1,796)	(3,857)	-	-
Gains from Bankruptcy Distributions	-	-	-	-
Net Cash from Noncapital Financing Activities	(1,486)	(2,913)	12,484	10,309
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Sale of Bonds and Other Long-Term Debt	92,211	694	-	143,578
Principal Payments on Long-Term Debt and Refunding	(8,314)	(9,408)	(5,869)	(94,887)
Capital Expenditures and Deferred Charges Paid	(48,995)	(21,509)	(18,294)	(4,459)
Interest Paid on Long-Term Debt	(18,289)	(14,887)	(6,580)	(4,829)
Capital Fees and Grants Received	2,080	1,074	4	27
Premium from Sale of Long-Term Debt	-	-	-	4,357
Loss from Advanced Refunding of Long-Term Debt	-	-	-	(1,249)
Interest Received for Suburban Infrastructure Improvements	-	-	-	-
Debt Issuance Costs	(666)	-	-	(188)
Interfund Proceeds on Sale of Property	-	-	-	-
Proceeds from Sale of Capital Assets	72	-	141	(15)
Net Cash from Capital and Related Financing Activities	18,099	(44,036)	(30,598)	42,335
CASH FLOWS FROM INVESTING ACTIVITIES [a]				
Proceeds from Sale of Investments	4,000	90,541	-	-
Purchases of Investments	-	(64,260)	-	-
Interest Received on Investments	2,663	2,585	3,864	2,198
Net Cash from Investing Activities	6,663	28,866	3,864	2,198
Net Increase (Decrease) in Cash and Equity in Pooled Investments	49,614	(12,632)	(8,550)	64,284
CASH AND EQUITY IN POOLED INVESTMENTS				
Beginning of Year	22,771	35,403	96,594	32,310
End of Year	$ 72,385	$ 22,771	$ 88,044	$ 96,594
CASH AT THE END OF THE YEAR CONSISTS OF				
Operating Cash and Equity in Pooled Investments	$ 20,870	$ 18,075	$ 46,043	$ 41,728
Current Restricted Cash and Equity in Pooled Investments	1,705	1,743	-	-
Noncurrent Restricted Cash and Equity in Pooled Investments	49,810	2,953	42,001	54,866
Total Cash at the End of the Year	$ 72,385	$ 22,771	$ 88,044	$ 96,594

[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, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds Comparative Totals		Governmental Activities - Internal Service Funds	
	2008	Restated 2007	2008	Restated 2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 1,340,167	$ 1,300,486	$ 166,497	$ 169,519
Cash Paid to Suppliers	(552,105)	(590,287)	(67,447)	(66,834)
Cash Paid to Employees	(323,504)	(288,241)	(46,749)	(44,337)
Cash Paid for Taxes	(136,057)	(130,660)	(303)	(270)
Net Cash from Operating Activities	328,501	291,298	51,998	58,078
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Principal and Interest Paid on Loan/Note	(291)	(290)	-	(2,500)
Operating Grants Received	4,207	6,192	849	968
Service for Others	-	(1,002)	-	-
Transfers In	10,803	10,612	-	-
Transfers Out	-	-	(28,615)	(29,440)
Receipts for Energy Conservation Augmentation	782	1,917	-	-
Payments for Energy Conservation Augmentation	(18,996)	(13,693)	-	-
Other Non-Operating Cash Inflows	1,099	1,221	-	-
Other Non-Operating Cash Outflows	(2,485)	(4,028)	-	-
Gains from Bankruptcy Distributions	718	525	-	-
Net Cash from Noncapital Financing Activities	(4,163)	1,454	(27,766)	(30,972)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Sale of Bonds and Other Long-Term Debt	568,944	144,272	-	-
Principal Payments on Long-Term Debt and Refunding	(106,583)	(195,347)	(878)	(815)
Capital Expenditures and Deferred Charges Paid	(307,129)	(265,521)	(20,580)	(20,854)
Interest Paid on Long-Term Debt	(128,894)	(128,616)	(25)	(86)
Capital Fees and Grants Received	32,160	45,748	-	-
Premium from Sale of Long-Term Debt	-	4,357	-	-
Loss from Advanced Refunding of Long-Term Debt	-	(1,249)	-	-
Interest Received for Suburban Infrastructure Improvements	440	-	-	-
Debt Issuance Costs	(4,697)	(188)	-	-
Interfund Proceeds on Sale of Property	2,653	-	-	-
Proceeds from Sale of Capital Assets	371	4,673	6	166
Net Cash from Capital and Related Financing Activities	57,265	(391,871)	(21,477)	(21,589)
CASH FLOWS FROM INVESTING ACTIVITIES [a]				
Proceeds from Sale of Investments	18,675	168,089	-	-
Purchases of Investments	(257,030)	(95,948)	-	-
Interest Received on Investments	13,137	18,547	2,554	2,625
Net Cash from Investing Activities	(225,218)	90,688	2,554	2,625
Net Increase (Decrease) in Cash and Equity in Pooled Investments	156,385	(8,431)	5,309	8,142
CASH AND EQUITY IN POOLED INVESTMENTS				
Beginning of Year	279,876	288,307	48,108	39,966
End of Year	$ 436,261	$ 279,876	$ 53,417	$ 48,108
CASH AT THE END OF THE YEAR CONSISTS OF				
Operating Cash and Equity in Pooled Investments	$ 137,374	$ 154,326	$ 53,092	$ 47,910
Current Restricted Cash and Equity in Pooled Investments	35,344	3,626	-	-
Noncurrent Restricted Cash and Equity in Pooled Investments	263,543	121,924	325	198
Total Cash at the End of the Year	$ 436,261	$ 279,876	$ 53,417	$ 48,108

[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, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2008	Restated 2007	2008	2007
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ 146,700	$ 137,602	$ 17,733	$ 21,720
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities				
Depreciation and Amortization	79,825	78,520	40,616	37,436
Amortization of Deferred Power Costs	7,200	6,601	-	-
Changes in Operating Assets and Liabilities				
Accounts Receivable	(3,481)	2,638	(10,822)	224
Unbilled Receivables	(564)	4,970	(645)	(977)
Bad Debt Expense	4,729	4,062	-	-
Power Revenue and Expense	594	(113)	-	-
Other Receivables	(574)	(657)	2,777	(2,703)
Due from Other Funds	(216)	706	589	(855)
Due from Other Governments	2,745	1,733	907	(810)
Materials and Supplies Inventory	(5,595)	(6,579)	(482)	132
Accounts Payable	9,246	(9,216)	(701)	2,105
Salaries, Benefits, and Payroll Taxes Payable	1,399	(612)	828	179
Compensated Absences Payable	1,097	1,173	675	783
Due to Other Funds	(4,290)	4,096	(359)	(768)
Due to Other Governments	(23)	-	62	-
Claims Payable	(968)	(5,045)	482	(166)
Taxes Payable	(380)	(544)	132	(12)
Deferred Credits	(2,061)	(8,727)	498	695
Other Assets and Liabilities	1,396	7,492	7,394	1,322
Total Adjustments	90,079	80,498	41,951	36,585
Net Cash from Operating Activities	$ 236,779	$ 218,100	$ 59,684	$ 58,305
SCHEDULE OF NONCASH ACTIVITIES				
In-Kind Capital Contributions	$ 12,830	$ 5,769	$ -	$ -
Amortization of Debt Related Costs, Net	2,007	(2,176)	-	-
Change in Valuation of Derivative Financial Instruments	6,264	(6,298)	-	-
Change in Valuation of Deferrals on Power Exchange	(1,303)	(23)	-	-
Allowance for Funds Used During Construction	3,213	2,691	-	-
Power Exchange Revenues	64,059	50,546	-	-
Power Exchange Expenses	(63,655)	(50,402)	-	-
Change in Capitalized Purchased Power Commitment/Obligation	(4,749)	(10,653)	-	-
Power Revenue Netted against Power Expenses	14,266	12,444	-	-
Power Expense Netted against Power Revenues	(57,909)	(43,172)	-	-
Fair Value Adjustment of Long-Term Investments	-	-	105	10
Contributed Infrastructure	-	-	12,366	2,154
Total Noncash Activities	$ (24,977)	$ (41,274)	$ 12,471	$ 2,164

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, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Nonmajor Funds	
	2008	2007	2008	2007
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ 2,278	$ (10,948)	$ (5,750)	$ 275
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities				
Depreciation and Amortization	18,182	14,931	11,722	10,624
Amortization of Deferred Power Costs	-	-	-	-
Changes in Operating Assets and Liabilities				
Accounts Receivable	(1,017)	(79)	514	(146)
Unbilled Receivables	(276)	(1,076)	(87)	43
Bad Debt Expense	-	-	-	-
Power Revenue and Expense	-	-	-	-
Other Receivables	-	-	-	-
Due from Other Funds	(915)	(214)	813	(725)
Due from Other Governments	504	(751)	(488)	(460)
Materials and Supplies Inventory	-	-	20	43
Accounts Payable	2,837	233	(313)	279
Salaries, Benefits, and Payroll Taxes Payable	563	255	293	147
Compensated Absences Payable	220	810	434	427
Due to Other Funds	(518)	(631)	(145)	(369)
Due to Other Governments	(58)	577	(119)	56
Claims Payable	2,835	1,335	155	61
Taxes Payable	18	(22)	(11)	1
Deferred Credits	813	742	(280)	484
Other Assets and Liabilities	872	289	(1,058)	(1,298)
Total Adjustments	24,060	16,399	11,450	9,167
Net Cash from Operating Activities	$ 26,338	$ 5,451	$ 5,700	$ 9,442
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 Deferrals on Power Exchange	-	-	-	-
Allowance for Funds Used During Construction	-	-	-	-
Power Exchange Revenues	-	-	-	-
Power Exchange Expenses	-	-	-	-
Change in Capitalized Purchased Power Commitment/Obligation	-	-	-	-
Power Revenue Netted against Power Expenses	-	-	-	-
Power Expense Netted against Power Revenues	-	-	-	-
Fair Value Adjustment of Long-Term Investments	(3)	3	-	-
Contributed Infrastructure	22,243	2,295	-	-
Total Noncash Activities	$ 22,240	$ 2,298	$ -	$ -

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, 2008
(In Thousands)

	Business-Type Activities - Enterprise Funds Comparative Totals 2008	Business-Type Activities - Enterprise Funds Comparative Totals Restated 2007	Governmental Activities - Internal Service Funds 2008	Governmental Activities - Internal Service Funds Restated 2007
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ 160,961	$ 148,649	$ 33,465	$ 39,719
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities				
Depreciation and Amortization	150,345	141,511	14,512	14,538
Amortization of Deferred Power Costs	7,200	6,601	-	-
Changes in Operating Assets and Liabilities				
Accounts Receivable	(14,806)	2,637	823	(448)
Unbilled Receivables	(1,572)	2,960	79	17
Bad Debt Expense	4,729	4,062	-	-
Power Revenue and Expense	594	(113)	-	-
Other Receivables	2,203	(3,360)	-	-
Due from Other Funds	271	(1,088)	2,720	(2,649)
Due from Other Governments	3,668	(288)	749	1,266
Materials and Supplies Inventory	(6,057)	(6,404)	337	(206)
Accounts Payable	11,069	(6,599)	(2,041)	4,867
Salaries, Benefits, and Payroll Taxes Payable	3,083	(31)	143	263
Compensated Absences Payable	2,426	3,193	194	(216)
Due to Other Funds	(5,312)	2,328	934	654
Due to Other Governments	(138)	633	-	-
Claims Payable	2,504	(3,815)	90	(11)
Taxes Payable	(241)	(577)	1	(3)
Deferred Credits	(1,030)	(6,806)	-	-
Other Assets and Liabilities	8,604	7,805	(8)	287
Total Adjustments	167,540	142,649	18,533	18,359
Net Cash from Operating Activities	$ 328,501	$ 291,298	$ 51,998	$ 58,078
SCHEDULE OF NONCASH ACTIVITIES				
In-Kind Capital Contributions	$ 12,830	$ 5,769	$ 6	$ 85
Amortization of Debt Related Costs, Net	2,007	(2,176)	-	-
Change in Valuation of Derivative Financial Instruments	6,264	(6,298)	-	-
Change in Valuation of Deferrals on Power Exchange	(1,303)	(23)	-	-
Allowance for Funds Used During Construction	3,213	2,691	-	-
Power Exchange Revenues	64,059	50,546	-	-
Power Exchange Expenses	(63,655)	(50,402)	-	-
Change in Capitalized Purchased Power Commitment/Obligation	(4,749)	(10,653)	-	-
Power Revenue Netted against Power Expenses	14,266	12,444	-	-
Power Expense Netted against Power Revenues	(57,909)	(43,172)	-	-
Fair Value Adjustment of Long-Term Investments	102	13	-	-
Contributed Infrastructure	34,609	4,449	-	-
Total Noncash Activities	$ 9,734	$ (36,812)	$ 6	$ 85

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

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STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
December 31, 2008
(In Thousands)

	Pension Trust Funds	S. L. Denny Private-Purpose Trust	Agency Funds
ASSETS			
Cash and Equity in Pooled Investments	$ 30,238	$ 203	$ 13,895
Short-Term Investments	6,542	-	-
Securities Lending Collateral	69,839	-	-
Investments at Fair Value			
U.S. Government Obligations	93,704	-	-
Domestic Corporate Bonds	156,963	-	-
Domestic Stocks	482,488	-	-
International Stocks	225,343	-	-
Real Estate	216,701	-	-
Alternative/Venture Capital	163,165	-	-
Mezzanine Debt	123,114	-	-
Total Investments at Fair Value	1,461,478	-	-
Receivables			
Employer - Due from Other Funds	214	-	-
Employer - Other	6,351	-	777
Interest and Dividends	2,638	-	-
Due from Other Governments	3	-	-
Total Receivables	9,206	-	777
Equipment, at Cost, Net of Accumulated Depreciation	3	-	-
Total Assets	1,577,306	203	14,672
LIABILITIES			
Accounts Payable	-	-	3
Refunds Payable and Other	12,565	-	-
Salaries, Benefits, and Payroll Taxes Payable	-	-	4,970
Deposits Payable	-	-	9,688
Claims/Judgments Payable	-	-	11
Securities Lending Collateral	75,394	-	-
Total Liabilities	87,959	-	14,672
Net Assets Held in Trust for Pension Benefits and Other Purposes	$ 1,489,347	$ 203	$ -

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, 2008
(In Thousands)

	Pension Trust Funds	S.L. Denny Private-Purpose Trust
ADDITIONS		
Contributions		
Employer	$ 90,443	$ -
Plan Member	45,986	-
Total Contributions	136,429	-
Investment Income (Loss)		
From Investment Activities		
Net Appreciation (Depreciation) in Fair Value of Investments	(639,841)	-
Interest	18,366	8
Dividends	5,543	-
Total Investment Activities Income (Loss)	(615,932)	8
Investment Activities Expenses		
Investment Management Fees	3,107	-
Performance Measurement Fees	165	-
Investment Custodial Fees	94	-
Total Investment Activities Expenses	3,366	-
Net Income (Loss) from Investment Activities	(619,298)	8
From Securities Lending Activities		
Securities Lending Income	3,522	-
Securities Lending Expenses		
Borrower Rebates	2,542	-
Management Fees	244	-
Total Securities Lending Expenses	2,786	-
Net Income (Loss) from Securities Lending Activities	736	-
Total Net Investment Income (Loss)	(618,562)	8
Total Additions	(482,133)	8
DEDUCTIONS		
Benefits	144,495	-
Refund of Contributions	10,223	-
Administrative Expense	3,010	-
Total Deductions	157,728	-
Change in Net Assets	(639,861)	8
Net Assets - Beginning of Year	2,129,208	195
Net Assets - End of Year	$ 1,489,347	$ 203

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

(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 11. 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 12.

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 2008 the City implemented the following Government Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) statements:

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This statement establishes standards of accounting and reporting for pollution remediation obligations that address current or potential detrimental effects of existing pollution by participating in pollution remediation activities but do not include prevention or control obligations with respect to current operations such as obligations to install smokestack scrubbers, treat effluent, or use environment-friendly products – for example, low-sodium road salts. This statement does not apply to landfill closure and postclosure care obligations within the scope of GASB Statement No. 18, *Accounting for Municipal Waste Landfill Closure and Postclosure Care Costs*; other future pollution remediation activities that are required upon retirement of an asset except to those activities at the time of the retirement if obligating events are met and a liability has not been recorded previously; recognition of asset impairments or liability recognition for unpaid claims by insurance activities and accounting for nonexchange transactions such as brownfield redevelopment grants.

GASB Statement No. 50, *Pension Disclosures*. This statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefits and defined contribution pensions. It amends Statement No. 25, paragraphs 27, 32, 36, 37, 40 and 41 and it supersedes footnotes 17 and 18 of that statement. It also amends paragraphs 20-22 and footnotes 10 and 17 of Statement No. 27.

FASB Statement No. 157 as amended, *Fair Value Measurements*. Under this standard, fair value is defined as the exchange price in an orderly transaction between market participants that would be received to sell the asset or paid to transfer the liability (*i.e*., the exit price) in the market in which the reporting entity would transact, that is, the principal or most advantageous market for the asset or liability. Fair value is the result of a hypothetical transaction at the measurement date. This standard applies under other accounting pronouncements that require or permit fair value measurements. The statement establishes a fair value hierarchy consisting of three levels and also provides three valuation approaches. The level within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. In measuring fair value the City in its Light Fund maximized the use of observable inputs that, at their lowest significant level, were other than quoted prices. The City applied fair value to investments and equity in pooled investments, exchange energy contracts, short-term energy forward derivative instruments, asset retirement obligations, and long-term debt. The adoption of the statement did not have a material impact on the Light Fund's financial condition and results of operations; disclosures with respect to fair value measurements were approved and required.

