Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

City of Seattle
King County

Audit Period
January 1, 2010 through December 31, 2010

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WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

September 30, 2011

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

Table of Contents

City of Seattle
King County
January 1, 2010 through December 31, 2010

Federal Summary 1

Schedule of Federal Audit Findings and Questioned Costs 3

Schedule of Audit Findings and Responses 28

Schedule of Prior Federal Audit Findings 32

Status of Prior Audit Findings 33

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards* 35

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 37

Independent Auditor's Report on Financial Statements 40

Financial Section 42

Federal Summary

City of Seattle
King County
January 1, 2010 through December 31, 2010

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

FINANCIAL STATEMENTS

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

Internal Control Over Financial Reporting:

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

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

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

FEDERAL AWARDS

Internal Control Over Major Programs:

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

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

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

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
20.507	ARRA - Federal Transit Formula Grants (Recovery Act)
20.205	ARRA - Highway Planning and Construction (Recovery Act)
81.042	ARRA - Weatherization Assistance for Low-Income Persons (Recovery Act)
66.468	ARRA - Capitalization Grants for Drinking Water State Revolving Funds (Recovery Act)
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program (Recovery Act)
14.241	Housing Opportunities for Persons with AIDS
17.235	ARRA - Senior Community Service Employment Program (Recovery Act)
16.804	ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants To Units Of Local Government (Recovery Act)
93.707	ARRA - Aging Cluster Congregate Nutrition Services for States (Recovery Act)
93.705	ARRA - Aging Cluster Home Delivered Nutrition Services for States (Recovery Act)
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG) (Recovery Act)
97.071	Metropolitan Medical Response System
14.239	HOME Investment Partnerships Program
93.044	Aging Cluster - Title III, Part B - Grants for Supportive Services and Senior Centers
93.045	Aging Cluster - Title III, Part C - Nutrition Services
93.053	Aging Cluster - Nutrition Services Incentive Program
97.067	Homeland Security Grant Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $3,000,000.

The City did not qualify as a low-risk auditee under OMB Circular A-133.

Schedule of Federal Audit Findings and Questioned Costs

City of Seattle
King County
January 1, 2010 through December 31, 2010

1. The Seattle Department of Transportation's allocation of certain costs is not fully supported by documentation required for federal grants.

CFDA Number and Title:	20.205 Highway Planning and Construction
Federal Grantor Name:	U.S. Department of Transportation
Federal Award/Contract Number:	ITS-2004(047), DEMO-FMSIB-CM-STPUL9999(490)
Pass-through Entity Name:	Department of Transportation
Pass-through Award/Contract Number:	LA5786, LA6279
Questioned Cost Amount:	$122,011

Background

All governments spending more than $500,000 in federal grant funds in a year are required to have an audit of compliance with federal grant requirements. The City of Seattle spent more than $132.5 million of federal funds in 2010. Of this, the Seattle Department of Transportation spent more than $30.3 million received from U.S. Department of Transportation. The City spent most of that money on roads ($26.6 million) and the remainder on transit ($3.6 million) and other programs. Each project that receives federal grant funds is subject to a specific grant agreement.

Regulations require grantees to maintain adequate documentation to demonstrate that federal dollars were spent only for allowed activities, for allowable costs and during the approved time period. Costs paid with federal funds must be accurately recorded in the recipient's accounting system. Costs allocated to federal awards should be supported by cost allocation plans consistent with federal requirements. Auditors must report control deficiencies when internal controls are not likely to prevent or detect noncompliance.

We have reported seven findings regarding the City's Transportation Department in our last four audits. The City has recognized an opportunity to further improve its city-wide accounting processes and policies and is advancing a project called Financial Management Accountability Program (FinMAP).

Description of Condition

Cost allocation

In 2010, the Department charged federal grants $122,011, mostly related to Intelligent Transportation System (ITS) work, using a funding plan that was developed based on the contractors' bid award which is an estimate of project costs. The Department then uses the funding plan to allocate actual costs to federal and other funding sources.

The allocations of certain Intelligent Transportation System costs are not fully supported by documentation required by federal cost principles prescribed by Office of Management and Budget Circular A-87 (2 CFR 225). The allocation plan is based on available funding sources and on the contractor bid award. Cost allocation plans based on estimates, projections and budgets should be compared to actual amounts and revised at least annually, or quarterly if needed. Otherwise, the City cannot ensure each project is charged its fair share of the costs. For example, employee salaries and benefits that are charged using estimates or budgets must be reconciled to the employee's actual effort spent on each project.