FASB Statement No. 159, *Fair Value Option for Financial Assets and Financial Liabilities.* This statement permits entities to choose to measure certain financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option is elected would be reported in net income or deferred in accordance with FASB Statement No. 71, if applicable. The City, relevant to its Light Fund, did not elect to use the fair value option under this statement for any financial assets and liabilities at implementation and, as such, the adoption of FASB Statement No. 159 did not have any material impact on its financial condition and results of operation.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Statement of Net Assets

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

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

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

Statement of Activities

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

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

Fund Financial Statements

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

The City reports the following major governmental funds:

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

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

The **Low-Income Housing Fund** accounts for activities undertaken by the City to rehabilitate, replace, and preserve low-income housing stock and to assist low-income tenants in Seattle. It is supported by a seven-year housing levy approved by the voters in 2002 and federal grants. The fund accounts for long-term housing loan assistance programs that are either deferred or amortized. Most of the loans are deferred and are payable in full on sale, on change of use, or at the end of the loan term. Terms will generally permit borrowers to further defer payment of principal, deferred interest, and contingent interest by extending the loan term. Majority of the current loans are deferred for 50 years and may be extended for an additional 25 years. Amortizing loans will be required if project budgets can afford repayment and meet required rent levels.

The City reports the following major proprietary funds:

The **Light Fund** (City Light) accounts for operating the City's electric utility which owns and operates generating, transmission, and distribution facilities. The Utility supplies electricity to approximately 390,000 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 224 miles of water supply mains, 1,673 miles of distribution lines, and 370 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 634,000 people. The Utility also sells to 25 surrounding cities and water districts that provide water to an additional 746,000 people. The average daily total consumption is about 117 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 financial statements. The City reports the following as agency funds: Guaranty Deposits, Payroll Withholding, Salary, Voucher, and Pass-Through Grants Funds.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-wide Financial Statements

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

Governmental Fund Financial Statements

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

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

Proprietary Fund Financial Statements

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

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

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

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

Fiduciary Fund Financial Statements

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

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

BUDGETS AND BUDGETARY ACCOUNTING

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

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Investments

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

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

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

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

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

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

- The City seeks to preserve principal while maximizing income and maintaining liquidity to meet the City's need for cash.
- Investment decisions should further the City's social policies established by ordinance or policy resolutions of the City Council.
- A City social policy shall take precedence over furthering the City's financial objectives when expressly authorized by City Council resolution, except where otherwise provided by law or trust principles.
- Securities purchased shall have a maximum maturity of fifteen years, and the average maturity of all securities shall be less than five years.
- All transactions are done on a delivery-versus-payment basis.
- The standard of prudence to be used by investment personnel shall be the "Prudent Person Rule" and will be applied in the context of managing an overall portfolio.
- Securities shall not be purchased with trading or speculation as the dominant criterion for the selection of the security.

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

Receivables

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

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

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

Inventories

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

The 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 financial statements as an expense of the governmental function for which the assets are being used. Depreciation is computed using the straight-line method over estimated service lives as follows:

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

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

Restricted Assets

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

Deferred Charges

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

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

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

Prepaid Items

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

Accumulated Compensated Absences

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

Vacation Pay

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

Sick Pay

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

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

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

Other Compensated Absences

Other compensated absences include compensatory time in lieu of overtime pay, merit credits earned by 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 14).

Other Accrued Liabilities

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

Interfund Activity and Contracts/Advances

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

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

Deferred Revenues

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

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

Reservations and Designations

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

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

Program Revenues

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

Prior-Year Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City of Seattle's financial statements for the year ended December 31, 2007, 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)

	2008
Annual Budget	$ 1,146,994
Carryovers	
Encumbrances	5,829
Continuing Appropriations	87,280
Intrafund	(28,243)
Budget Revisions	58,437
Total Budget	$ 1,270,297

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

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

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

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

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

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

FUND BALANCE DESIGNATED FOR SPECIAL PURPOSES

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

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

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

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

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

(In Thousands)

Fund	2008	Restated 2007
General Fund		
Group Term Life Insurance	$ 414	$ 370
Health Care	13,564	13,831
Unemployment Compensation	4,398	5,359
Industrial Insurance	6,681	4,776
Special Employment Program	106	106
Cable TV Franchise	4,334	5,316
Special Revenue Fund		
Seattle Center McCaw Hall	879	670
	$ 30,376	$ 30,428

DEFICITS IN FUND BALANCES AND NET ASSETS

The Downtown Parking Garage Fund has negative fund net assets of $20.3 million. This is mostly attributable to cumulative depreciation expenses which were not planned to be covered by operating revenues. The Garage generates revenues to cover debt service payments and operating expenses, excluding depreciation. The negative fund equity will continue; however, garage revenues are expected to remain sufficient to meet cash requirements for the foreseeable future.

The Seattle Streetcar Fund has negative fund balance of $1.95 million. 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.

(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, 2008, the City's cash pool had cash in the vault of $0.1 million and $23.9 million on deposit with the City's custodial banks which includes cash that had been credited in the City books but remains in the bank to cover checks that had been issued by the City but were unredeemed at the end of the year. The Federal Deposit Insurance Corporation (FDIC) insures the City's deposits up to $0.25 million; the rest is uninsured and uncollateralized and is therefore exposed to custodial risk, which is the risk that deposits may not be returned to the City in the event of bank failure. The City minimizes exposure to custodial credit risk for deposits by requiring depositary banks to have sufficient capital to support the activities of City accounts. Banks having a deposit relationship with the City are also required to provide financial statements for the City's use in reviewing the bank's financial condition. All deposits not covered by FDIC insurance are under the jurisdiction of the Washington State Public Deposit Protection Commission (Commission), established in RCW 39.58 that also regulates public depositary financial institutions within the state. The Commission requires public depositaries a pledge agreement with the Commission and a trustee, and shall at all times maintain, segregated from its other assets, eligible collateral in the form of securities described in RCW 39.58.050 (5) and (6) having a value at least equal to its maximum liability. Such collateral shall be segregated by deposit with depositary's trustee and shall be clearly designated as security for the benefit of public depositors. The collateral is used, through the depositary's trustee, when the Commission assesses the depositary bank in cases where losses are incurred by depositors, net of deposit insurance already received by them.

CITY TREASURY INVESTMENTS

Note 1 describes the investment policies of the City. Banks or trust companies acting as the City's agents hold all of the City's investments in the City's name. As of December 31, 2008, 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	$ 95,760	$ -	$ 95,760	2
U.S. Government Obligations	15,286	-	15,286	151
U.S. Government Securities and U.S. Government-Sponsored Enterprises Securities	784,028	213,793	997,821	703
Commercial Paper	215,172	44,986	260,158	15
Municipal Bonds	13,342	-	13,342	469
Total	$ 1,123,588	$ 258,779	$ 1,382,367	
Weighted Average Maturity of the Treasury Residual Investments and Securities Held for Dedicated Funds				517

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

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with its investment policy the City manages exposure to credit risk in commercial paper by purchasing programs with the highest rating by at least two nationally recognized statistical rating organizations (NRSROs); conducting internal due diligence of each commercial paper program purchased and maintaining an approved purchased list of names as well as list of names to avoid; and paid subscriptions to Moody's Investors Service and Fitch Ratings. As of December 31, 2008, the City's investments in commercial paper were rated P-1 by Moody's Investors Service, A-1+ or A-1 by Standard & Poor's, or F-1 or F1+ by Fitch Ratings. The same internal due diligence is conducted for purchasing taxable municipal securities issued outside of the State of Washington. The municipal bonds were rated VMIG1, Aaa, Aa1, Aa2 by Moody's Investors Service and A-1+, A-1, AAA, AA+ or AA by Standard & Poor's.

The City also purchases obligations of government-sponsored enterprises which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include, but are not limited to, debt securities of the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association. As of December 31, 2008, these investments were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's.

The City's investments in repurchase agreements require a master repurchase agreement executed with the counterparty. Securities delivered as collateral must be priced at a minimum of 102 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, 2008, the securities underlying the City's investment in repurchase agreements included collateral other than U.S. Treasuries, and the repurchase agreements were not rated.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with its investment policy, the City manages exposure to concentration of credit risk for the City's investments portfolio as a whole. The City limits its investments in any one issuer as follows: 10 percent of the portfolio per bank for certificates of deposit or bankers' acceptances; 5 percent for commercial paper or municipal bonds; and 20 percent per U.S. government agency. However, U.S. government real estate mortgage investment conduits

(REMICs), collateralized mortgage obligations (CMOs) and pass-through securities are not subject to maximum agency limitations but are limited to a maximum asset allocation of 25 percent of the total portfolio. The City's investments in which five percent or more is invested in any single issuer as of December 31, 2008, are shown in the following table.

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

(In Thousands)

Issuer	Fair Value	Percent of Total Investments
Federal Home Loan Mortgage Corp. (Freddie Mac)	$ 334,911	24 %
Federal National Mortgage Association (Fannie Mae)	296,604	21
Federal Home Loan Bank	255,135	18
Federal Farm Credit Bank	111,170	8
Wells Fargo Bank	95,760	7
Siemens Capital	69,981	5

Custodial Credit Risk – Investments. The custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside counterparty. The City minimizes custodial credit risk for its investments by having its investment securities held by the City's contractual custodian agent and not by the counterparty or the counterparty's trust department or agent. Additionally, the City mitigates custodial risk by settling its trades delivery versus payment through the City's custodian. In accordance with its investment policy the City also maintains a list of approved securities dealers to provide investment services to the City. The securities dealers include primary dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). The City conducts its own financial due diligence of each counterparty before adding the securities dealer to the City's list of approved dealers.

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

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

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

The retirement fund investments are made in accordance with the Prudent Person Rule as defined by RCW 35.39.060.

Table 3-3 **SCERS' INVESTMENTS**

(In Thousands)

Investments	Amount
U.S. Government Obligations	$ 93,240
Domestic Corporate Bonds	156,963
Domestic Stocks	482,488
International Stocks	225,343
Other	
Short-Term Investment Funds	6,542
Securities Lending	69,839
Mezzanine Debt	123,114
Real Estate	216,701
Alternative/Venture Capital	163,165
Total	$ 1,537,395

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	$ 9,627	$ 509	$ 3,078	$ 1,962	$ 4,078
Treasury Inflation-Protected Securities	2,951	-	-	526	2,425
Agencies	8,409	999	2,301	1,515	3,594
Mortgage-Backed					
Government Pass-Throughs	71,253	1,383	2	3,521	66,347
Corporate Pass-Throughs	43,726	4,590	108	-	39,028
Government Collateralized Mortgage Obligations	1,000	-	-	1	999
Corporate					
Bonds	60,889	1,766	16,664	25,802	16,657
Asset-Backed	25,152	747	1,812	5,640	16,953
Private Placements	12,649	1,112	3,742	3,519	4,276
CDO's and CLO's	2,519	-	374	76	2,069
Convertible Bonds	3,659	157	1,378	88	2,036
Total Portfolio	$ 241,834	$ 11,263	$ 29,459	$ 42,650	$ 158,462

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

SCERS' investment policy does not limit fixed income investments based on ratings by nationally recognized rating agencies. Speculative investments are avoided based on the Prudent Person Rule as defined by RCW 35.39, and policy specifies target percentages for diversification in order to minimize risk of large losses.

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

(In Thousands)

Investment Type	AAA	AA	A	BBB	BB	B	CCC and Below	Not Rated
Fixed Income								
Mortgage-Backed Corporate Pass-Throughs	$ 29,063	$ 762	$ 529	$ 407	$ 1,904	$ 2,425	$ 410	$ 8,226
Corporate								
Bonds	1,965	3,282	24,422	19,941	3,774	1,945	3,860	1,700
Asset-Backed	2,838	1,107	2,484	1,061	976	460	-	16,226
Private Placements	565	987	1,857	4,306	1,785	-	654	2,495
CDO's and CLO's	-	-	-	244	-	-	-	2,275
Convertible Bonds	-	492	758	767	553	440	21	628
Total Portfolio	$ 34,431	$ 6,630	$ 30,050	$ 26,726	$ 8,992	$ 5,270	$ 4,945	$ 31,550

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

Asset Class	Actual	Target
Cash and Cash Equivalents	0.5 %	1.0 %
Equities		
Domestic	32.8	38.0
International	15.3	20.0
Alternative	11.1	10.0
Debt		
Bonds	17.1	14.0
Mezzanine	8.4	5.0
Real Estate	14.8	12.0
Total	100.0 %	100.0 %

Concentration of Credit Risk. The Investment Committee reviews its portfolio holdings quarterly to ensure compliance with the specified targets. Regular systematic rebalancing of the portfolio back to the target percentages are undertaken to ensure compliance with the specified targets. In line with its policy, SCERS does not have any investments in any issuer that represent more than five percent of SCERS' net assets, except for investments in U.S. government obligations or U.S. government agency securities. The Retirement Board provides its investment managers with a set of investment guidelines that specify eligible investments, minimum diversification standards, and applicable restrictions necessary for diversification. Managers do not have authority to depart from those guidelines. Portfolio rebalancing was not performed in the fourth quarter of 2008 because of the overall volatility in the stock market with hindrance to liquidity not seen since the early 1920's.

Custodial Credit Risk. SCERS mitigates custodial credit risk by having its investment securities held by SCERS' custodian and registered in SCERS' name.

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

SECURITIES LENDING TRANSACTIONS

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

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

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

SCERS invests cash collateral received; accordingly, any investment made with cash collateral is reported as an asset. A corresponding liability is recorded as SCERS must return the cash collateral to the borrower upon the expiration of the loan. In 2008 SCERS experienced a default on a cash collateral purchase as a result of the Lehman Brothers bankruptcy. SCERS is working with the custodian through the bankruptcy process. The defaulted dollar value of the asset is de minimis to the overall portfolio value. Additionally, as a result of the 2008 credit crisis, in the fourth quarter of 2008, the custodian was instructed not to exceed $100 million dollars of collateralized obligations.

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

(In Thousands)

	2008		2007	
Type of Securities Lent	**Fair Values of Securities Lent**	**Collateral**	**Fair Values of Securities Lent**	**Collateral**
U.S. Government and Agencies	$ 11,359	$ 11,692	$ 19,437	$ 19,634
U.S. Corporate Fixed Income	9,809	10,043	11,005	11,363
U.S. Equities	53,017	53,659	69,874	72,326
Total Securities Lent	$ 74,185	$ 75,394	$ 100,316	$ 103,323

Collateral	**2008**	**2007**
U.S. Corporate Obligations	$ 22,501	$ 27,501
Bank Obligations	11,000	17,998
Repurchase Agreements	8,428	470
Asset-Backed Securities	9,466	14,359
Certificates of Deposit	23,999	42,995
Total Collateral	$ 75,394	$ 103,323

REVERSE REPURCHASE AGREEMENTS

RCW 35.39.030 and City investment policy allow the investment of City moneys in excess of current City needs in reverse repurchase agreements. However, the City does not engage itself in this type of investment strategy.

(4) RECEIVABLES AND INTERFUND TRANSACTIONS

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

(In Thousands)

	December 31 2008 Revenues	December 31 2008 Receivables
Property Taxes	$ 368,515	$ 15,203
General Business and Occupation Taxes	330,369	51,232
Totals	$ 698,884	$ 66,435

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 $1.70 per $1,000 for general operations and Firemen's Pension Fund in 2008. In addition, the levy included $1.07 per $1,000 of assessed value for debt service and other voter-approved levies. The total 2008 levy was $2.77 per $1,000 of assessed value. Not included in this total is the levy for Emergency Medical Services, which was renewed by voters at election in November 2007 at $0.30 per $1,000 of assessed value.

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, 2008, 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	$ 2,341
	Nonmajor Enterprise	777
	Nonmajor Governmental	4,388
	Internal Service	1,832
	Transportation	782
	Light	2,949
	Water	1,565
	Total General Fund	14,634
Transportation	Drainage and Wastewater	156
	Nonmajor Enterprise	121
	General	1,840
	Nonmajor Governmental	7,771
	Internal Service	32
	Light	1,189
	Water	418
	Total Transportation	11,527
Light	Drainage and Wastewater	79
	Nonmajor Enterprise	38
	General	185
	Nonmajor Governmental	6
	Internal Service	87
	Transportation	20
	Water	61
	Total Light Fund	476
Water	Drainage and Wastewater	224
	Nonmajor Enterprise	167
	General	3
	Transportation	37
	Light	225
	Total Water Fund	656
Low-Income Housing	Nonmajor Governmental	2
	Total Low-Income Housing	2
Fiduciary	Drainage and Wastewater	12
	Nonmajor Enterprise	9
	General	64
	Nonmajor Governmental	61
	Internal Service	3
	Transportation	24
	Light	22
	Water	19
	Total Fiduciary	214
Drainage and Wastewater	Nonmajor Enterprise	72
	General	626
	Nonmajor Governmental	4
	Internal Service	12
	Transportation	83
	Light	504
	Water	35
	Total Drainage and Wastewater Fund	1,336

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

(In Thousands)

Receivable Fund	Payable Fund(s)	Amount
Nonmajor Governmental	Drainage and Wastewater	$ 351
	Nonmajor Enterprise	271
	General	1,332
	Nonmajor Governmental	2,116
	Internal Service	545
	Low-Income Housing	2,153
	Transportation	341
	Light	1,073
	Water	211
	Total Nonmajor Governmental Funds	8,393
Nonmajor Enterprise	Drainage and Wastewater	396
	Nonmajor Enterprise	1
	General	55
	Nonmajor Governmental	18
	Internal Service	3
	Transportation	11
	Light	287
	Water	247
	Total Nonmajor Enterprise Funds	1,018
Internal Service	Drainage and Wastewater	120
	Nonmajor Enterprise	161
	General	2,060
	Nonmajor Governmental	1,138
	Internal Service	164
	Light	914
	Transportation	1,047
	Water	806
	Total Internal Service Funds	6,410
Grand Total		$ 44,666

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

Table 4-3 **INTERFUND TRANSFERS**

(In Thousands)

	Transfers Out				
Transfers In	General	Nonmajor Governmental	Internal Service	Transportation	Total
General Fund	$ -	$ 3,440	$ 4,000	$ -	$ 7,440
Low-Income Housing	2,074	-	-	-	2,074
Nonmajor Enterprise	10,803	-	-	-	10,803
Nonmajor Governmental	187,191	36,740	24,616	5,344	253,891
Transportation	63,128	23,545	-	-	86,673
Total Transfers	$ 263,196	$ 63,725	$ 28,616	$ 5,344	$ 360,881

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	$ 415,811	$ 20,312	$ -	$ 436,123
Construction in Progress	228,130	170,417	222,557	175,990
Total Capital Assets Not Being Depreciated	643,941	190,729	222,557	612,113
CAPITAL ASSETS BEING DEPRECIATED				
Buildings and Improvements	1,780,249	158,788	-	1,939,037
Machinery and Equipment	247,000	27,640	15,035	259,605
Infrastructure	1,051,031	75,285	-	1,126,316
Other Capital Assets	11,933	656	-	12,589
Total Capital Assets Being Depreciated	3,090,213	262,369	15,035	3,337,547
Accumulated Depreciation				
Buildings and Improvements	403,495	44,685	-	448,180
Machinery and Equipment	121,917	28,520	13,338	137,099
Infrastructure	463,575	33,478	-	497,053
Other Capital Assets	972	157	-	1,129
Total Accumulated Depreciation	989,959	106,840	13,338	1,083,461
Total Capital Assets Being Depreciated, Net	2,100,254	155,529	1,697	2,254,086
Governmental Activities Capital Assets, Net	$ 2,744,195	$ 346,258	$ 224,254	$ 2,866,199
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	$ 99,323	$ 1,979	$ 502	$ 100,800
Construction in Progress	273,533	303,355	280,294	296,594
Total Capital Assets Not Being Depreciated	372,856	305,334	280,796	397,394
CAPITAL ASSETS BEING DEPRECIATED				
Plant in Service, Excluding Land	4,645,368	296,322	17,562	4,924,128
Buildings	60,131	-	-	60,131
Machinery and Equipment	14,439	721	-	15,160
Other Capital Assets	20,537	286	51	20,772
Total Capital Assets Being Depreciated	4,740,475	297,329	17,613	5,020,191
Accumulated Depreciation				
Plant in Service, Excluding Land	1,788,630	138,963	20,588	1,907,005
Buildings	18,039	2,004	-	20,043
Machinery and Equipment	6,271	1,599	-	7,870
Other Capital Assets	2,605	12	-	2,617
Total Accumulated Depreciation	1,815,545	142,578	20,588	1,937,535
Total Capital Assets Being Depreciated, Net	2,924,930	154,751	(2,975)	3,082,656
Business-Type Activities Capital Assets, Net	$ 3,297,786	$ 460,085	$ 277,821	$ 3,480,050

[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	$ 21,152
Public Safety	4,600
Transportation	33,897
Economic Environment	7
Culture and Recreation	31,957
Subtotal	91,613
Capital assets held by internal service funds are charged to the various functions based on their usage of the assets	15,226
Total Governmental Activities	$ 106,839
BUSINESS-TYPE ACTIVITIES	
Light	$ 80,889
Water	37,743
Solid Waste	4,960
Drainage and Wastewater	15,384
Planning and Development	1,492
Parking Garage	2,112
Total Business-Type Activities	$ 142,580

(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 2008 and 2007. 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 $70.0 million and $66.7 million at December 31, 2008 and 2007, respectively, have been recorded in the government-wide financial statements. These amounts include unpaid holiday, compensatory, merit, and furlough time of $14.4 million and $14.9 million at the end of 2008 and 2007, respectively; accumulated unpaid vacation pay of $45.7 million and $42.2 million at the end of 2008 and 2007, respectively; and the balance for sick leave (estimated based on the termination method) of $9.9 million and $9.7 million at December 31, 2008 and 2007, respectfully.

Internal Service Funds

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

(In Thousands)

	2008	2007
Fleets and Facilities	$ 1,817	$ 1,731
Information Technology	1,633	1,525
Totals	$ 3,450	$ 3,256

BUSINESS-TYPE ACTIVITIES

Enterprise Funds

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

(In Thousands)

	2008	2007
Light	$ 13,663	$ 12,566
Water	4,565	4,279
Drainage and Wastewater	3,519	3,299
Solid Waste	1,427	1,337
Planning and Development	2,719	2,495
Totals	$ 25,893	$ 23,976

PENSION TRUST FUNDS

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

(In Thousands)

	2008	2007
Employees' Retirement	$ 80	$ 62
Firemen's Pension	65	33
Police Relief and Pension	62	75
Totals	$ 207	$ 170

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 has no capital leases as of December 31, 2008.

OPERATING LEASES

Governmental Activities

The City, through its Fleets and Facilities Department, manages buildings and facilities that are owned by the City and has operating lease commitments on real property owned by private entities. Many lease commitments on private properties are for a term of five years or longer and may be renewed as required by the City tenant departments. The lease agreements show a periodic schedule of rental amounts. Fleets and Facilities paid rentals of approximately $3.5 million and $3.2 million in 2008 and 2007, 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 $293,290 and $283,099 in 2008 and 2007, respectively, on the lease. Rents are paid as they become due and payable.

Minimum payments under the leases are:

Table 7-1 **OPERATING LEASE COMMITMENTS**

GOVERNMENTAL ACTIVITIES

(In Thousands)

	Minimum Lease Payments		
Year Ending December 31	Fleets and Facilities	Seattle Center	Total
2009	$ 3,804	$ 286	$ 4,090
2010	3,395	169	3,564
2011	2,808	-	2,808
2012	2,544	-	2,544
2013	2,262	-	2,262
2014 - 2016	2,618	-	2,618
Total	$ 17,431	$ 455	$ 17,886

Business-Type Activities

In December 1994 the City entered into an agreement on behalf of the Seattle City Light Department for a ten-year lease of office facilities in downtown Seattle commencing February 1, 1996. In early 1996 the City purchased the building in which these facilities are located, thus becoming the Department's lessor. This lease extended through December 2006. Beginning in 2007 the Department made monthly lease payments to the City through the central cost allocation process, similar to all other payments for tenancy of the City property and through the budget process. The Department also leases office equipment and smaller facilities for various purposes through long-term operating lease agreements. Expense under all leases totaled $0.4 million and $6.9 million in 2008 and 2007, 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 2008 and 2007 were: $628,449 and $612,443 for the Water Fund; $100,528 and $98,233 for the Drainage and Wastewater Fund, and $158,051 and $151,456 for the Solid Waste Fund. Rents are paid as they become due and payable.

Minimum payments under the leases are:

Table 7-2 **OPERATING LEASE COMMITMENTS**

BUSINESS-TYPE ACTIVITIES

(In Thousands)

	Minimum Payments				
Year Ending December 31	City Light	Water	Drainage & Wastewater	Solid Waste	Total
2009	$ 174	$ 449	$ 103	$ 165	$ 891
2010	10	363	105	171	649
2011	4	360	103	168	635
2012	1	356	100	164	621
2013	-	252	65	170	487
2014 - 2016	-	693	174	513	1,380
Total	$ 189	$ 2,473	$ 650	$ 1,351	$ 4,663

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 7-3 MAJOR SOURCES OF RENTAL INCOME ON REAL PROPERTY MANAGED BY FLEETS AND FACILITIES

(In Millions)

	2008	2007
Non-City Property Occupied by City Departments	$ 3.6	$ 3.3
City-Owned Property Occupied by City Departments	55.9	54.6
City-Owned Property Leased to Non-City Tenants	2.9	3.1
Total	$ 62.4	$ 61.0

Additionally, in 2008 the SeaPark Garage and the Seattle Municipal Tower Building generated $3.2 million total parking revenues, which were recorded in the Fleets and Facilities Fund.

Also, in 2008 the City recognized $6.5 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).

The original amount of general obligation bonds issued for bonds outstanding at the end of 2007 was $1.350 billion. The amount of bonds outstanding at December 31, 2007, was $785.7 million. The following paragraphs discuss the general obligation bonds issued and defeased during 2008.

On July 2, 2008, the City issued the $139.8 million LTGO Improvement and Refunding Bonds, 2008, with interest rates of 5.0 percent, that mature serially from December 1, 2009, through December 1, 2028. 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 Spokane/Mercer/Lander Bridging the Gaps (BTG), King Street Station, Bridge Seismic, Bridge Rehabilitation, Paystations, Fire Station Projects, South Lake Union Projects, and to totally refund $57.2 million of the City's 1996 LTGO Variable Rate C and D bonds. The proceeds of $56.9 million from the refunding bonds were used to pay on the bond issue date these variable-rate bonds. An additional $0.6 million was paid by the City from its own resources to completely pay off the bonds. Further discussion on the refunding is shown in the Advance and Current Refundings section of this note.

On December 17, 2008, the City defeased $31.6 million of the remaining Key Arena outstanding LTGO bonds issued in 2002, 2003, and 2005 and $0.4 million of the Mc Caw Hall outstanding portion of the 2003 LTGO bonds. The City placed its own resources of $34.6 million, of which $0.4 million came from the 1999 Seattle Center Redevelopment Parks Community Center Fund and $34.2 million came from the Key Arena Settlement Proceeds Fund, into 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 2008.

The following table presents the individual general obligation bonds outstanding as of December 31, 2008, 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 2008	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	2.750 [b]	$ 5,595	$ 5,595	$ 5,595	$ -
Various Purpose - Key Tower, Police Support Facility, 1996, Series D	10/06/99	01/15/23-24	1.500 [b]	51,925	51,925	51,925	-
Refunding - Various LTGO Bonds, 1998, Series B	03/17/98	09/01/98-12	4.493	43,710	2,700	33,300	10,410
Deferred Interest Parking Garage, 1998, Series E	11/12/98	12/15/01-14	4.714	13,042	1,178	6,148	6,894 [c]
Various Purpose - Civic Center, Galer St, 1999, Series B	10/19/99	12/01/00-28	5.677	85,500	3,030	82,305	3,195
Various Purpose - Civic Center, South Police Precincts, Training Facilities, Information Technology, Etc., 2001	08/21/01	08/01/02-31	4.908	129,760	4,560	33,615	96,145
Improvement (Various) and Refunding, 2002	01/30/02	07/01/02-32	4.778	125,510	5,120	49,780	75,730
Improvement (Various) and Refunding, 2002, Series B	09/26/02	10/01/03-14	3.127	64,560	28,365	64,560	-
Various Purpose and Refunding, 2003	02/26/03	08/01/04-23	3.469	60,855	8,350	50,100	10,755
Refunding, 2004	05/24/04	07/01/04-20	4.118	91,805	5,095	12,955	78,850
Various Purpose and Refunding, 2005	03/23/05	08/01/05-28	4.167	129,540	6,770	26,545	102,995
Various Purpose and Refunding, 2006	04/26/06	03/01/07-26	4.254	24,905	1,530	2,990	21,915
Various Purpose and Refunding, 2007	05/02/07	10/01/07-28	4.251	95,550	1,845	3,400	92,150
Various Purpose and Refunding, 2008	07/02/08	12/01/08-28	4.398	139,830	-	-	139,830
Total Limited Tax General Obligation Bonds				1,062,087	126,063	423,218	638,869
UNLIMITED TAX GENERAL OBLIGATION (UTGO) BONDS - VOTED							
Fire Station/Shops, 1968, Series 1	10/01/68	10/01/70-08	4.726	1,700	90	1,700	-
Sewer Improvement, 1968, Series 1	10/01/68	10/01/70-08	4.726	7,000	370	7,000	-
Refunding-Various UTGO Bonds, 1998, Series A	03/17/98	09/01/98-17	4.470	53,865	4,215	43,355	10,510
Library Facilities, 1999, Series A	07/01/99	12/01/00-18	5.135	100,000	4,905	94,870	5,130
Improvement (Library Facilities) and Refunding, 2002	09/26/02	12/01/03-21	3.892	117,025	4,230	45,100	71,925
Refunding, 2007	05/02/07	12/01/07-18	3.886	60,870	-	1,620	59,250
Total Unlimited Tax General Obligation Bonds				340,460	13,810	193,645	146,815
Total General Obligation Bonds				$ 1,402,547	$ 139,873	$ 616,863	$ 785,684

[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 July 1, 2008. The bonds were refunded by tax-exempt bonds on July 2, 2008.

[c] The accreted value of the outstanding bonds as of December 31, 2008, is $11,150,756. 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, 2008, 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
2009	$ 49,645	$ 34,514	$ 1,205	$ 3,672	$ 89,036
2010	47,335	32,186	1,226	3,806	84,553
2011	47,405	29,878	1,247	3,940	82,470
2012	47,865	27,578	1,257	4,094	80,794
2013	45,855	25,321	1,262	4,259	76,697
2014 - 2018	206,360	113,999	15,727	14,082	350,168
2019 - 2023	166,110	48,927	26,625	8,222	249,884
2024 - 2028	86,405	17,403	15,975	1,455	121,238
2029 - 2032	24,180	2,793	-	-	26,973
Total	$ 721,160	$ 332,599	$ 64,524	$ 43,530	$ 1,161,813

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 of 2008 was $19.2 million. There were no new bond issues in 2008.

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 2008	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	$ 1,340	$ 2,720	$ 19,205

The requirements to amortize the special assessments with governmental commitment as of December 31, 2008, 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
2009	$ 940	$ 35	$ 975
2010	1,220	46	1,266
2011	1,220	46	1,266
2012	1,220	47	1,267
2013	1,220	47	1,267
2014 - 2018	6,075	244	6,319
2019 - 2023	6,095	256	6,351
2024	1,215	52	1,267
Total	$ 19,205	$ 773	$ 19,978

NOTES AND CONTRACTS PAYABLE – GOVERNMENTAL ACTIVITIES

The Seattle Department of Transportation (SDOT) has outstanding notes drawn in several years from the Washington State's Public Works Trust Loan program administered by the Washington State Public Works Board, a division of the Department of Community, Trade and Economic Development. The notes were drawn at varying low annual interest rates ranging from 0.5 to 3.0 percent. The proceeds of the loan support City road and bridge improvements. There were no amounts drawn in 2008 and the City paid $2.2 million and $0.4 million in principal and interest, respectively, in 2008. The outstanding balance on the notes at December 31, 2008, is $19.7 million. The following table presents the annual debt service requirements to maturity on the notes as of the end of 2008.

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
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	1,723	195	1,918
2014 - 2018	6,620	543	7,163
2019 - 2023	3,420	108	3,528
Total	$ 19,738	$ 2,013	$ 21,751

REVENUE BONDS

The City also issues revenue bonds to provide financing for the capital programs of the four utilities of the City, namely, City Light and the utilities grouped under Seattle Public Utilities, which are Water, Drainage and Wastewater, and Solid Waste. The City does not pledge its full faith and credit for the payment of debt service on revenue bonds. Payment of debt service on the bonds issued for each utility is derived solely from the revenues generated by the related utility. The original amount of revenue bonds and anticipation notes issued for bonds outstanding at the end of 2007 was approximately $3.506 billion. The total outstanding amount at December 31, 2007, was $2.601 billion. During 2008 an additional $547.1 million of revenue and refunding bonds were issued as follows.

City Light

On December 30, 2008, the City issued $257.4 million in Municipal Light and Power Improvement and Refunding Revenue Bonds that bear interest at rates ranging from 4.0 percent to 6.0 percent and mature serially from April 1, 2009, to September 1, 2029. Proceeds in the amount of $187.2 million in new money are to be used to finance certain capital improvements and conservation programs and to refund certain of the City's outstanding Municipal Light and Power bonds. The remaining $70.2 million were used to fully refund the existing Municipal Light and Power variable rate bond series 1990, 1990A, 1991B, 1993, and 1996, totaling $72.0 million, with a call date of early February 2009. The refunding proceeds were held in the restricted debt service reserve account in the Light Fund.

Water

On December 15, 2008, the City issued $205.1 million of Water System Revenue Improvement and Refunding Bonds. Principal payments on the bonds are due annually beginning in 2009 and ending in 2038 at interest rates ranging from 4.0 percent to 5.25 percent. A portion of the proceeds from the issuance was set aside in Water Fund's restricted debt service reserve account to be used on February 4, 2009, to refund all $93.0 million of the 1995 and 2002 Adjustable Rate Water Revenue Bonds. The remaining proceeds will be used for certain capital improvements projects and conservation programs of the Fund.

Drainage and Waste Water

On April 16, 2008, the City issued $84.6 million of Drainage and Wastewater Revenue Bonds, with varying annual principal payments due beginning in 2009 and ending in 2038, at interest rates ranging from 4.0 percent to 5.0 percent. Proceeds of the revenue bonds are being used to finance certain capital improvements and additions to the drainage and wastewater system.