The Department has not compared its estimate-based cost allocation rates to the actual costs to ensure the amounts charged to each project were accurate and allocable.

Cost-accounting

The City's Transporation Department does not use specific account coding to directly identify federal grant expenditure transactions in the automated City-wide accounting system. As a result, the City's automated accounting system cannot readily generate reports needed to show details of federal expenditures. Such reports are needed for ongoing monitoring and for audit purposes.

Cause of Condition

The Department's accounting staff and management stated to us that they believed the allocated costs are not subject to requirements of Circular A-87 Attachment E.

The Department uses the City-wide accounting system differently than other City departments, which results in difficulty obtaining detailed listing of expenditures charged to federal grants. The Department records the total for which it seeks reimbursement from federal sources. The total costs recorded to the project include the portion reimbursable from the federal grant as well as the remaining portion funded from other sources. The original transactions are not specifically coded as federal in the accounting system.

Effect of Condition and Questioned Costs

Because the Department did not ensure its cost allocation plan resulted in each project being charged an allocable correct share of costs, we question $122,011. These amounts are subject to potential recovery by the grantor.

The City's Transportation Department is not able to efficiently generate reports of detailed accounting transactions paid with federal funds for ongoing monitoring purposes.

Recommendation

If the Department chooses to continue to allocate costs to federal grants, the Department should annually prepare cost allocation plans that comply with federal regulations.

The City should establish procedures for common use of its accounting system as part of the multi-year FinMAP project. Its Transportation Department should use the automated City-wide accounting system to segregate expenditure transactions paid with federal funds.

The Department has provided a written committment to make federal grant reporting simpler and continue its work with FinMAP. We look forward to verifying the improvements in the next audit. We also encourage the Department to use the City-wide comprehensive FinMAP project in its corrective action plan to address the conditions.

City's Response

The City agrees that the Seattle Department of Transportation has not performed the reconciliation for the $122,011 of allocated costs related to the ITS project. The Department's normal process is to perform this reconciliation when the project is complete. The ITS project was completed in 2011 and a final reconciliation will be performed.

If the Department uses cost allocation plans based on estimates to allocate actual costs in the future, it will provide the documentation and reconciliations required by federal regulations.

The Department will continue its participation in the multi-year FinMAP project. In the meantime, the Department will work to simplify federal grant reporting.

Auditor's Remarks

We support the City's comprehensive approach and recognize that making city-wide changes may extend beyond the immediate.

Applicable laws and Regulations

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

> Attachment A
>
> C. Basic Guidelines
>
>> 1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:
>>
>>> b. Be allocable to Federal awards under the provisions of 2 CFR part 225 . . .
>>>
>>> d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items . . .

f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost . . .

j. Be adequately documented . . .

3. Allocable costs.

a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

b. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.

c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.

d. Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in Attachments C, D and E . . .

D. Composition of Cost

1. Total cost. The total cost of Federal awards is comprised of the allowable direct cost of the program, plus its allocable portion of allowable indirect costs, less applicable credits.

2. Classification of costs. There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost. Guidelines for determining direct and indirect costs charged to Federal awards are provided in the sections that follow.

E. Direct Costs

1. General. Direct costs are those that can be identified specifically with a particular final cost objective.

2. Application. Typical direct costs chargeable to Federal awards are:

a. Compensation of employees for the time devoted and identified specifically to the performance of those awards.

b. Cost of materials acquired, consumed, or expended specifically for the purpose of those awards.

c. Equipment and other approved capital expenditures.

d. Travel expenses incurred specifically to carry out the award.

3. Minor items. Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

F. Indirect Costs

1. General. Indirect costs are those: Incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

2. Cost allocation plans and indirect cost proposals. Requirements for development and submission of cost allocation plans and indirect cost rate proposals are contained in Appendices C, D, and E to this part . . .

H. Required Certifications. Each cost allocation plan or indirect cost rate proposal required by Attachments C and E must comply with the following:

1. No proposal to establish a cost allocation plan or an indirect cost rate, whether submitted to a Federal cognizant agency or maintained on file by the governmental unit, shall be acceptable unless such costs have been certified by the governmental unit using the Certificate of Cost Allocation Plan or Certificate of Indirect Costs as set forth in Attachments C and E. The certificate must be signed on behalf of the governmental unit by an individual at a level no lower than chief financial officer of the governmental

unit that submits the proposal or component covered by the proposal.

Attachment B, Section 8(h) - Support of salaries and wages.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent . . .

Attachment E

A. General.

1. Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefitted cost objectives. A cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost.

2. Indirect costs include the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards and the costs of central governmental services distributed through the central service cost allocation plan (as described in Appendix C to this part) and not otherwise treated as direct costs.

D. Submission and Documentation of Proposals.

1. Submission of indirect cost rate proposals.

a. All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

F. Other Policies

3. Indirect cost allocations not using rates. In certain situations, a governmental unit, because of the nature of its awards, may be required to develop a cost allocation plan that distributes indirect (and, in some cases, direct) costs to the specific funding sources. In these cases, a narrative cost allocation methodology should be developed, documented, maintained for audit, or submitted, as appropriate, to the cognizant agency for review, negotiation, and approval.

Title 49, Code of Federal Regulations, Section 18.20 -*Standards for financial management systems* is the federal administrative law that sets the minimum requirements for the grant recipients' financial management system. It states, in part:

(a) . . . Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to—

(1) Permit preparation of reports required by this part and the statutes authorizing the grant, and

(2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

(2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

(3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes . . .

(5) Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.
(6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills,

payrolls, time and attendance records, contract and subgrant award documents, etc.

Government Auditing Standards (The Yellow Book), states in part:

> 1.02 The concept of accountability for use of public resources and government authority is key to our nation's governing processes. Government officials entrusted with public resources are responsible for carrying out public functions legally, effectively, efficiently, economically, ethically, and equitably. Government managers are responsible for providing reliable, useful, and timely information for accountability of government programs and their operations.
>
> Appendix I, A1.08 Government managers have fundamental in Accountability responsibilities for carrying out government functions. (See paragraph 1.02.) Management of the audited entity is responsible for
>
> > a. using government resources legally, effectively, efficiently, economically, ethically, and equitably to achieve the purposes for which the resources were furnished or the program was established;
> >
> > b. complying with applicable laws and regulations (including identifying the requirements with which the entity and the official are responsible for compliance);
> >
> > c. implementing systems designed to achieve compliance with applicable laws and regulations;
> >
> > d. establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; using resources efficiently, economically, effectively, and equitably, and safeguarding resources; following laws and regulations; and ensuring that management and financial information is reliable and properly reported;
> >
> > e. providing appropriate reports to those who oversee their actions and to the public in order to demonstrate accountability for the resources and authority used to carry out government programs and the results of these programs;
> >
> > f. addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations;
> >
> > g. following sound procurement practices when contracting for audits and attestation engagements, including ensuring procedures are in place for monitoring contract performance; and
> >
> > h. taking timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that auditors report to it.

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

Section 300.

The auditee shall:

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

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Section 105.

Internal control means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

(1) Effectiveness and efficiency of operations;
(2) Reliability of financial reporting; and
(3) Compliance with applicable laws and regulations.

Internal control pertaining to the compliance requirements for Federal programs (Internal control over Federal programs) means a process--effected by an entity's management and other personnel--designed to provide reasonable assurance regarding the achievement of the following objectives for Federal programs:

(1) Transactions are properly recorded and accounted for to:

(i) Permit the preparation of reliable financial statements and Federal reports;

(ii) Maintain accountability over assets; and

(iii) Demonstrate compliance with laws, regulations, and other compliance requirements;

(2) Transactions are executed in compliance with:

(i) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and
(ii) Any other laws and regulations that are identified in the compliance supplement; and

(3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Section 500(d)(4).

Requires the auditor to test specific transactions which one of the reasons that the Department should be able to generate detail expenditure reports:

(4) The compliance testing shall include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient evidence to support an opinion on compliance.

Section 510.

(a) Audit findings reported. The auditor shall report the following as audit findings in a schedule of findings and questioned costs:

(1) Significant deficiencies in internal control over major programs . . . The auditor shall identify significant deficiencies which are individually or cumulatively material weaknesses.