The business-type funds had no short-term debt at December 31, 2008.

The following table presents the individual revenue bonds outstanding as of December 31, 2008, and other pertinent information on each outstanding bond issue.

Table 8-6 **REVENUE BONDS**

(In Thousands)

Name and Purpose of Issue	Issuance Date	Maturity Dates	Effective Interest Rates [a]	Bond Issuance	Redemptions 2008	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	0.40-5.25	$ 25,000	$ 1,400	$ 12,400	$ 12,600
1991 Subordinate Lien, Series A	11/20/91	05/01/11-16	0.40-6.00	25,000	-	-	25,000
1991 Subordinate Lien, Series B	11/20/91	05/01/98-11	0.40-6.00	20,000	2,500	13,000	7,000
1993 Subordinate Lien	11/17/93	11/01/99-18	0.40-3.42	22,000	1,100	9,200	12,800
1996 Subordinate Lien	12/11/96	06/01/02-21	0.55-5.75	19,800	840	5,225	14,575
1997 Parity	12/30/97	07/01/03-22	5.131	30,000	1,155	6,225	23,775
1998 Parity, Series A, Refunding	01/27/98	07/01/98-20	4.884	104,650	4,590	22,260	82,390
1998 Parity, Series B	10/29/98	06/01/04-24	4.919	90,000	3,080	14,195	75,805
1999 Parity	10/27/99	10/01/06-24	5.960	158,000	8,000	152,500	5,500
2000 Parity	12/27/00	12/01/06-25	5.298	98,830	3,150	9,040	89,790
2001 Parity	03/29/01	03/01/04-26	5.082	503,700	16,290	39,430	464,270
2002 Parity, Refunding	12/04/02	12/01/03-14	3.470	87,735	10,230	48,745	38,990
2003 Parity, Refunding	08/20/03	11/01/04-28	3.517	251,850	11,875	92,880	158,970
2004 Parity	12/23/04	08/01/05-29	4.159	284,855	6,250	24,320	260,535
2008 Parity	12/30/08	04/01/09-29	5.222	257,375	-	-	257,375
Total Light Bonds				1,978,795	70,460	449,420	1,529,375
MUNICIPAL WATER BONDS							
1995 Adjustable Rate	09/20/95	09/01/00-25	0.500	45,000	1,400	10,700	34,300
1998 Parity	07/04/98	10/01/99-27	5.110	80,000	1,955	16,125	63,875
1999 Parity	06/23/99	03/01/00-29	5.373	100,000	2,185	97,715	2,285
1999 Parity, Series B	10/23/99	07/01/01-29	5.912	110,000	2,360	107,525	2,475
2001 Parity	11/20/01	11/01/05-31	4.972	52,525	1,165	4,425	48,100
2002 Adjustable Rate, Series A	05/15/02	05/15/03-32	0.780	32,500	-	3,800	28,700
2002 Adjustable Rate, Series B	05/15/02	05/15/03-32	0.850	32,500	-	2,500	30,000
2003 Parity, Refunding	05/12/03	09/01/03-33	4.083	271,320	7,450	61,150	210,170
2004 Parity	10/25/04	09/01/05-34	4.580	84,750	1,465	6,170	78,580
2005 Parity, Refunding	12/28/05	09/01/06-29	4.482	138,040	1,650	4,340	133,700
2006 Parity, Refunding	10/23/06	02/01/08-37	4.424	189,970	1,755	1,755	188,215
2008 Parity, Refunding	12/15/08	12/15/09-38	4.753	205,080	-	-	205,080
Total Water Bonds				1,341,685	21,385	316,205	1,025,480
MUNICIPAL DRAINAGE AND WASTEWATER BONDS							
1998 Parity	05/15/98	11/01/98-18	5.122	24,170	575	5,170	19,000
1999 Parity	09/28/99	11/01/00-29	5.720	55,000	1,165	53,775	1,225
2001 Parity	06/22/01	11/01/02-31	5.260	60,680	1,235	7,765	52,915
2002 Refunding	12/17/02	07/01/03-32	4.751	78,550	1,900	9,705	68,845
2004 Parity	10/28/04	09/01/05-34	4.609	62,010	1,120	4,165	57,845
2006 Refunding	11/01/06	02/01/07-37	4.180	121,765	2,075	4,205	117,560
2008 Parity	04/16/08	06/01/09-38	4.830	84,645	-	-	84,645
Total Drainage and Wastewater Bonds				486,820	8,070	84,785	402,035
SOLID WASTE BONDS							
1999 Refunding	01/19/99	08/01/99-09	4.839	40,900	4,630	36,270	4,630
1999 Parity, Series B	10/26/99	11/01/00-19	5.732	5,500	255	5,245	255
2007 Revenue & Refunding	12/12/07	02/01/08-33	4.505	82,175	1,650	55	82,120
Total Solid Waste Bonds				128,575	6,535	41,570	87,005
Total Utility Revenue Bonds				$ 3,935,875	$ 106,450	$ 891,980	$ 3,043,895

[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 2008. Interest rates in effect at December 31, 2008, were used to calculate annual interest requirements for these obligations. All adjustable-rate revenue bonds were refunded on February 4, 2009.

[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 of December 31, 2008, are presented below.

Table 8-7 **ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY**

REVENUE BONDS

(In Thousands)

Year Ending	Light		Water		Drainage and Wastewater		Solid Waste		
December 31	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2009	$ 80,620	$ 70,827	$ 121,495	$ 41,843	$ 9,785	$ 19,565	$ 6,535	$ 4,205	$ 354,875
2010	87,440	70,297	25,425	44,233	10,225	19,112	1,980	3,865	262,577
2011	87,020	66,302	26,565	43,078	10,685	18,666	2,075	3,773	258,164
2012	88,120	62,576	28,820	41,802	11,150	18,201	2,185	3,667	256,521
2013	92,510	58,296	30,160	40,438	11,665	17,685	2,295	3,555	256,604
2014 - 2018	453,560	224,337	174,030	178,725	67,465	79,351	13,365	15,884	1,206,717
2019 - 2023	378,290	121,101	217,340	130,552	80,405	60,786	15,255	12,272	1,016,001
2024 - 2028	242,685	32,826	199,755	76,556	87,885	39,972	19,050	8,046	706,775
2029 - 2033	19,130	616	140,220	32,645	74,465	18,556	24,265	2,840	312,737
2034 - 2038	-	-	61,670	6,862	38,305	4,268	-	-	111,105
Total	$ 1,529,375	$ 707,178	$ 1,025,480	$ 636,734	$ 402,035	$ 296,162	$ 87,005	$ 58,107	$ 4,742,076

NOTES AND CONTRACTS PAYABLE – BUSINESS-TYPE ACTIVITIES

Water

During 1993 the Seattle Public Utilities (SPU), for its Water Fund, entered into an agreement to borrow up to $2.2 million from the Washington State Department of Community, Trade, and Economic Development under its Public Works Trust Loan program for the construction of certain capital improvements. Amounts borrowed under the agreement accrue interest at 1.0 percent per annum and are to be repaid in 19 annual installments plus interest.

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

Amounts paid to the loan in 2008 totaled $555,293 and $7,000 in principal and interest, respectively. The combined outstanding balance of these two loans at December 31, 2008, amounts to approximately $8.2 million, the minimum debt service requirements to maturity that 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.

During 2006 the Utility began receiving draws on a loan from the Washington State Department of Community, Trade, and Economic Development under its Public Works Trust Loan Program for the construction of the South Park Flood Control and Local Drainage Program. Amounts borrowed under the agreement accrue interest at 0.5 percent per annum and are to be repaid over 20 years. In 2008 the Fund withdrew $850,000 from this loan.

In 2008 the Fund began receiving draws on a loan in the amount of $5.2 million from the Washington State Department of Ecology for construction and site improvements of the Thornton Creek Water Quality Channel. Amounts borrowed under this agreement accrue interest at 1.5 percent per annum and are to be repaid over 20 years beginning in June 2010. The Fund also received $185,000 from another existing Public Works Trust loan for the construction of the Thornton Creek Natural Drainage Systems

Total loans outstanding as of December 31, 2008, amount to $12.0 million.

In 2008 amounts paid from the Drainage and Water totaled $243,550 in principal and approximately $57,000 in interest for all of 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
2009	$ 555	$ 120	$ 295	$ 59	$ 1,029
2010	555	113	662	135	1,465
2011	556	105	666	127	1,454
2012	555	97	671	119	1,442
2013	556	90	669	111	1,426
2014 - 2018	2,185	344	3,347	442	6,318
2019 - 2023	2,185	180	3,445	259	6,069
2024 - 2028	1,087	29	2,099	81	3,296
2029	-	-	152	1	153
Total	$ 8,234	$ 1,078	$ 12,006	$ 1,334	$ 22,652

The following table shows the long-term liability activities during the year ended December 31, 2008.

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	$ 720,025	$ 139,830	$ 138,695	$ 721,160	$ 49,645
Add (Deduct) Deferred Amounts					
Issuance Premiums	16,542	7,545	1,863	22,224	-
Issuance Discounts	(2)	-	-	(2)	-
On Refunding	(3,016)	-	(1,574)	(1,442)	-
Special Assessment Bonds with Governmental Commitment [b]	20,545	-	1,340	19,205	940
Total Bonds Payable	754,094	147,375	140,324	761,145	50,585
Notes and Contracts					
Capital Leases	3	-	3	-	-
Other Notes and Contracts	21,923	-	2,185	19,738	2,134
Total Notes and Contracts	21,926	-	2,188	19,738	2,134
Compensated Absences	69,992	71,122	67,629	73,485	15,712
Claims Payable					
Workers' Compensation	17,843	8,004	6,295	19,552	6,614
General Liability	49,012	31,853	17,855	63,010	17,240
Health Care Claims	3,259	3,158	3,258	3,159	3,158
Total Claims Payable [c]	70,114	43,015	27,408	85,721	27,012
Arbitrage Rebate Liability	432	39	26	445	-
Total Long-Term Liabilities from Governmental Activities	$ 916,558	$ 261,551	$ 237,575	$ 940,534	$ 95,443
BUSINESS-TYPE ACTIVITIES					
Bonds Payable					
General Obligation Bonds	$ 65,702	$ -	$ 1,178	$ 64,524	$ 1,205
Revenue Bonds	2,601,400	547,100	104,605	3,043,895	218,435
Add (Deduct) Deferred Amounts					
Issuance Premiums	74,048	7,563	5,888	75,723	-
Issuance Discounts	(1,559)	-	(172)	(1,387)	-
On Refunding	(62,165)	-	(7,388)	(54,777)	-
Total Bonds Payable	2,677,426	554,663	104,111	3,127,978	219,640
Accrued Interest - Deferred Interest Bonds	4,330	593	666	4,257	790
Notes and Contracts - Other	7,049	14,276	1,085	20,240	863
Compensated Absences	23,977	29,968	28,053	25,892	2,520
Claims Payable					
Workers' Compensation	6,627	3,554	2,723	7,458	2,523
General Liability	18,035	12,401	6,197	24,239	6,632
Environmental Liability [d, e]					
General Contamination Cleanup	27,237	14,874	7,410	34,701	10,431
Total Claims Payable [c]	51,899	30,829	16,330	66,398	19,586
Muckleshoot Liability	1,495	-	1,000	495	-
Habitat Conservation Program Liability	13,547	-	3,940	9,607	5,453
Landfill Closure and Postclosure Costs	27,077	1,115	2,152	26,040	1,115
Purchased Power Obligation	4,749	-	4,749	-	-
Total Long-Term Liabilities from Business-Type Activities	$ 2,811,549	$ 631,444	$ 162,086	$ 3,280,907	$ 249,967

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

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

[c] See Note 14, Contingencies, for a discussion of risk management, environmental, and other matters. The table in Note 14 also includes information on workers' compensation and health care.

[d] Restated beginning balance is due to implementation of GASB 49.

[e] See Note 9, Environmental Liabilities for detailed discussion.

The City's internal service funds predominantly serve governmental funds. For this reason the above totals in the governmental activities include the long-term liabilities for these funds. At the end of the year compensated absences and claims payable of these funds amounted to approximately $3.4 million and $1.3 million, respectively, and are liquidated from each fund's own resources. Notes and contracts (including public works trust loans), compensated absences, and workers' compensation other than those pertaining to the internal service funds are liquidated using the respective governmental funds of operating City departments, including those funded by the General Fund. General liability and health care claims relating to internal service funds are liquidated using the General Fund. Liabilities for compensated absences for governmental activities in governmental funds that have department operating budgets, though they are reported as a general obligation of the City, are paid from these funds when these compensated absences are used by the employees or cashed out by them at termination or retirement. Arbitrage rebate liabilities in governmental activities are paid as they become due and usually come from available resources in governmental funds that received the related bond proceeds and investment earnings from the proceeds.

In addition to paying for debt service on the bond issues for business-type City operations, each business-type fund liquidates its respective other long-term liabilities, with the exception of the Department of Planning and Development (DPD) for general liability. The General Fund pays for DPD's general liability, if any. Environmental liabilities of business-type activity funds are paid respectively from the utility funds. Purchased power obligations are obligations of City Light and therefore paid from the Light Fund. For further discussion on purchased power, see Note 13, 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 2008.

The refunding portion of the $139.8 million LTGO Improvement and Refunding Bonds, 2008, issued on July 2, 2008, in the amount of $54.9 million fully refunded the $57.5 million 1996 LTGO, Series C & D variable-rate bonds. The aggregate total debt service on the refunding bonds requires a cash flow of $98.8 million including interest of $43.9 million.

The detail of the $32.0 million defeasance in 2008 of the 2002 series B, 2003, and 2005 LTGO bonds discussed earlier in the note is also shown in Table 8-10 that follows.

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 2008	Defeased Outstanding December 31
GENERAL OBLIGATION BONDS							
Limited Tax (Non-Voted)							
Various Purpose - Key Tower, Police Support Facility, 1996, Series C	08/28/96	01/15/20-26	2.750 %	$ 5,595	$ 5,595	$ 5,595	$ -
Various Purpose - Key Tower, Police Support Facility, 1996, Series D	10/06/99	01/15/23-24	1.500	51,925	51,925	51,925	-
Refunding - Various LTGO Bonds, 1998, Series B, Defeased 9/26/05	03/17/98	09/01/98-12	4.493	43,710	620	235	385
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	1,685	6,785
Various Purpose and Refunding, 2002, Series B Defeased 12/17/08	09/26/02	10/01/03-14	3.127	64,560	24,730	-	24,730
Various Purpose and Refunding, 2003, Defeased 4/4/07	02/26/03	08/01/04-23	3.469	60,855	2,715	285	2,430
Various Purpose and Refunding, 2003, Defeased 8/30/07					3,180	145	3,035
Various Purpose and Refunding, 2003, Defeased 12/17/08					6,480	-	6,480
Various Purpose and Refunding, 2005, Defeased 12/17/08	03/23/05	08/01/05-28	4.167	129,540	775	-	775
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							
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				$ 1,156,500	$ 633,595	$ 120,675	$ 512,920

ARBITRAGE

Since 1995 the City has been reviewing arbitrage rebate liability on its outstanding tax-exempt bonds and certificates of participation under Section 148(f) of the Internal Revenue Code. For bonds that have reached their installment computation dates (bonds outstanding for five years initially and every five years thereafter until the last of the bond issue matures) the City paid no rebate in 2007 but paid approximately $26,000 arbitrage rebate in 2008 on the City's general obligation bonds. The City paid no rebate in 2007 and in 2008, for the Municipal Light and Power, Water System, Drainage and Wastewater, and Solid Waste revenue bonds. There is approximately $445,000 estimated arbitrage liability recognized at the end of 2008 on the general obligation bonds. There is no estimated arbitrage liability at the end of 2008 on the revenue bonds.

(9) ENVIRONMENTAL LIABILITIES

Effective January 1, 2008, the City implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* to account for environmental liabilities. The effect of this implementation was to restate net assets on the Statement of Net Assets as of January 1, 2007, restate the environmental liability as of December 31, 2007, and restate the Statement of Activities for 2007. The City's beginning net assets for 2007 was decreased by $9.8 million. Total environmental liabilities were restated to $27.2 million at the end of 2007, an increase of $2.6 million. Change in net assets for 2007 was restated to $365.3 million, an increase of $7.3 million.

Following is a brief description of the significant Superfund sites:

- The Harbor Island Superfund Site. Harbor Island was designated as a federal Superfund site by the Environmental Protection Agency (EPA) in 1983. The City and other entities are sharing costs of investigating contamination in the East Waterway alongside Harbor Island. The City's involvement stems from its sale of transformers to a company on Harbor Island, discharges from storm drains, and combined sewer outflows. In 2006 the EPA issued an Administrative Order on Consent (AOC) for a Supplemental Remedial Investigation and Feasibility Study (RI/FS). Subsequent to an agreement between the EPA, the Port of Seattle (Port), King County, and the City, the Port alone signed the order. Both the City and King County signed a Memorandum of Agreement with the Port to participate as cost share partners in the work required by the EPA. No specific requirements for remediation by Potentially Responsible Parties (PRPs) have been made by the EPA as of the date of this note.

- The Lower Duwamish Waterway Superfund Site. The site was designated as a federal Superfund site by the EPA in 2001 for contaminated sediments due to land ownership or use of property along the river, discharges from storm drains, and combined sewer outflows into the river. The City is one of four parties who signed an AOC with the EPA and Washington State Department of Ecology (DOE) to conduct a RI/FS to prepare a site remedy. No specific requirements for remediation by PRPs have been made by the EPA as of the date of this note. For some specific early action sites, the City and other PRPs have voluntarily agreed to initiate clean-up under AOC. In order to manage the liability, the City is working with the EPA and other PRPs on a RI/FS to evaluate the risk to human health and the environment within the six-mile Superfund area, identify the possible early action clean-up sites, and generally evaluate the feasibility of clean-up options for use in the ultimate remedial actions that the EPA will require.

- North Boeing Field/Georgetown Steam Plant. The City, King County, and Boeing have signed an Administrative Order by the DOE requiring them to investigate and possibly remove contamination in an area that encompasses North Boeing Field, the Georgetown Steam Plant, and the King County Airport.

- Gas Works Park Sediment Site. In 2002 the DOE named the City and Puget Sound Energy (PSE) as PRPs for contamination at the Gas Works Sediments Site in North Lake Union. The City and PSE signed an Agreed Order with the DOE in 2005 to initiate a City-led RI/FS in the western portion of the site and a PSE-led RI/FS in the eastern portion. The City is now working to complete the RI/FS for the western portion for submittal to the DOE. The RI/FS includes an evaluation of the nature and extent of contamination on the site, an evaluation of multiple alternatives for remediating the sediments, and a recommended preferred alternative.

- South Park. The DOE has indicated that it will require the clean-up and remediation of the historic South Park landfill sites under the State Model Toxics Control Act. No specific requirements for remediation by PRPs have been made by the DOE as of the date of this note. In order to manage the liability, the City is working with the DOE and other PRPs on a RI/FS to evaluate the risk to human health and the environment and to assess the feasibility of clean-up options for use in the ultimate remedial actions that the DOE may require.

- South Park Bus Barn. The South Park Bus Barn, located near the South Park Landfill, was entered into the DOE's Voluntary Cleanup Program. This parcel of property was purchased by the City in 2008 and currently no other PRP has been named. The RI/FS are substantially complete as of the date of this note and the City is working with the DOE to assess the feasibility of clean-up options for use in the ultimate remedial actions that are required. Work is expected to begin during 2009 and be completed in 2010.

The City has included in its estimated liability those portions of the environmental remediation work that are currently deemed to be reasonably estimable. Cost estimates were developed using the expected cash flow technique in accordance with GASB Statement No. 49. Estimated outlays were based on current cost and no adjustments were made for discounting or inflation. Cost scenarios were developed for a given site based on data available at the time of estimation and will be adjusted for changes in circumstance. Scenarios consider the relevant potential requirements and are adjusted when benchmarks are met or when new information revises estimated outlays, such as changes in the remediation plan or operating conditions. Costs were calculated on a weighted average that was based on the probabilities of each scenario being selected and reflected cost-sharing agreements in effect. In addition, certain estimates were derived from independent engineers and consultants. The estimates were made with the latest information available; as new information becomes available, estimates may vary significantly due to price increases or reductions, technology, or applicable laws or regulations.

The City is aggressively pursuing other third parties that may have contributed to the contamination of the sites noted above. The City's estimate for not-yet-realized recoveries from other parties for their share of remediation work that offset the City's estimated environmental liability was $21.4 million and $5.5 million, at December 31, 2008 and 2007, respectively.

The changes in the provision for environmental liability, net of recovery (in thousands) at December 31, 2008 and 2007 are as follows:

	2008	Restated 2007
Environmental Liability – Beginning of Year	$ 27,234	$ 27,154
Payments or Amortization	(7,407)	(5,550)
Incurred Environmental Liability	14,874	5,630
Environmental Liability – End of Year	$ 34,701	$ 27,234

The provision for environmental liability (in thousands) included in current and noncurrent liability at December 31, 2008 and 2007, is as follows:

	2008	Restated 2007
Claims Payable, Current	$ 10,431	$ 5,589
Claims Payable, Noncurrent	24,270	21,645
Total	$ 34,701	$ 27,234

Information on the City' environmental liability is also presented in Note 8, Table 8-9.

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

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

Table 10-1 **PENSION PLAN INFORMATION**

	Employees' Retirement	Firemen's Pension	Police Relief and Pension	LEOFF Plan 1	LEOFF Plan 2
Actuarial Valuation Date	1/1/2008	1/1/2009	1/1/2009	6/30/2007	6/30/2007
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Aggregate [a]
Asset Valuation Method	Fair Value	Fair Value	Fair Value	8-Year Graded Smoothed Fair Value [b]	8-Year Graded Smoothed Fair Value [b]
Amortization					
Method	Level %	Level $	Level $	Level %/Level $ [c]	N/A
Period	30.0 years	28.0 years	28.0 years	17.75 years	N/A
Approach	Open	Closed	Closed	Closed	N/A
Actuarial Assumptions					
Inflation Rate (CPI)	3.50%	2.50% [d]	2.50% [d]	3.50%	3.50%
Investment Rate of Return	7.75%	4.50%	4.50%	8.00%	8.00%
Projected Salary Increases - General	4.00%	3.50% [d]	3.50% [d]	4.25%	4.25%
Projected Salary Increases - Step Merit	N/A	N/A	N/A	Varies [e]	Varies [e]
Postretirement Benefit Increases	0.67%	Varies [f]	Varies [f]	CPI Increase	CPI Increase (Maximum 3%)

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

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

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

[d] Long-term assumption is listed. Specific short-term assumptions were used through 2010.

[e] For specific information, please refer to the 2007 Actuarial Valuation Report issued by the Washington Office of State Actuary.

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

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

Plan Description

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

All employees of the City of Seattle are eligible for membership in the system with the exception of law enforcement officers and fire fighters who are covered under the statewide LEOFF plans administered by the state Department of Retirement Systems. Employees of METRO and the King County Health Department who established membership in the system when these organizations were City of Seattle departments were allowed to continue their membership. Current membership in SCERS consisted of the following at December 31, 2008:

Retirees and Beneficiaries Receiving Benefits	5,474
Terminated Plan Members Entitled To But Not Yet Receiving Benefits, Vested	1,764
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	8,793

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. Plan member and employer contributions for 2008 are $45,986,138 and $45,961,040, respectively. There are no long-term contracts for contributions outstanding and no legally required reserves.

Actuarial data for SCERS are determined through biennial actuarial valuations. The latest valuation date is January 1, 2008, and reflects measurements through the year ending 2007. Based on this valuation, 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.

The three-year trend information (in thousands) presented directly below and the annual pension cost and net pension obligation data in Table 10-2 cover the years 2005-2007; actuarial valuations were not performed for the years 2006 and 2008.

Fiscal Year Ending December 31	Annual Pension Cost (APC)	Total Employer Contribution	Percentage of APC Contributed	Net Pension Obligation (NPO)
2005	$ 34,095	$ 35,897	105 %	$ (78,064)
2006	37,755	37,939	100	(78,249)
2007	40,115	40,300	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	$40,300	$ (6,064)	$ 5,879	$ 40,115	$40,300	$ (185)	$ (78,249)	$ (78,434)

During 2007 the Seattle City Employees' Retirement System's net pension asset increased from $78.2 million to $78.4 million, an increase of $185 thousand as calculated in the following table.

Table 10-2 **ANNUAL PENSION COST AND NET PENSION OBLIGATION**

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

For the Year Ended December 31, 2008

(In Thousands)

	2007 [a]	2005 [a]
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 (Year)	18.00	30.20
GASB 27 Amortization Rate	3.56	3.01
Total Annual Required Contribution (ARC) Rate [b]	8.03	8.03
Covered Employee Payroll [c]	$ 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] Actuarial studies are done every two years. No study was done for years 2006 and 2008.

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

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

The funded status of the Plan as of the latest valuation study is presented below (in thousands). The Required Supplementary Information section, C-4, Pension Plan Information Schedule of Funding Progress, displays multiyear trend information as to the value of the plan assets decreasing or increasing over time relative to the AAL's for benefit.

Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
$2,119,400	$2,294,600	$175,200	92.4%	$501,900	34.9%

Authority to change benefit and contribution rates rests with the City Council. City ordinance does not permit a reduction in the employer contribution rate to less than the employee rate. Trend information on SCERS employer contribution is shown in the Required Supplementary Information section, C-5.

In the last four months of 2008 substantial declines occurred in almost all sectors of worldwide financial markets. Thus, the actuarial status of the Employees' Retirement Fund at the end of 2008 is substantially lower than shown in the results of the January 1, 2008 actuarial report. A new actuarial report will be prepared as of January 1, 2010. This report will include updated asset valuations as well as possible changes in assumptions, such as lower assumed investment returns and lower assumed wage growth.

The City's contracts with all labor unions that represent members of SCERS describe how contribution rates would be changed in the event higher contributions are needed to improve the financial status of the Employees' Retirement Fund. Under these contracts, the City and employees will share any contribution rate increase equally, up to a maximum increase of 2 percent in the employee contribution (in other words, the employee contribution can increase from the current 8.03 percent to 10.03 percent). If a contribution rate increase is needed, the City intends to apply the same formula to non-represented employees.

FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS

Plan Description

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

Since the effective date of the state LEOFF on March 1, 1970, no payroll for employees was covered under these pension plans, and the primary liability for pension benefits for these plans shifted from the City to the state LEOFF. However, the City was still liable for all benefits in pay status at that time plus any future benefits payable to active law enforcement officers and firefighters 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 firefighters 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 firefighters 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 firefighters 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 1,106 fire and 985 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 $8.5 million in 2008 and $9.0 million in 2007; and for Police Relief and Pension, $11.3 million in 2008 and $10.5 million in 2007.

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

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

Current membership in Firemen's Pension and Police Relief and Pension consisted of the following at December 31, 2008:

	Firemen's Pension	Police Relief and Pension
Retirees and Beneficiaries Receiving Benefits	867	858
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	-	-
Active Plan Members, Vested	47	47
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 both pension plans were closed to new members effective October 1, 1977, the City is not required to adopt a plan to fund the actuarial accrued liability (AAL). An actuarial fund was established for the Firemen's Pension in July 1994 and is discussed in more detail below; the City funds the Police Relief and Pension Fund as benefits become due. Contributions are no longer required from plan members or the City departments they represent. Under state law, partial funding of the Firemen's Pension Fund may be provided by an annual tax levy of up to $0.45 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, 2009, 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	2006	$ 9,385	100 %	$ -
	2007	9,533	91	900
	2008	10,662	141	(3,465)
Police Relief and Pension Fund	2006	6,056	100	-
	2007	7,782	76	1,897
	2008	9,224	105	1,398

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

The funded status of the plans at the last valuation date is presented below (in thousands). The Required Supplementary Information section, C-4, displays multiyear trend information as to the value of the plan assets decreasing or increasing over time relative to the AALs for benefits.

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
Firemen's Pension Fund	$11,498	$141,621	$130,123	8.0%	N/A	N/A
Police Relief and Pension Fund	423	132,632	132,209	0.0	N/A	N/A

In July 1994 the City adopted a funding policy under Ordinance 117216 that is designed to fully fund the AAL of the Firemen's Pension Fund by the year 2018 plus additional contributions, if necessary, to fund benefit payments in excess of contributions to fully fund all retirement benefit liabilities by December 31, 2018. In 2006 the Board of Directors amended the fully funded date from 2018 to December 31, 2023. The level contributions were set aside in the Firemen's Pension Actuarial Account with a fund balance of $9.4 million as of December 31, 2008. 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, 2008, based on the actuarial valuation as of January 1, 2009, was $141.6 million for Firemen's Pension and $132.6 million for Police Relief and Pension. The Police Relief and Pension AAL is funded on a pay-as-you-go basis. Annual requirements are funded through the City's adopted budget, and any budget requirements exceeding the adopted budget are fully covered by supplemental appropriations.

Trend information on employer contributions for the Firemen's Pension and the Police Relief and Pension plans is presented in the Required Supplementary Information section, C-5.

The net pension obligation of Firemen's Pension Fund is a $3.5 million net pension asset at December 31, 2008. The net pension obligation of Police Relief and Pension Fund is a $1.4 million net pension liability at December 31, 2008.

Table 10-3 **ANNUAL PENSION COST AND NET PENSION OBLIGATION**

FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS

For the Year Ended December 31, 2008

(In Thousands)

	Firemen's Pension			Police Relief and Pension		
	2008	2007	2006	2008	2007	2006
Annual Required Contribution (ARC)						
Annual Normal Cost - Beginning of Year	$ -	$ -		$ -	$ -	
Amortization of UAAL - Beginning of Year	10,153	9,068		8,797	7,403	
Interest to End of Year	520	465		451	379	
ARC at End of Year	10,673	9,533	$ 9,385	9,248	7,782	$ 6,056
Interest on NPO	46	-	-	97	-	-
Adjustment to ARC	(57)	-	-	(121)	-	-
Annual Pension Cost (APC)	10,662	9,533	9,385	9,224	7,782	6,056
Employer Contribution	15,027	8,633	9,385	9,723	5,885	6,056
Change in NPO	(4,365)	900	-	(499)	1,897	-
NPO at Beginning of Year	900	-	-	1,897	-	-
NPO at End of Year	$ (3,465)	$ 900	$ -	$ 1,398	$ 1,897	$ -

Following are the Firemen's Pension and the Police Relief and Pension financial statements for fiscal year ending December 31, 2008.

Table 10-4

STATEMENT OF NET ASSETS
FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS
December 31, 2008
(In Thousands)

	Firemen's Pension	Police Relief and Pension	2008	2007
ASSETS				
Cash and Equity in Pooled Investments	$ 11,942	$ 2,170	$ 14,112	$ 11,728
Investments at Fair Value				
U.S. Government Obligations	464	-	464	460
Receivables				
Employer - Other	22	-	22	38
Interest and Dividends	-	-	-	-
Total Receivables	22	-	22	38
Total Assets	12,428	2,170	14,598	12,226
LIABILITIES				
Refunds Payable and Other - Other	930	1,747	2,677	2,416
Total Liabilities	930	1,747	2,677	2,416
Net Assets Held in Trust for Pension Benefits	$ 11,498	$ 423	$ 11,921	$ 9,810

Table 10-5

STATEMENT OF CHANGES IN
PLAN NET ASSETS
FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS
For Year Ended December 31, 2008
(In Thousands)

	Defined Benefit		Postemployment Healthcare		Comparative Totals	
	Firemen's Pension	Police Relief and Pension	Firemen's Pension	Police Relief and Pension	2008	2007
ADDITIONS						
Contributions						
Employer	$ 15,027	$ 9,723	$ 8,453	$ 11,279	$ 44,482	$ 34,072
Investment Income						
From Investment Activities						
Net Appreciation (Depreciation) in Fair Value of Investments	38	-	-	-	38	62
Interest	357	-	-	-	357	422
Total Net Investment Income	395	-	-	-	395	484
Total Additions	15,422	9,723	8,453	11,279	44,877	34,556
DEDUCTIONS						
Benefits	12,382	9,678	8,453	11,279	41,792	35,256
Administrative Expense	547	427	-	-	974	861
Total Deductions	12,929	10,105	8,453	11,279	42,766	36,117
Change in Net Assets	2,493	(382)	-	-	2,111	(1,561)
Net Assets - Beginning of Year	9,005	805	-	-	9,810	11,371
Net Assets - End of Year	$ 11,498	$ 423	$ -	$ -	$ 11,921	$ 9,810

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. Washington State Department of Retirement Systems (DRS) administers LEOFF.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to Plans 1 and Plan 2 accrue interest at a rate specified by DRS. During fiscal year 2008 the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in Plan 1 and 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

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

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

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

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

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

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

Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53 unless the disability is duty-related and to reflect the choice of a survivor option. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

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

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

Effective 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 the member with a monthly annuity that is paid in addition to the member's retirement allowance. (HB 2690, Chapter 214, Laws 2006).

Effective July 22, 2007:

- LEOFF Plan 2 members may purchase up to 24 consecutive months of service credit (up from 12 months) for each period of temporary duty disability. (SHB 1261, Chapter 40, Laws of 2007).

- The portability of retirement benefits is changed by: (1) adding LEOFF Plan 2 to those plans that are able to combine service under portability for indexing purposes, (2) allowing compensation that is reportable in all dual member systems, except in the Washington State Patrol Retirement System (WSPRS), to be included in the calculation of all dual members' benefits, and (3) removing the "maximum benefit rule" for dual members who have less than 15 years of service in one capped plan and service in one uncapped plan. (SHB 1264, Chapter 207, Laws 2007).

- The $150,000 duty-related death benefit is extended to include death from occupational disease or duty-related illness. (SHB 1266, Chapter 487, Laws of 2007).

- The terms of the employer representatives on the LEOFF Plan 2 Board are now staggered so that no more than one position expires in the same year. Legislative terms are now two years and run from January through December. After January 1, 2008, one member of the Board must be a retired LEOFF Plan 2 participant. (SHB 1679, Chapter 303, Laws of 2007).

- An exception is made to the five-year waiting period required before transferring prior Washington State Public Employees' Retirement System (PERS) service credit for those Emergency Medical Technicians who joined LEOFF Plan 2 as a result of legislation passed in 2003 and 2005 and who retire due to disability, or die. (HB 1680, Chapter 304, Laws of 2007).

There were no other material changes in benefit provisions for the fiscal year ended June 30, 2008. LEOFF pension benefit provisions have been established by RCW 41.26.