(2) Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program . . .

(3) Known questioned costs which are greater than $10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor shall also report known questioned costs when likely questioned costs are greater than $10,000 for a type of compliance requirement for a major program. In reporting questioned costs, the auditor shall include information to provide proper perspective for judging the prevalence and consequences of the questioned costs . . .

(7) Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee in accordance with §___.315(b) materially misrepresents the status of any prior audit finding.

Schedule of Federal Audit Findings and Questioned Costs

City of Seattle
King County
January 1, 2010 through December 31, 2010

2. The City's internal controls were inadequate to ensure payments to a subrecipient were supported and the subrecipient's activities were adequately monitored.

CFDA Number and Title:	14.241 Housing Opportunities for Persons with AIDS
Federal Grantor Name:	U.S. Department of Housing and Urban Development
Federal Award/Contract Number:	WAH10F-001
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$172,611

Background

During 2010, the City spent $1,661,005 of Housing Opportunities for Persons with AIDS (HOPWA) program funds. The program is designed to provide state and local governments with resources and incentives to devise long-term strategies for meeting the housing needs of persons with AIDS or related diseases and their families. The City paid more than 96 percent of these program funds to six subrecipient social services providers in the area.

Federal regulations require recipients of federal funds to establish and follow internal controls to ensure program requirements are followed. These controls include knowledge of grant requirements and monitoring program activities. Federal audit standards require the auditor to report deficiencies in internal controls. The pass-through organizations are required to monitor the subrecipients and assume the ultimate responsibility for compliance with federal regulations.

Description of Condition

We examined the supporting documentation for the funding passed through to five subrecipients of HOPWA funds. We found five subrecipients were providing sufficient documentation to allow the City to monitor their activities and to ensure federal funds were being spent on allowable costs, activities allowed, and otherwise eligible.

However, we found the City passed through $172,611 (or 10.4 percent of total HOPWA funds) to one subrecipient in 2010 without receiving adequate supporting documentation. For these costs the City only received a summary invoice. The City did not receive detailed supporting documents to know whether the passed through money was used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

In addition, the City was not adequately monitoring the activities of the subrecipient. The City's standard approach to monitoring subrecipients in this program was to perform a desk review of documentation that accompanies the request for funds. The City did not receive documents from the subrecipient that would allow it to monitor whether the activities of the subrecipient are consistent with grant requirements.

Cause of Condition

We noted that only one of the six subrecipients did not provide information that is more detailed and learned that the organization refused to provide the City with additional detail and the City did not insist on it.

Effect of Condition and Questioned Costs

By reimbursing a subrecipient for costs claimed without receiving adequate supporting documentation or otherwise monitoring the subrecipient's use of the funding, the City is unable to ensure costs charged to the grant are allowable. Because the subrecipient refused to submit its supporting documentation to the City, we are questioning $172,611, the total amount of HOPWA funds passed through to the subrecipient in 2010. This amount is subject to recovery by the grantor.

The City is also at risk of noncompliance with requirements applicable to other sources of funding used to pay this subrecipient. In 2010 the City also paid this organization $3.7 million from five other federal funding sources and $2.8 million from nonfederal sources. We did not audit those programs during the 2010 audit.

Recommendation

We recommend the City only reimburse subrecipients for costs after adequate supporting documentation has been provided. We further recommend the City actively monitor the activities of its subrecipients in compliance with federal grant requirements. We further recommend the City follow-up with U.S. Housing and Urban Development to reach a mutually agreeable resolution to questioned costs.

City's Response

The Human Services Department (HSD) will be taking two sets of actions related to this finding:

1. *<u>Corrective action with the subrecipient</u>.*

    a. *We will inform the subrecipient in writing that beginning immediately (with the August 2011 invoices forward), they must come into compliance with the contract requirement to submit monthly invoices in the required format. The required format is a formal attachment to the contract specifically referenced in Exh. A-3: Attachment 2, Contractors Invoice. For all other contracts funded by HOPWA, this contract requirement is consistently adhered to, and sufficient controls are in place. Payment to the subrecipient in question will be withheld if invoices are not submitted in the correct required format.*

b. Agency HOPWA expenditure records for 2010 and 2011 through July 2011 will be examined by HSD's Fiscal Audit Specialist for adequate/specific supporting documentation that all costs requested and paid were allowable. This review will be scheduled to occur prior to the end of the year.