There are 87 participating employers in LEOFF Plan 1 and 374 participating employers in Plan 2 as of June 30, 2008. Membership in LEOFF consisted of the following as of the latest actuarial valuation date of June 30, 2007.

	Plan 1	Plan 2
Retirees and Beneficiaries Receiving Benefits	8,161	924
Terminated Members Entitled To But Not Yet Receiving Benefits	4	629
Active Plan Members, Vested	513	12,391
Active Plan Members, Nonvested	-	3,708
Total	8,678	17,652

All law enforcement officers and fire fighters of the City of Seattle participate in LEOFF. Current active members (vested and non-vested) are 109 under Plan 1 and 2,223 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 2007 are as follows:

	LEOFF Actual Contribution Rates	
	Plan 1	Plan 2
Employer (includes an administrative expense rate of 0.16 percent)	0.16 %	5.35 %
Employee	-	8.64
State of Washington Contributions	-	3.45

Administration of the LEOFF plans was funded by an employer rate of 0.16 percent of employee salaries.

The state Legislature has the ability, by means of a special funding arrangement, to appropriate money from the state General Fund to supplement the current service liability and fund the prior service costs of Plans 1 and 2 in accordance with the requirements of the Pension Funding Council and LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For fiscal year 2007 the state contributed $45.9 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
2006	$ -	N/A	$ 101.3	79 %
2007	0.1	N/A	94.9	101
2008	-	N/A	102.1	117

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
2006	$ 21	$ 8,082
2007	18	9,381
2008	15	10,649

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, 2008	June 30,2007
Plan 1	$ 62,457	$ 72,945
Plan 2	1,379,022	1,232,440

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, 2008	June 30, 2007
Plan 1	$ 5,972,700	$ 6,343,265
Plan 2	3,936,384	3,952,783

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 statute, RCW 41.18 and 41.26 for Firemen's Pension, and RCW 41.20 and 41.26 for Police Relief and Pension, and may be amended by the state legislature. The City funds these benefits on a pay-as-you go basis.

Annual OPEB Cost and Net OPEB Obligation

Based on the actuarial valuation dates noted under Funded Status and Funding Progress and in Table 10-7, the City's annual cost for fiscal year ended December 31, 2008, the amount of expected contributions to the plans and changes in net obligation in each plan are as follows:

Table 10-6 **ANNUAL OPEB COST AND NET OPEB OBLIGATION**

	Healthcare Blended Premium Subsidy	Firemen's Pension (LEOFF1)	Police Relief and Pension (LEOFF1)	Total
Annual Required Contribution	$ 8,751,992	$ 13,269,644	$ 14,029,863	$ 36,051,499
Interest on Net OPEB Obligation	384,860	79,309	111,514	575,683
Adjustment to Annual Required Contribution	(508,523)	(98,580)	(138,610)	(745,713)
Annual OPEB Cost (Expense)	8,628,329	13,250,373	14,002,767	35,881,469
Expected Contribution (Employer-Paid Benefits)	2,250,276	8,453,011	11,278,886	21,982,173
Increase in Net OPEB Obligation	6,378,053	4,797,362	2,723,881	13,899,296
Net OPEB Obligation – Beginning of Year	7,974,722	1,547,498	2,175,876	11,698,096
Net OPEB Obligation – End of Year	$ 14,352,775	$ 6,344,860	$ 4,899,757	$ 25,597,392

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 2008 and one year preceding 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
	12/31/2008	8,628,329	6.5	14,352,775
Firemen's Pension (LEOFF1)	12/31/2007	10,624,239	85.0	1,547,498
	12/31/2008	13,250,373	64.0	6,344,860
Police Relief and Pension (LEOFF1)	12/31/2007	12,653,428	83.0	2,175,876
	12/31/2008	14,002,767	81.0	4,899,757

Funded Status and Funding Progress

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

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Normal AAL (b)	UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
Healthcare Blended Premium Subsidy	1/1/2006	-	$84,338	$84,338	-	N/A	N/A
	1/1/2008	-	78,816	78,816	-	N/A	N/A
Firemen's Pension (LEOFF1)	1/1/2008	-	198,150	198,150	-	N/A	N/A
	1/1/2009	-	221,915	221,915	-	N/A	N/A
Police Relief and Pension (LEOFF1)	1/1/2008	-	209,502	209,502	-	N/A	N/A
	1/1/2009	-	235,472	235,472	-	N/A	N/A

Actuarial Methods and Assumptions

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

Table 10-7 **OPEB INFORMATION**

Description	Healthcare Blended Premium Subsidy	Firemen's Pension (LEOFF1)	Police Relief and Pension (LEOFF1)
Actuarial Valuation Date	1/1/2008	1/1/2009	1/1/2009
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	28 years	28 years
Records and Data	N/A	Supplied by the City	Supplied by the City
Replacement of Terminated Employees	N/A	Closed. No new members permitted.	Closed. No new members permitted.
Valuation of Assets	N/A. No assets as of valuation date.	N/A. No assets as of valuation date.	N/A. No assets as of valuation date.
Assumptions:			
Discount Rate	4.826%	4.50%	4.58%
Medical Inflation		9.0%, decreasing by 0.5% each year for 8 years until it reaches an ultimate rate of 5.0%	9.0%, decreasing by 0.5% each year for 8 years until it reaches an ultimate rate of 5.0%
Traditional and Preventive Plans	10.5%, decreasing by 0.5% each year for 11 years until it reaches an ultimate rate of 5.0%		
Group Health Standard and Deductible Plans	10.9% decreasing by 0.4 % in 2009 and 0.5% for 11 succeeding years until it reaches an ultimate rate of 5.0%		
Long-Term Care Inflation Rate	N/A	5.00%	5.00%
Participation/Service Retirement	40% of actives who retire are assumed to participate. This assumption was developed by comparing the count of pre-65 retirees currently covered under the Plan with the count of pre-65 retirees shown in the 2006 valuation report prepared by Mellon for the City of Seattle Employees' Retirement System.	All actives are assumed to retire at the valuation date.	All actives are assumed to retire at the valuation date.
Mortality	Mortality assumptions for LEOFF employees are based on the actuarial 2000 Combined Health Table for Males and Females. Mortality assumptions for general service actives and retirees are based on the Group Annuity Mortality (GAM) 1994 Static Table (Final) with ages set forward one year for both males and females for actives; and ages set forward one year for males but with no age adjustment for females for retirees.	For active and service-retired employees, basis is RP 2000 Mortality Table (Combined Healthy). For disabled members, basis is RP 2000 Mortality Table (Combined Healthy) with ages set forward 2 years and a 0.005 minimum.	For active and service-retired employees, basis is RP 2000 Mortality Table (Combined Healthy). For disabled members, basis is RP 2000 Mortality Table (Combined Healthy) with ages set forward 2 years and a 0.005 minimum.
Marital Status	60% of members electing coverage are assumed to be married or to have a registered domestic partner. Male spouses are assumed to be two years older than their female spouses.	N/A	N/A

Table 10-7 **OPEB INFORMATION (continued)**

Description	Healthcare Blended Premium Subsidy	Firemen's Pension (LEOFF1)	Police Relief and Pension (LEOFF1)
Assumptions (continued):			
Morbidity Factors		N/A	N/A
Traditional Plan	Morbidity rate ranges assumed for ages 50 through 64 are as follows: 100.5% to 166.3% for male retirees, 74.0% to 122.5% for female retirees, 141.8% to 234.7% for male spouses, and 104.5% to 172.9% for female spouses.		
Preventive Plan	Morbidity rate ranges assumed for ages 50 through 64 are as follows: 105.10% to 173.9% for male retirees, 77.4% to 128.1% for female retirees, 139.9% to 231.6% for male spouses, and 103.1% to 170.6% for female spouses. For these two plans, because the retirees' spouses pay a lower premium for their health care coverage than the retirees, the net cost to the City for the spouse coverage is greater than for a retiree of the same gender and age. The morbidity factors were adjusted to reflect this discrepancy.		
Group Health Standard and Deductible Plans	Morbidity rate ranges assumed for ages 50 through 64 for retirees and spouses are: 113.3% to 187.5% for males and 83.4% to 138.1% for females.		
Other Considerations	Active employees with current spouse and/or dependent coverage are assumed to elect the same plan and coverage.	N/A	N/A

(11) 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 last year for 2007 were preliminary and changed post audit; in addition, year 2007 was restated as noted below. 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 11-1

CONDENSED STATEMENT OF NET ASSETS
THE SEATTLE PUBLIC LIBRARY FOUNDATION
December 31, 2008
(In Thousands)

	2008	Restated 2007
ASSETS		
Cash, Investments, and Other Assets	$ 42,653	$ 57,237
Capital Assets, Net	7	8
Total Assets	42,660	57,245
LIABILITIES		
Current Liabilities	1,014	989
Total Liabilities	1,014	989
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	7	8
Restricted	30,433	38,166
Unrestricted	11,206	18,082
Total Net Assets	$ 41,646	$ 56,256

Table 11-2

CONDENSED STATEMENT OF ACTIVITIES
THE SEATTLE PUBLIC LIBRARY FOUNDATION
For Year Ended December 31, 2008
(In Thousands)

	2008	Restated 2007
PROGRAM REVENUES		
Contributions/Endowment Gain	$ 3,342	$ 4,270
GENERAL REVENUES		
Investment Income (Loss)	(10,485)	3,343
Total Program Support and Revenues (Loss)	(7,143)	7,613
EXPENSES		
Support to Seattle Public Library	4,731	3,693
Management and General	380	395
Fundraising	392	389
Total Expenses	5,503	4,477
DIVESTED ACTIVITIES		
Transfer of Net Assets to Washington Talking Book & Braille Library	(1,964)	-
Total Divested Activities	(1,964)	-
Change in Net Assets	(14,610)	3,136
NET ASSETS		
Net Assets - Beginning of Year	56,256	53,120
Net Assets - End of Year	$ 41,646	$ 56,256

The Foundation restated its financial statements for 2007 for: 1) Certain net assets that relate to contributions to the Libraries for All Capital Campaign from 1999 through 2007 were previously classified as restricted. However, a 2008 review of the contributions revealed that $6.3 million of the contributions did not have a donor-imposed restriction, with $1.4 million remaining at the end of 2007. The effect of this was an increase in Unrestricted Net Assets and a decrease in Restricted Net Assets for $1.4 million with no effect on the total net assets. 2) It was discovered in 2008 that receipts from 2005 through 2007 processed by the Foundation on behalf of the Seattle Public Library that represent payments for space rental under rental agreements were recorded by the Foundation as its own service fee revenues. The Foundation restated its results for the affected years by reducing unrestricted net assets at the beginning of 2007 by $120,939 with the change in net assets for 2007 reduced by $53,157.

(12) JOINT VENTURES

SEATTLE-KING COUNTY WORKFORCE DEVELOPMENT COUNCIL

The Seattle-King County Workforce Development Council (WDC) is a joint venture between King County and the City of Seattle. It was established as a nonprofit corporation in the State of Washington on July 1, 2000, as authorized under the Workforce Investment Act (WIA) of 1998. It functions as the Department of Labor pass-through agency to receive the employment and training funds for the Seattle-King County area. The King County Executive and the Mayor of the City of Seattle, serving as the chief elected officials (CEO) of the local area, have the joint power to appoint the members of the WDC board of directors and the joint responsibility for administrative oversight. An ongoing financial responsibility exists because the CEO is potentially liable to the grantor for disallowed costs. If expenditure of funds is disallowed by the grantor agency, the WDC can recover the funds in the following order: (1) the agency creating the liability; (2) the insurance carrier; (3) future program years; and (4) as a final recourse, from King County and the City of Seattle who each will be responsible for one-half of the disallowed amount. As of December 31, 2008, 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 2008, WDC has paid $0.5 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.

(13) COMMITMENTS

GENERAL

Capital Improvement Program

The City adopted the 2008-2009 Capital Improvement Program (CIP) which functions as a capital financing plan totaling $3.8 billion for the years 2008-2013. The adopted CIP for 2008 was $671.5 million, consisting of $435.2 million for City-owned utilities and $236.3 million for nonutility departments. The utility allocations are: $262.0 million for City Light, $79.5 million for Water, $73.8 million for Drainage and Wastewater, $10.0 million for Solid Waste, and $9.9 million for Seattle Public Utilities' technology projects. Expenditures may vary significantly based upon facility requirements and unforeseen events. A substantial portion of contractual commitments relates to these amounts.

CITY LIGHT

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

Table 13-1 **LONG-TERM PURCHASED POWER**

(In Average Annual Megawatts)

	2008	2007
Bonneville Power Administration Block	239.0	242.2
Bonneville Power Administration Slice	412.1	411.3
Lucky Peak	35.4	31.2
British Columbia - Ross Dam	35.3	35.8
State Line Wind	49.2	44.0
Grant County Public Utility District	2.6	2.9
Grand Coulee Project Hydroelectric Authority	29.6	29.1
British Columbia-Boundary Encroachment	1.9	1.9
Renewable Energy	2.2	-
Exchange Energy at fair value	17.1	6.3
Long-Term Purchased Power Booked Out	(34.9)	(22.5)
Total Long-Term Purchased Power	789.5	782.2

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 2008 or 2007.

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

BPA's Residential Exchange Program (REP) was established as a mechanism to distribute financial benefits of the Federal Columbia River Power System to residential customers of the region's investor owned utilities (IOUs). In May 2007, the Ninth Circuit Court rulings found the 2000 REP Settlement Agreements with IOUs inconsistent with the Northwest Power Act. In 2008 the Utility received $24.4 million in interim payments and billing credits related to both the Block and Slice agreements.

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

Lucky Peak

In 1984 the Utility entered into a purchase power agreement with four irrigation districts to acquire 100 percent of the net surplus output of a hydroelectric facility that began commercial operation in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the Federal Energy Regulatory Commission (FERC) license expires in 2030. The agreement, which expires in 2038, obligates the Utility to pay all ownership and operating costs, including debt service, over the term of the contract, whether or not the plant is operating or operable. To properly reflect its rights and obligations under this agreement, the Utility included as an asset and liability the outstanding principal of the project's debt, net of the balance in the project's reserve account. The project's debt matured and was paid in full in July 2008 and accordingly, the asset and liability previously recorded were amortized to zero as of December 31, 2008.

British Columbia-High Ross Treaty

In 1984 an agreement was reached between the Province of British Columbia and the City of Seattle under which British Columbia will provide the Utility with energy equivalent to that which would have resulted from an addition to the height of Ross Dam. Delivery of this energy began in 1986 and is to be received for 80 years.

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

Energy Exchanges

Northern California Power Agency (NCPA) and the Utility executed a long-term Capacity and Energy Exchange Agreement in March 1993. The Utility delivers energy to NCPA from June through October 15. NCPA returns energy under conditions specified in the contract at a 1.2:1 ratio of exchange power from November through April. The agreement, which includes a financial settlement option, may be terminated effective May 31, 2014, or any May 31 thereafter with seven years' advance written notice by either party.

Renewable Energy Purchase and/or Exchanges

The Energy Independence Act, Chapter 19.285 Revised Code of Washington, requires qualifying utilities in Washington State to meet certain annual targets of eligible new renewable resources and/or equivalent renewable energy credits as a percentage of total energy delivered to retail customers. The annual targets are: at least 3 percent by 2012, at least 9 percent by 2016, and at least 15 percent by 2020. Similar legislation is in effect or contemplated in other states. Long-term renewable purchase or exchange agreements were executed with the Sacramento Municipal Utility District in 2007 and City of Redding in 2008. There were no renewable energy transactions with City of Redding during 2008.

Fair Value of Exchange Energy

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

Estimated Future Payments under Purchase Power and Transmission Contracts

The Utility's estimated payments under its contracts with BPA, the Public Utility Districts (PUDs), irrigation districts, Lucky Peak Project, British Columbia – High Ross Agreement, PacifiCorp Power Marketing Inc. (now Iberdrola Renewables), 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 13-2 **ESTIMATED FUTURE PAYMENTS UNDER PURCHASE POWER CONTRACTS AND TRANSMISSION CONTRACTS**

(In Thousands)

Year Ending December 31		Estimated Payments [a]
2009		$ 257,222
2010		278,728
2011		274,054
2012		258,907
2013		261,600
2014 - 2018		1,405,881
2019 - 2023		1,445,214
2024 - 2028	b, c	1,204,439
2029 - 2033		52,340
2034 - 2038	d	53,728
2039 - 2043		3,183
2044 - 2065		18,913
Total		$ 5,514,209

[a] 2009 to 2015 includes estimated REP recoveries from BPA.

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

[c] BPA new Block and Slice contract expires September 30, 2028.

[d] Lucky Peak contract expires September 30, 2038.

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

Payments under these long-term power contracts totaled $219.2 million and $230.8 million in 2008 and 2007, respectively. Payments under the transmission agreements amounted to $39.9 million and $37.1 million in 2008 and 2007, 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, 2008, to be $97.4 million, of which $63.7 million had been expended. South Fork Tolt costs were estimated at $5.3 million, of which $1.8 million was expended through 2008. 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 September 30, 2009. Application process costs are estimated at $61.3 million, of which $36.2 million had been expended and deferred as of December 31, 2008. 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. These requirements include minimum flow targets for the entire Columbia Basin designed to maximize the survival of migrating salmon and steelhead. 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 incidental observations have been made 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 was finalized by the USFWS in 2008. The USFWS is presently completing a five-year review of the bull trout listing, which designated this species as listed within coterminous United States. Critical habitat was designated for bull trout by the USFWS, and includes the Skagit and Tolt Rivers and Lake Washington downstream of the Cedar River. All critical habitat designations are downstream of the 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 that mainstream rivers downstream of the City's hydroelectric projects. The recovery planning process for Puget Sound steelhead was initiated by NOAA Fisheries in 2008.