2. <u>HSD's internal process changes</u>:

In 2011, HSD began to create a "future state" infrastructure which will support implementation of the department's new strategic plan, "Healthy Families, Healthy Communities". The HSD strategic plan and future state infrastructure is intended to address the charge in July 2010 from the Mayor and City Council to: create a seamless service delivery system; reorganize, redesign contracting infrastructure and processes; and develop a data-driven environment that guides investments.

As part of the comprehensive re-engineering of HSD's contract infrastructure and processes (funding awards, contract development and agency monitoring), HSD's agency fiscal and program monitoring process will be enhanced and more strongly coordinated to ensure that the agencies we contract with are fiscally and programmatically accountable to us and to our grant requirements. HSD will be shifting to an "investor" model rather than a funder, which will allow us to work more closely with agencies, providing technical assistance and other support to ensure our investments in services are successful.

Earlier this year, as part of this re-engineering effort, the Department conducted a rigorous re-examination of our monitoring process and found that we need strengthening in certain areas. As a result, we have developed a more comprehensive, coordinated and proactive approach to agency monitoring. This new approach to monitoring will directly address the recommendations above and includes:

- *Creating a more coordinated, multi-level system of agency monitoring that maximizes use of staff and agency time and clearly defines expectations of HSD Program Specialists, Division Directors and other Managers, Finance Staff, the Fiscal Audit Specialist and the Contracts Management Unit.*

- *Strengthening communication and coordinating monitoring efforts for agencies with contracts across the Department. Ensuring that potential agency fiscal issues are brought to the attention of the HSD Fiscal Audit Specialist for a prioritized agency review.*

- *Providing agencies in advance with the questions that will be asked and list of documents to be reviewed at monitoring visits.*

- *Developing a comprehensive Agency Monitoring File, to be stored centrally and available to HSD staff online, that includes all the monitoring assessments and reports from the Program Specialist, the Finance Staff, and the Fiscal Auditor.*

- *Developing a checklist, toolkit and training for HSD staff and agencies on proper supporting documentation to accompany invoices; develop the technological infrastructure to support additional verification data and document expectations.*

- *Supporting and encouraging HSD staff to provide problem solving, feedback and technical assistance to agencies throughout the contract cycle.*

The new approach to agency monitoring, as well as changes to HSD's funding and contract development processes, is currently being reviewed and vetted by HSD leadership, staff, the Mayor's Office, City Council, and other key stakeholders in the community. The expected implementation date for changes to agency monitoring protocol is early 2012.

Auditor's Remarks

We thank the City for its cooperation and assistance during the audit and look forward to reviewing the City's corrective action during our next audit.

Applicable Laws and Regulations

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

> Section 105
>
> Pass-through entity means a non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program.
>
> Subrecipient means a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program.
>
> Section 300
>
> 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.
>
> Section 400
>
> > (d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:
> >
> > > (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
> > >
> > > (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the

provisions of contracts or grant agreements and that performance goals are achieved.

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

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
(6)Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

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

Section 405 - Management decision

(a) General. The management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, the Federal agency or pass-through entity may request additional information or documentation from the auditee, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs.

Circular A-133 *Compliance Supplement*, Part 3, Section M, states:

During-the-Award Monitoring – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Subrecipient Audits – (2) issuing a management decision on *(subrecipient)* audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Pass-Through Entity Impact – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Schedule of Federal Audit Findings and Questioned Costs

City of Seattle
King County
January 1, 2010 through December 31, 2010

3. The Department of Human Services had inadequate internal controls over subrecipient monitoring and allowability of costs paid with federal funds.

CFDA Number and Title:	14.257 ARRA – Homelessness Prevention and Rapid Re-Housing Program
Federal Grantor Name:	U.S. Department of Housing and Urban Development
Federal Award/Contract Number:	DA09-1080; DA10-1017
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	Undetermined

Background

The City of Seattle spent more than $130 million of federal funding in 2010, $51 million of which was managed by the Seattle Human Services Department. In 2010 the City spent $1,876,844 of its federal Housing and Urban Development Homelessness Prevention and Rapid Re-Housing Program (HPRP) grant funding. Almost 95 percent of this was passed through to seven non-profit social services providers. These organizations are subrecipients of federal funds. The City is responsible for ensuring subrecipients comply with grant requirements.