The Puget Sound Steelhead Technical Recovery Team is presently identifying the distinct populations and recovery targets for in the region. 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. Total costs through 2011, estimated at December 31, 2008, for the ESA were $38.5 million, of which $31.9 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 $1.4 million and $1.3 million to Pend Oreille County, and $0.9 million and $0.9 million to Whatcom County in 2008 and 2007, respectively.

Effective February 2009 the Utility renewed its contract with Whatcom County, committing to pay a total of $15.8 million over 15 years ending in 2023. The Utility is currently in negotiations with Pend Oreille County.

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 required the Utility to refund the amount collected from ratepayers since December 1999 attributable to streetlight costs. A total of $20.0 million in refunds, net of attorney and administrative fees, was paid to ratepayers by the end of December 2006.

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 2008 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 $57.0 million thru 2008. The remaining cost of $42.6 million is comprised of a $9.6 million liability and an estimate of $33.0 million for construction and operating commitments. The construction activities will be capitalized and the operating activities will be expensed as incurred.

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. In 2008 the Water Fund paid $1.3 million in lieu of the White River property. The remaining $0.5 million liability was held for the purchase of the Yakima Pass property to be transferred to the Tribe after acquisition. Due to delays in acquiring the Yakima Pass property, the remaining $0.5 million liability was recorded in the other noncurrent liabilities.

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 $162.7 million through the year 2013, and the cost beyond 2013 is not estimable. The total cost incurred as of December 31, 2008, was $67.2 million. Seattle Public Utilities has $13.3 million of authorized Public Works Trust loans from WDOH to fulfill its obligation to improve the security of the drinking water system. As of December 31, 2008, an amount of $10.3 million was outstanding on the loans and $3.0 million was authorized and available.

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 will supply water up to an annual average of 1.1 million gallons per day at the basic services rates until January 1, 2067.

Drainage and Wastewater Fund

Wastewater Disposal Agreement

SPU has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division 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 2008 and 2007 payments to the Division were approximately $98.0 million and $97.3 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 2008 and 2007 were $22.0 million and $22.4 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 $17.6 million in 2008 and $19.5 million in 2007 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 $15.3 million and $15.8 million in 2008 and 2007, respectively. The contracts were scheduled to 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 $1.7 million and $1.8 million in 2008 and 2007, respectively.

Landfill Closure and Postclosure Care

At December 31, 2008 and 2007, 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.

(14) 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 2008 to resolve litigation. No structured settlements were entered into by the City in 2008. No large liability settlements were received in 2008, and a liability settlement of $5.3 million was received from an insurer in 2007. No settlements made in 2008, 2007, or 2006 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 2008 on data as of year-end 2007 and for health care as of year-end 2008. IBNR undiscounted totaled $52.1 million and $7.2 million at December 31, 2008 and 2007, respectively. The $44.9 million increase in the IBNR amount in 2008 compared to 2007 was mainly due to the higher estimates of liabilities by $21.1 million while the liability reserves decreased by $22.5 million. Changes in the reserves and liability estimates for workers' compensation claims accounted for the remaining $1.3 million change in IBNR.

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

Claims liabilities include claim adjustment expenditures if specific and incremental to a claim. Recoveries from unsettled claims, such as salvage or subrogation, and on settled claims are deposited in the General Fund and do not affect reserves for general government. Workers' compensation annual subrogation recoveries amounted to $0.2 million in both years 2008 and 2007. All workers' compensation recoveries are deposited into the General Fund. Lawsuit and other claim recoveries of payments reimbursed by the utilities are deposited into the paying utility fund and do not affect the utility reserves.

Claim liabilities recorded in the financial statements are discounted at 3.905 percent for 2008 and 5.075 percent for 2007, the City's average annual rates of return on investments. The total discounted liability at December 31, 2008, was $117.4 million consisting of $87.2 million for general liability, $3.2 million for health care, and $27.0 million for workers' compensation.

Table 14-1

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

	General Liability 2008	General Liability 2007	Health Care 2008	Health Care 2007	Workers' Compensation 2008	Workers' Compensation 2007	Total City 2008	Total City 2007
UNDISCOUNTED								
Balance - Beginning of Fiscal Year	$ 77,139	$ 53,536	$ 3,424	$ 3,188	$ 28,949	$ 25,197	$ 109,512	$ 81,921
Less Payments and Expenses During the Year	(26,017)	(15,364)	(69,836)	(66,765)	(11,582)	(11,609)	(107,435)	(93,738)
Plus Claims and Changes in Estimates	47,098	38,967	69,693	67,001	13,444	15,361	130,235	121,329
Balance - End of Fiscal Year	$ 98,220	$ 77,139	$ 3,281	$ 3,424	$ 30,811	$ 28,949	$ 132,312	$ 109,512
UNDISCOUNTED BALANCE AT END OF FISCAL YEAR CONSISTS OF								
Governmental Activities	$ 70,932	$ 56,388	$ 3,281	$ 3,424	$ 22,303	$ 21,109	$ 96,516	$ 80,921
Business-Type Activities	27,287	20,750	-	-	8,508	7,840	35,795	28,590
Fiduciary Activities	1	1	-	-	-	-	1	1
Balance - End of Fiscal Year	$ 98,220	$ 77,139	$ 3,281	$ 3,424	$ 30,811	$ 28,949	$ 132,312	$ 109,512
DISCOUNTED/RECORDED BALANCE AT END OF FISCAL YEAR CONSISTS OF								
Governmental Activities	$ 63,011	$ 49,012	$ 3,158	$ 3,259	$ 19,552	$ 17,843	$ 85,721	$ 70,114
Business-Type Activities	24,239	18,035	-	-	7,458	6,627	31,697	24,662
Fiduciary Activities	1	1	-	-	-	-	1	1
Balance - End of Fiscal Year	$ 87,251	$ 67,048	$ 3,158	$ 3,259	$ 27,010	$ 24,470	$ 117,419	$ 94,777

Pending litigations, claims, and other matters are as follows:

- Boeing West Substation. In 2002 the Boeing Company discovered PCB contamination in soil adjacent to a City Light substation at Boeing's Plant 2. Boeing claims the contamination came from City Light equipment and that City Light is therefore liable for more than $2.0 million that Boeing has spent and is still spending to investigate and remove contaminated material. City Light denies that its equipment was the source and considers its liability to be zero. However, whether or not City Light will ultimately be deemed liable is unknown.

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

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

  California Refund Case, Appeals, and Related Litigation. In the proceeding before the Federal Energy Regulatory Commission (FERC) various public and private California entities sought refunds in wholesale electric 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. This matter is considered resolved after the City completed the wetland mitigation work required in its settlement with the Army Corps of Engineers.

- World Trade Organization (WTO) Conference. The WTO Conference was held in Seattle in 1999. This event spawned 407 claims and 26 lawsuits against the City. All of these claims and actions have been resolved. No material amounts were paid in 2009 and since the City's insurance company has accepted responsibility for all exposures in excess of the self-insured retention amount, which has been exhausted, no further monies will be paid by the City.

- State Route 519 Improvements. Part of these improvements included the movement of a Burlington Northern Santa Fe Railroad (BNSF) spur track. The City and BNSF entered into a contract regarding the movement of the spur track. In part, the contract provided that BNSF would move its spur track upon the City's construction contractor providing BNSF with the contractually specified notice. Even though BNSF was given the required notice, BNSF failed to move the spur track. As a result, the City has paid material sums of money for an improvement that is not usable unless the spur 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.

- Business Tax Refunds. Four cases involving potential tax refunds were filed as follows. (1) A telecommunications company filed a case with the City of Seattle Hearing Examiner in December 2005 challenging approximately $4.0 million to $5.5 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) An assessment of the City's telephone utility tax against cable modem providers was appealed. 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 petitioned the Washington Supreme Court for review of the Court of Appeals' decision. The review was accepted and the Washington Supreme Court ruled in favor of the cable company. No further amounts are due and owing. (3) A health care organization appealed an assessment of the City's business and occupation (B&O) tax on income received for its provision of medical services to its members. The company 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 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. The Court of Appeals ruled in favor of the City on the issue of validity of the City's B&O tax in July 2008. However, the Court ruled in favor of the health care organization on the issue of premiums, resulting in a refund of the full amount of the assessment plus interest. No further amounts are due and owing. (4) A Seattle-based company appealed its B&O tax assessment in 2008. The case is set for a hearing before the City of Seattle Hearing Examiner in June 2009. The issue on appeal is whether the company is allowed to allocate the income earned from its 450 Seattle-based employees to a California Limited Liability Company. The California company has no employees and no property. The company performs services in Seattle and, pursuant to a contract with the California company, sends out invoices in the California company's name. The Department of Executive Administration, Revenue and Consumer Affairs assessed the Seattle company for the income. If the Seattle company prevails, it is possible that other companies will attempt to use similar structures to avoid taxes. It is not possible to predict the likelihood of a material adverse outcome.

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

  In October 2008 the Washington Supreme Court ruled in the City's favor on the excise tax issue, holding that the City had the authority to impose the tax on SPU. However, the Court disagreed with the position taken by the City on the interest rate issue, holding that the City must pay the statutory rate of 12 percent interest on refund payments. The King County Superior Court entered final judgment in the case in December 2008. The judgment required the General Fund to pay SPU $13.6 million plus 3.18 percent interest from the date of the final judgment until paid. The judgment required

SPU to pay $4.1 million to plaintiffs' counsel in attorneys' fees, $37,760 for reimbursement for plaintiffs' litigation expenses, and $5,000 to the class representative. The judgment further required SPU to make refunds to water ratepayers for fire hydrant expenses that had been included in water bills for the period March 1, 2002, through December 31, 2004, plus 12 percent interest until paid. The total amount to be refunded to ratepayers was $20.3 million plus 12 percent interest less the amounts listed above for attorneys' fees, litigation expenses, and class representative payments. Finally, the judgment required the City of Burien to pay SPU $131,533 and required the City of Lake Forest Park to pay SPU $74,171 plus interest on both payments of 3.18 percent interest from April 30, 2007, until paid.

- Cedar River Sockeye Hatchery. A lawsuit was filed alleging that the National Marine Fisheries Service erred in issuing an incidental take permit to the City for SPU's planned construction and operation of a sockeye hatchery based on the Cedar River Habitat Conservation Plan. The City intervened as a defendant. It is impossible to predict whether a material adverse outcome will result. If the lawsuit results in SPU being unable to construct the hatchery, then, under a settlement of another lawsuit with the Muckleshoot Tribe, SPU would owe the Tribe up to $14.0 million.

- Grand Coulee Project Hydro Authority (GCPHA) Litigation. The City and the City of Tacoma (the "Cities") are in an ongoing contract dispute with the GCPHA over the amount of incentive payments due to the GCPHA under five identical long-term power purchase contracts. Seattle and Tacoma each are responsible for half of the incentive payments. The paid but disputed amount for contract years 2002 and 2003 (approximately $5.4 million) was submitted to an arbitrator in May 2006. Thereafter the GCPHA claimed approximately $2.0 million for the 2004 contract year. The court prevented the GCPHA from collecting on that invoice while the arbitration proceeded but required the Cities to deposit the 2004 disputed amount with the court. The GCPHA then claimed $3.4 million in incentive payments for the 2005 contract year, and the Cities again were ordered to deposit that amount with the court. The arbitrator ultimately decided against the Cities on the 2002 and 2003 contract years, and the court denied the Cities request for refunds. Based on this decision the court released the disputed $5.4 million for contract years 2004 and 2005 to the GCPHA. The Cities appealed the trial court's decision to confirm the arbitrator's decision. In 2008 the Court of Appeals affirmed the trial court and arbitrator decisions, ending the litigation.

- Underground Reservoirs Construction. During the course of construction of the new covered underground reservoirs, the City discovered leaking in the roofs of the reservoirs. The City directed the contractor to make repairs. Both the City and the contractor filed claims with the City's builder's risk insurer. The builder's risk insurer denied coverage in April 2009. The contractor as an additional insured under the builder's risk policy filed suit against the builder's risk insurer, claiming that the denial of coverage was made in bad faith and claiming damages of not less than $2.0 million. Additionally, as part of its lawsuit the contractor alleged that the leaking was caused by defective design. It is not possible to predict the outcome of this matter.

- 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, 2008, eight accounts remained outstanding with a combined total amount of $20.0 million. BEDI grant funds amounting to $1.5 million are being held as loan loss reserves for seven 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, of which $59,355,000 was outstanding at December 31, 2008. 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 $483,742 was outstanding at December 31, 2008. The bonds will be fully retired by November 1, 2011.

Special obligation refunding bonds issued on November 1, 1996, in the amount of $6,210,000 to refund Series 1991A. The outstanding amount at December 31, 2008 was $4,630,000. 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, $4,715,000 of which was outstanding on December 31, 2008. 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, 2008 was $2,835,000. 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, 2008 was $2,565,000. 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, 2008. 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, 2008 was $2,700,000. The bonds will be fully retired on November 1, 2017.

Special obligation revenue refunding bonds issued on November 1, 2004, in the amount of $5,210,000, of which $5,060,000 was outstanding as of December 31, 2008. The bonds will be fully retired on November 1, 2024.

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

Prior-period adjustments in government-wide financial statements under governmental activities include the following: (1) 2008 reduction in work in progress for work done by the Department of Information Technology in the amount of $1.3 million inadvertently recorded as capital asset in 2006 when the asset was actually owned by an outside entity and (2) 2008 reduction in land of $3.6 million purchased by the Department of Parks and Recreation was accounted twice in the City's Asset Management system, once in 2000 and again in 2003.

A prior-period adjustment and a restatement of 2007 liabilities and revenues and expenses and change in equity in government-wide financial statements under business-type activities resulted from the implementation of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* in the Light Fund. The prior-period adjustment represents a decrease of $9.8 million in environmental liabilities at the end of 2006 and a restatement of environmental liabilities at the end of 2007 by an increase of $2.6 million.

The above adjustments affected the 2007 government-wide financial statements as follows: (1) Increased net assets by $2.4 million with reduction of government-wide assets by $4.8 million and net liabilities going down by $7.2 million and (2) Increased changes in net assets for $7.3 million.

Certain reclassifications were made in the financial statements for prior years to conform to the presentation in the current year.

(16) SUBSEQUENT EVENTS

Bond Issues. On March 25, 2009, pursuant to City Ordinance 122848, the City issued the Limited Tax General Obligation Improvement and Refunding Bonds, 2009, in the amount of $99.86 million. The proceeds of the bonds are used to pay for part of the cost of various capital projects and to currently refund all $4.63 million outstanding City-guaranteed Pike Place Special Obligation Bonds, 1996, issued by the Pike Place Market Preservation and Development Authority, a City instrumentality, to realize debt service savings.

On February 4, 2009, the City called all outstanding Municipal Light & Power (ML&P), Series 1990, 1991, 1993, and 1996 adjustable-rate revenue bonds totaling $72.0 million. The refunding bond proceeds of the 2008 ML&P Revenue and Refunding Bonds issued in December 2008 were specifically set aside in the Light Fund's Debt Service Account for this purpose.

Also on February 4, 2009, the City called all outstanding Municipal Water, Series 1995 and 2002 adjustable-rate revenue bonds totaling $93.0 million. The refunding bond proceeds of the 2008 Municipal Water System Improvement and Refunding Bonds issued in December 2008 were specifically set aside in the Water Fund's Debt Service Account for this purpose.

Fair Value of Pooled and Dedicated Investments. On December 16, 2008, the Federal Reserve Board set its target Federal Funds rate to a range from 0 percent to 0.25 percent and has left the rate unchanged at subsequent Federal Open Market Committee meetings on January 28, 2009, March 18, 2009, and April 29, 2009. Interest rates have increased along the yield curve since year-end 2008, but changes in the fair value of the City's investment pool and dedicated investments have been insignificant through April 2009 due to the short duration of the investments.

Purchase of Land and Related Environmental Remediation. In March 2009 City Light consummated an agreement to purchase land in downtown Seattle for a proposed new substation in the amount of $31.8 million. As part of the agreement, an environmental investigation was performed to assess the nature and extent of existing hazardous substances on the property purchased. The agreement allowed for a remediation credit against the purchase price representing the estimated cost of environmental remediation of the property. The remediation credit was determined to be approximately $6.0 million. City Light is responsible for performing environmental remediation for this purchased property.