Description of Condition

The Department did not provide sufficient oversight of its subrecipients in administering American Recovery Reinvestment Act-funded Homelessness Prevention and Rapid Re-Housing Program.

We examined the Department's monitoring of four subrecipients. We found it did not provide timely follow-up and fiscal monitoring to ensure that one subrecipient addressed conditions identified by its independent auditors. The subrecipient in question received about 30 percent of City's total 2010 Homelessness Prevention and Rapid Re-Housing funds.

- The subrecipient has received audit findings for inappropriately charging labor costs to the federal grants passed to it by the City of Seattle. Auditors reported that subrecipients' labor costs were based on budgets and without after-the-fact certifications performed by employees of actual hours spent on each program, as required. The condition was originally reported in the audit of 2008 and repeated in 2009 and 2010.

- The Human Services Department did not perform additional fiscal oversight or follow-up to ensure subrecipients' control deficiencies have been resolved. Further, the Department did not ensure the subrecipient is using federal grant money to pay only for eligible costs that are fully supported. The conditions reported by other auditors were not corrected. The Department did not sanction a subrecipient who repeatedly failed to take corrective action.

We also reviewed payments made to subrecipients during 2010 for compliance with federal grant requirements. We examined the Department's processes to determine whether it received additional documentation from the subrecipient to mitigate the risk related to control deficiencies found by other auditors. We noted the Department continued to pay the subrecipient based on summary-level reports of paid wages without ensuring payments to subrecipients are only for eligible costs. The City used federal funds to pay the subrecipient despite being aware of the high risk of payroll costs charged by this subrecipient, and failed to take action to ensure only eligible costs are paid with federal funds.

Cause of Condition

The Department of Human Services did not provide sufficient monitoring of its subrecipient. The Department reports staffing transitions and both gaps and inconsistencies in the Department's agency monitoring processes led to insufficient monitoring for this particular subrecipient.

Effect of Condition and Questioned Costs

The City paid the subrecipient with federal grant funds for budgeted labor and did not ask the subrecipient to provide any certified payroll reports. This subrecipient received a total of $582,262.12 of HPRP funds during 2010. The City is at risk of noncompliance with requirements applicable to HPRP and to other sources of funding used to pay this subrecipient. In 2010 the City also passed through $266,498 of federal Community Development Block Grant and $879,859.72 from nonfederal sources to this subrecipient. Amount of questioned costs for federal reporting has not been determined.

Recommendation

We recommend the Department of Human Services provide oversight and fiscal monitoring of its subgrantees to ensure compliance with federal regulations by:

- Issuing timely management decisions for audit and monitoring findings to inform the subrecipient whether the corrective action planned is acceptable.

- Maintaining a system to track and follow-up on reported deficiencies and ensure that timely corrective action is taken.

- When control deficiencies or noncompliance are reported in subrecipients' audits, evaluate and document the impact of subrecipient activities on the City's ability to comply with applicable federal regulations and make adjustments of its own records if necessary.

- In cases of continued inability or unwillingness of a subrecipient to address the issues identified in its audit, the City should take appropriate action.

City's Response

The Department has reviewed the subrecipient's records and determined that about $6,000 costs were not properly supported. This amount will be reimbursed to the grantor.

In addition, HSD will be taking two sets of actions related to this finding:

1. <u>Corrective action with the subrecipient</u>.

We will review the subrecipient's 2010 audit and issue a management letter that requests corrective action for any findings. The letter will include a plan to follow up with the agency to ensure any findings are resolved in a timely manner. The agency's 2011 audit will be closely reviewed to ensure that any findings are not repeated.

2. <u>HSD's internal process changes</u>:

In 2011, HSD began to create a "future state" infrastructure which will support implementation of the department's new strategic plan, "Healthy Families, Healthy Communities". The HSD's strategic plan and future state infrastructure is intended to address the charge in July 2010 from the Mayor and City Council to: create a seamless service delivery system; reorganize, redesign contracting infrastructure and processes; and develop a data-driven environment that guides investments.