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GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended December 31, 2008
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance
REVENUES				
Taxes				
General Property Taxes	$ 234,478	$ 234,478	$ 238,258	$ 3,780
Retail Sales and Use Taxes	175,637	175,637	171,917	(3,720)
Business Taxes	221,492	221,492	217,304	(4,188)
Excise Taxes	56,146	56,146	36,257	(19,889)
Other Taxes	-	-	2,193	2,193
Interfund Business Taxes	79,666	79,666	79,526	(140)
Total Taxes	767,419	767,419	745,455	(21,964)
Licenses and Permits	17,294	17,294	18,269	975
Grants, Shared Revenues, and Contributions	25,308	40,493	19,725	(20,768)
Charges for Services	49,265	53,370	62,547	9,177
Fines and Forfeits	21,540	21,540	22,110	570
Parking Fees and Space Rent	22,261	22,261	20,625	(1,636)
Program Income, Interest, and Miscellaneous Revenues	156,600	156,636	25,932	(130,704)
Total Revenues	1,059,687	1,079,013	914,663	(164,350)
EXPENDITURES AND ENCUMBRANCES				
Current				
General Government	186,859	201,518	181,240	20,278
Judicial	25,988	26,738	26,584	154
Public Safety	401,462	432,486	415,201	17,285
Utilities and Environment	8,166	8,688	8,180	508
Transportation	12,291	12,258	11,355	903
Economic Environment	20,538	26,244	20,871	5,373
Health and Human Services	1,701	951	272	679
Culture and Recreation	15,189	14,506	5,545	8,961
Capital Outlay				
General Government	46,473	49,940	12,027	37,913
Public Safety	5,067	4,116	2,426	1,690
Utilities and Environment	20	20	5	15
Transportation	10,934	10,934	-	10,934
Economic Environment	7,770	2,720	-	2,720
Culture and Recreation	78,885	75,562	31,191	44,371
Total Expenditures and Encumbrances	821,343	866,681	714,897	151,784
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	238,344	212,332	199,766	(12,566)
OTHER FINANCING SOURCES (USES)				
Sales of Capital Assets	-	-	373	373
Transfers In	5,093	4,273	7,440	3,167
Transfers Out	(257,917)	(266,135)	(263,197)	2,938
Total Other Financing Sources (Uses)	(252,824)	(261,862)	(255,384)	6,478
Net Change in Fund Balance	$ (14,480)	$ (49,530)	(55,618)	$ (6,088)
Fund Balance - Beginning of Year			315,886	
Encumbrances Continued from Last Year			5,727	
Changes in Unappropriable Reserves			1,875	
Fund Balance (Budgetary) - End of Year			267,870	
Adjustments to Conform to Generally Accepted Accounting Principles				
Reserves Not Available for Appropriation			1,258	
Encumbrances			2,282	
Reimbursements				
Budgeted as Revenues			(11,342)	
Budgeted as Expenditures			11,342	
Pass-Thru Receipts				
Budgeted as Revenues			(359)	
Budgeted as Expenditures			359	
Fund Balance (GAAP) - End of Year			$ 271,410	

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TRANSPORTATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended December 31, 2008
(In Thousands)

	Budgeted Amounts			
	Original	Final	Actual	Variance
REVENUES				
Taxes				
General Property Taxes	$ 37,121	$ 37,121	$ 37,517	$ 396
Business Taxes	3,920	3,920	12,727	8,807
Other Taxes	5,507	5,507	4,329	(1,178)
Interfund Business Taxes	-	-	214	214
Total Taxes	46,548	46,548	54,787	8,239
Licenses and Permits	2,150	2,150	10,036	7,886
Grants, Shared Revenues, and Contributions	49,566	59,482	34,279	(25,203)
Charges for Services	37,155	40,572	25,336	(15,236)
Fines and Forfeits	-	-	10	10
Parking Fees and Space Rent	-	-	63	63
Program Income, Interest, and Miscellaneous Revenues	450	450	389	(61)
Total Revenues	135,869	149,202	124,900	(24,302)
EXPENDITURES AND ENCUMBRANCES				
Current				
Transportation	140,742	146,678	93,811	52,867
Capital Outlay				
Transportation	140,627	178,288	100,636	77,652
Debt Service				
Principal	-	845	2,185	(1,340)
Interest	6,167	6,167	356	5,811
Total Expenditures and Encumbrances	287,536	331,978	196,988	134,990
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	(151,667)	(182,776)	(72,088)	110,688
OTHER FINANCING SOURCES (USES)				
Proceeds of Long-Term Debt	378	378	-	(378)
Transfers In	50,685	66,593	86,673	20,080
Transfers Out	-	(1,842)	(5,344)	(3,502)
Total Other Financing Sources (Uses)	51,063	65,129	81,329	16,200
Net Change in Fund Balance	$ (100,604)	$ (117,647)	9,241	$ 126,888
Fund Balance - Beginning of Year			23,321	
Encumbrance Continued from Last Year			40	
Fund Balance (Budgetary) - End of Year			32,602	
Adjustments to Conform to Generally Accepted Accounting Principles				
Reserves Not Available for Appropriation			2	
Fund Balance (GAAP) - End of Year			$ 32,604	

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LOW-INCOME HOUSING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended December 31, 2008
(In Thousands)

	Budgeted Amounts			
	Original	Final	Actual	Variance
REVENUES				
Taxes				
General Property Taxes	$ 12,118	$ 12,118	$ 11,725	$ (393)
Grants, Shared Revenues, and Contributions	12,075	12,075	8,059	(4,016)
Charges for Services	1,832	1,832	35	(1,797)
Parking Fees and Space Rent	-	-	27	27
Program Income, Interest, and Miscellaneous Revenues	10,160	11,101	15,070	3,969
Total Revenues	36,185	37,126	34,916	(2,210)
EXPENDITURES AND ENCUMBRANCES				
Current				
Economic Environment	48,521	49,579	30,594	18,985
Capital Outlay				
Economic Environment	45,690	45,749	12	45,737
Total Expenditures and Encumbrances	94,211	95,328	30,606	64,722
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	(58,026)	(58,202)	4,310	62,512
OTHER FINANCING SOURCES (USES)				
Sales of Capital Assets	-	-	32	32
Transfers In	4,950	4,950	2,074	(2,876)
Total Other Financing Sources (Uses)	4,950	4,950	2,106	(2,844)
Net Change in Fund Balance	$ (53,076)	$ (53,252)	6,416	$ 59,668
Fund Balance - Beginning of Year			56,399	
Encumbrance Continued from Last Year			7,186	
Fund Balance (Budgetary and GAAP) - End of Year			$ 70,001	

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PENSION PLAN INFORMATION
SCHEDULE OF FUNDING PROGRESS
December 31, 2008
(In Thousands)

Retirement System	Actuarial Valuation Date January 1, 2009	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
	2009	11,498	141,621	130,123	8.0	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
	2009	423	132,632	132,209	0.0	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.

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PENSION PLAN INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
December 31, 2008
(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	501,900	40,300	8.03	8.03	100
	2008 [d]	570,530	45,814	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
	2008	N/A	15,027	N/A	10,673	141
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
	2008	N/A	9,723	N/A	9,248	105

[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.

City of Seattle
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2008

Grantor Agency/Program		Passthru Agency	J/F	CFDA#	Grant Total
DEPARTMENT OF AGRICULTURE					
	Wetlands Reserve Program		F	10.072	4,530.00
	Child and Adult Care Food Program	Department of Agriculture	J	10.558	1,617,825.71
	Summer Food Service Program for Children	Dept of Social and Health Svcs	J	10.559	13,545.73
	State Administrative Matching Grants for Food Stamp Program	Department of Agriculture	J	10.561	32,255.76
	Commodity Supplemental Food Program	Public Health Seattle King County	J	10.565	-
	Senior Farmers Market Nutrition Program	Department of Agriculture	J	10.576	20,393.02
	Sub Total				**1,688,550.22**
DEPARTMENT OF COMMERCE					
	Economic Development Support for Planning Organizations		F	11.302	31,956.74
	Pacific Coast Salmon Recovery-Pacific Salmon Treaty Program	Washington State Recreation and Conservation Office (formerly the Office of the Interagency Committee)	J	11.438	762,805.04
	Sub Total				794,761.78
DEPARTMENT OF DEFENSE					
	Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation		F	12.607	280,000.00
	Sub Total				280,000.00
DEPARTMENT OF EDUCATION					
	TRIO-Upward Bound		F	84.047	451,735.40
	Early Reading First		F	84.359	918,890.62
	Sub Total				**1,370,626.02**
DEPARTMENT OF ENERGY					
	Weatherization Assistance for Low-Income Persons	DCTED	J	81.042	605,674.31
	Renewable Energy Research and Development		F	81.087	47,149.36
	Sub Total				652,823.67
DEPARTMENT OF JUSTICE					
	Urban Areas Security Initiative		F	16.011	-
	Urban Areas Security Initiative	Military Department	J	16.011	-
	Alcohol, Tobacco, and Firearms_Training Assistance		F	16.012	1,028.55
	Services for Trafficking Victims		F	16.320	341,105.79
	Services for Trafficking Victims	Other Agencies PJ1652	J	16.320	-
	Juvenile Accountability Incentive Block Grant	King County	J	16.523	12,220.60
	Grants to Reduce Violent Crimes Against Women on Campus		F	16.525	200,053.13
	Missing Childrens Assistance		F	16.543	277,537.76
	Edward Byrne Memorial State and Local Law Enforcem		F	16.580	699,925.06
	Grants to Encourage Arrest Policies and Enforcemen		F	16.590	8,236.52
	Local Law Enforcement Block Grants Program		F	16.592	-
	Community Capacity Development Office		F	16.595	199,669.24
	Bulletproof Vest Partnership Program		F	16.607	-
	Community Prosecution and Project Safe Neighborhoo		F	16.609	83,462.93
	Public Safety Partnership, Community Policing Grts		F	16.710	900,179.17
	Transitional Housing Assistance for Victims of Domestic Violence, Stalking, or Sexual Assault		F	16.736	65,642.61
	Edward Byrne Memorial Justice		F	16.738	84,780.14
	Sub Total				**2,873,841.50**
DEPARTMENT OF LABOR					
	Senior Community Service Employment Program	Dept of Social and Health Svcs	J	17.235	357,459.55
	WIA-Adult Program	Workforce Development Council	J	17.258	-
	WIA Youth Activities	Workforce Development Council	J	17.259	504,092.55
	Sub Total				**861,552.10**

City of Seattle
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2008

Grantor Agency/Program		Passthru Agency	J/F	CFDA#	Grant Total
DEPARTMENT OF TRANSPORTATION					
	Highway Planning and Construction	Department of Transportation	J	20.205	10,933,855.77
	Federal Transit Formula Grants		F	20.507	3,726,895.59
	Sub Total				**14,660,751.36**
ENVIRONMENTAL PROTECTION AGENCY					
	Brownfields Assessment & Cleanup Cooperative Agree		F	66.818	3,809.92
	Sub Total				**3,809.92**
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION					
	Employment Discrimination Title VII of the Civil R		F	30.001	-
	Sub Total				**-**
FEMA					
	Public Assistance Grants		F	83.544	203,598.68
	Public Assistance Grants	Military Department	J	83.544	136,167.18
	Emergency Management Performance	Military Department	J	83.552	-
	Sub Total				339,765.86
DEPARTMENT OF HEALTH AND HUMAN SERVICES					
	Public Health and Social Services Emergency Fund		F	93.003	25,070.67
	Special Programs for the Aging_Title VII, Chapter	Dept of Social and Health Svcs	J	93.041	21,680.00
	Special Programs for the Aging_Title III, Part D_D	Dept of Social and Health Svcs	J	93.043	111,787.00
	Special Programs for the Aging_Title III, Part B_G	Dept of Social and Health Svcs	J	93.044	2,203,044.71
	Special Programs for the Aging_Title III, Part C_N	Dept of Social and Health Svcs	J	93.045	2,281,555.79
	Alzheimer's Disease Demonstration Grants to States	Dept of Social and Health Svcs	J	93.051	148,800.60
	National Family Caregiver Support	Dept of Social and Health Svcs	J	93.052	761,238.00
	Nutrition Services Incentive Program	Dept of Social and Health Svcs	J	93.053	477,697.51
	Centers for Research and Demonstration for Health	Dept of Social and Health Svcs	J	93.135	7,507.92
	Drug-Free Communities Support Program Grants	Other Agencies	J	93.276	-
	Centers For Disease Control and Prevention	Department of Health	J	93.283	75,817.67
	Low-Income Home Energy Assistance	DCTED	J	93.568	773,808.43
	Child Care and Development Block Grant	Department of Agriculture	J	93.575	39,855.66
	Refugee and Entrant Assistance_Discretionary Grant	Dept of Social and Health Svcs	J	93.576	5,040.00
	Medical Assistance Program	Dept of Social and Health Svcs	J	93.778	23,077,671.95
	National Bioterrorism Hospital Preparedness Program		J	93.889	21,992.21
	Sub Total				30,032,568.12
DEPARTMENT OF HOMELAND SECURITY					
	State Domestic Preparedness Equipment Support Program		F	97.004	-
	State Domestic Preparedness Equipment Support Program	Military Department	J	97.004	-
	Urban Areas Security Initiative		F	97.008	-
	Urban Areas Security Initiative	Military Department	J	97.008	(64.62)
	National Urban Search and Rescue (US&R) Response System	King County	J	97.025	110,115.40
	Flood Mitigation Assistance	Military Department	J	97.029	-
	Public Assistance Grants		F	97.036	285,401.31
	Public Assistance Grants	Military Department	J	97.036	495,989.45
	Emergency Management Performance Grants		F	97.042	1,514.86
	Emergency Management Performance Grants	Military Department	J	97.042	348,236.25
	Assistance to Firefighters Grant		F	97.044	706,444.20
	Interoperable Communications Equipment		F	97.055	-
	FY05 Homeland Security Grant		F	97.067	22,406.94
	FY05 Homeland Security Grant	King County	J	97.067	3,153,135.66
	Metropolitan Medical Response System	Military Department	J	97.071	170,387.57
	Law Enforcement Terrorism Prevention Program	King County Office of Emergency Management	J	97.074	1,282,690.22
	Rail and Transit Security Grant Program	King County Transit Division	J	97.075	-
	Buffer Zone Protection Plan (BZPP)	Military Department	J	97.078	(7,021.05)
	Regional Catastrophic Preparedness Grant Program (RCPGP)	Military Department	J	97.111	79,556.85
	Sub Total				6,648,793.04

City of Seattle
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2008

Grantor Agency/Program	Passthru Agency	J/F	CFDA#	Grant Total
HOUSING AND URBAN DEVELOPMENT				
Community Development Block Grants/Entitlement Grants		F	14.218	12,297,639.63
Community Development Block Grants/Entitlement Grants	King County	J	14.218	3,000.00
Emergency Shelter Grants Program		F	14.231	477,226.00
Supportive Housing Program		F	14.235	7,966,611.71
Supportive Housing Program	King County	J	14.235	351,598.01
HOME Investment Partnerships Program		F	14.239	5,508,395.26
HOME Investment Partnerships Program	King County	J	14.239	6,500.00
Housing Opportunities for Persons with AIDS		F	14.241	1,590,604.64
CDBG-Brownfileds Economic Development Initiative		F	14.246	813,000.00
CDBG-Section 108 Loan Guarantees		F	14.248	1,667,000.00
Fair Housing Assistance Program State and Local		F	14.401	159,648.00
Public and Indian Housing	Seattle Housing Authority	J	14.850	727,751.57
Sub Total				**31,568,974.82**
NATIONAL ENDOWMENT FOR THE ARTS				
Promotion of the Arts Grants to Organizations and Individuals		F	45.024	15,000.00
Sub Total				15,000.00
INSTITUTE OF MUSEUM AND LIBRARY SERVICES				
IMLS State Library Program	Library Commission	J	45.310	347,977.00
Sub Total				347,977.00
Federal Grants				**92,139,795.41**

CITY OF SEATTLE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2008

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City's financial statements. The City uses the modified accrual basis in its governmental funds and the full accrual basis of accounting in its proprietary funds.

NOTE 2 - PROGRAM COST

The amounts shown as expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City's portion may be more than shown.

NOTE 3 - REVOLVING LOAN - PROGRAM INCOME

The City has revolving loan program for low income housing. Under this federal program, repayments to the City are considered program revenues and loans to eligible recipients are considered expenditures.

NOTE 4 - SECTION 108/BEDI PROGRAM

The City of Seattle participates in the HUD Section 108 loan program. In the Section 108 loan program, HUD obtains funds from private investors at a very low cost (i.e., low interest rate). Low cost funds are available because HUD guarantees repayment to the private investors. HUD, in turn provides the low cost funds to jurisdictions nationwide including the City of Seattle. The City re-lends the funds to private borrowers.

The City has used Section 108 loan funds in combination with proceeds from federal Brownfields Economic Development Initiative (BEDI) grants. BEDI Grant funds have been applied to subsidize interest obligations on the Section 108 loans, provide loan loss reserves on the Section 108 loans and pay direct project costs.

The City established a $15.5 million Section 108 loan fund with a companion $1.75 million BEDI grant to finance six projects, known as 211 First Avenue, the Buttnick Building, the City Loan Building, Compass Center, the Cadillac Hotel and Northgate South Commons, LLC. Proceeds from this Section 108/BEDI loan fund have been fully disbursed.

The City also established a $10.0 million Section 108 loan fund with a companion $2.0 million BEDI grant to finance multiple projects. Through the end of 2008, the City disbursed $4,065,000 Section 108 loan funds and $479,600 BEDI funds to two projects known as 17th and Jackson and the Bush Hotel.

The Bank of New York serves as the City's Custodian, disbursing Section 108 and BEDI funds to borrowers, receiving loan repayments from the borrowers, and making the City's loan repayments to HUD.

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 employees are located around the state to deliver our services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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

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Chief of Staff	**Ted Rutt**
Deputy Chief of Staff	**Doug Cochran**
Chief Policy Advisor	**Jerry Pugnetti**
Director of Audit	**Chuck Pfeil, CPA**
Director of Special Investigations	**Jim Brittain, CPA**
Director for Legal Affairs	**Jan Jutte, CPA, CGFM**
Director of Quality Assurance	**Ivan Dansereau**
Local Government Liaison	**Mike Murphy**
Communications Director	**Mindy Chambers**
Public Records Officer	**Mary Leider**
Main number	**(360) 902-0370**
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