As part of a the comprehensive re-engineering of HSD's contract infrastructure and processes (funding awards, contract development and agency monitoring), HSD's agency fiscal and program monitoring process will be enhanced and more strongly coordinated to ensure that the agencies we contract with are fiscally and programmatically accountable to us and to our grant requirements. HSD will be shifting to an "investor" model rather than a funder, which will allow us to work more closely with agencies, providing technical assistance and other support to ensure our investments in services are successful.

Earlier this year, as part of this re-engineering effort, the Department conducted a rigorous re-examination of our monitoring process and found that we need strengthening in certain areas. As a result, we have developed a more comprehensive, coordinated and proactive approach to agency monitoring. This new approach to monitoring will directly address the recommendations above and includes:

- *Creating a more coordinated, multi-level system of agency monitoring that maximizes use of staff and agency time and clearly defines expectations of HSD Program Specialists, Division Directors and other Managers, Finance Staff, the Fiscal Audit Specialist and the Contracts Management Unit.*

- *Strengthening communication and coordinate monitoring efforts for agencies with contracts across the Department. Ensure that potential agency fiscal issues are brought to the attention of the HSD Fiscal Audit Specialist for a prioritized agency review.*

- *Providing agencies in advance with the questions that will be asked and list of documents to be reviewed at monitoring visits.*

- *Developing a comprehensive Agency Monitoring File, to be stored centrally and available to HSD staff online, that includes all the monitoring assessments and reports from the Program Specialist, the Finance Staff, and the Fiscal Auditor.*

- *Developing a checklist, toolkit and training for HSD staff and agencies on proper supporting documentation to accompany invoices; develop the technological infrastructure to support additional verification data and document expectations.*

- *Supporting and encouraging HSD staff to provide problem solving, feedback and technical assistance to agencies throughout the contract cycle.*

The new approach to agency monitoring, as well as changes to HSD's funding and contract development processes, is currently being reviewed and vetted by HSD leadership, staff, the Mayor's Office, City Council, and other key stakeholders in the community. The expected implementation date for changes to agency monitoring protocol is early 2012.

Auditor's Remarks

We thank the City for its cooperation and assistance during the audit and look forward to reviewing the City's corrective action during our next audit.

Applicable laws and Regulations

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

> <u>Section 105.</u>
>
> Pass-through entity means a non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program.
>
> Subrecipient means a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program.
>
> <u>Section 300.</u>
>
> 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.

Section 400.

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

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

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

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

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

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

Section 405 - Management decision.

(a) General. The management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, the Federal agency or pass-through entity may request additional information or documentation from the auditee, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs.

OMB Circular A-133, *Compliance Supplement*, states:

During-the-Award Monitoring – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Subrecipient Audits – (2) issuing a management decision on *(subrecipient)* audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Pass-Through Entity Impact – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Schedule of Federal Audit Findings and Questioned Costs

City of Seattle
King County
January 1, 2010 through December 31, 2010

4. The City's internal controls were not adequate to ensure that reports submitted to the federal government regarding the use of Recovery Act funds are accurate

CFDA Number and Title:	81.128 ARRA Energy Efficiency and Conservation Block Grant Program
Federal Grantor Name:	U.S. Department of Energy
Federal Award/Contract Number:	DE-EE0000857
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	NA

Background

The American Recovery and Reinvestment Act of 2009 has among its goals to foster unprecedented levels of accountability and transparency regarding government spending. The Act intends to achieve those goals by requiring recipients of Recovery funds to report quarterly how they are using the funding. The quarterly data is compiled and posted on Recovery.gov so the public can track the use of the money.

Description of Condition

We reviewed the City's internal controls over and compliance with the Energy Efficiency and Conservation Block Grant program reporting requirements. Through the end of 2010, the City had received $4,046,504 in Recovery Act money from the U.S. Department of Energy's Energy Efficiency and Conservation program meant to, among other initiatives, begin a residential energy efficiency loan program.

The Recovery Act requires the City to report payments to vendors including a description of products and services received. We noted the City under-reported expenditures by $1,251,000 for consultant services. The error was made during the recording of total amounts paid to vendor. The City did not detect the reporting error in subsequent reporting periods.

Cause of Condition

The City did not have monitoring in place to catch an error made during reporting.

Effect of Condition and Questioned Costs

The U.S. Department of Energy follows a program-wide monitoring plan to oversee use of Recovery Act funds. Non-compliant recipients are subject to federal action, up to and including, the termination of federal funding or the ability to receive federal funds in the future. Inaccurate reporting of federal spending places the City at higher risk of losing its federal funds.

Recommendation

We recommend the City establish a system of controls to ensure accurate Recovery Act reporting. Monitoring should complement the specific control activities performed during the preparation of reports.

City's Response

The discrepancy is due to a typographical error. The correct amount was $1,390,254; the zero was inadvertently omitted so only $139,254 was reported. Following prescribed ARRA reporting procedures, the correction was included in the cumulative amount submitted for 2011 Qtr 2.

Going forward, the Department will enforce dual responsibility for ARRA reporting. One staff will prepare the report, and another staff will review the report before it is submitted. The staff will document performance of their assignments on a monitoring checklist.

Auditor's Remarks

We thank the City for its cooperation and assistance during the audit and look forward to reviewing the City's corrective action during our next audit.

Applicable laws and Regulations

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

> The auditee shall:
>
> > (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
> >
> > (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

SEC. 1512 of the Recovery Act describes the required reporting:

REPORTS ON USE OF FUNDS.

(c) RECIPIENT REPORTS.—Not later than 10 days after the end of each calendar quarter, each recipient that received recovery funds from a Federal agency shall submit a report to that agency that contains-

(4) Detailed information on any subcontracts or subgrants awarded by the recipient to include the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006 (Public Law 109–282), allowing aggregate reporting on awards below $25,000 or to individuals, as prescribed by the Director of the Office of Management and Budget.

City of Seattle
King County
January 1, 2010 through December 31, 2010

5. The City of Seattle's internal controls are not adequate to ensure accurate and timely financial reporting.

Background

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

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

We noted the City is improving centralized and decentralized processes as reflected in the Status of Prior Audit findings section of this audit report.

Description of Condition

We identified internal control deficiencies over preparation of the City's 2010 financial statements that resulted in the City having to correct financial information in the annual financial report.

- The City did not have adequate controls to properly account for and report all buildings and related debt in the Fleets and Facilities Internal Service Fund. Depreciation and interest expenses, as well as capital contributions, were similarly excluded from fund-level reporting. The City corrected its procedures and issued accurate final 2010 financial statements.

- The Department of Parks and Recreation's processes to account for construction work in progress were inconsistent with generally accepted accounting principles (GAAP). The Department automatically capitalizes its capital outlay expenditures each year without consideration of the completion status. Work in progress should only be capitalized when the capital asset is placed in service.

- We examined the City's accrual procedures, the process it uses to identify payments made in early 2011 that should be reported as expenditures for 2010. We examined 60 percent of Fleets and Facilities transactions that were evaluated for accrual and determined two transactions that represent five percent of the population were not properly accounted for. Both transactions should have been accrued for different amounts in 2010.

- The City's process on annually reporting all organizations that raise or hold resources for the benefit of the City did not work. One organization was not initially reported as a component unit in the City's financial statements and disclosures. The City made the correction and issued accurate final 2010 financial statements.

- The City's process for the preparation of annual financial statements results in untimely financial reporting. State law requires financial statements to be prepared within 150 days of year end but they were not complete until late August, about two and a half months after the deadline.

Cause of Condition

City accountants and managers do not sufficiently review financial information used to prepare the citywide financial statements. Some departments did not always follow GAAP for certain transactions and the citywide Accounting and Payroll Division was not fully aware of those departures.

Effect of Condition

The financial statements the City submitted for audit contained undetected errors that required corrections. Financial statement users need accurate information in order to make informed decisions. While the City made the corrections, the deficiencies in internal controls over financial reporting make it reasonably possible that significant or material errors could occur and not be detected and corrected by City management. The control weaknesses described in the condition represent a significant deficiency in internal control over financial statement preparation.

Recommendation

Because the citywide Accounting and Payroll Division is responsible for the accounting practices of the entire City, the Division should have more in-depth involvement in ensuring decentralized departments' practices are consistent with City policies. Citywide and departmental policies should be consistent with generally accepted accounting principles.

City's Response

The City concurs with the auditor's finding and appreciates their recommendations. The City also appreciates the auditor's observation that the City is improving its centralized and decentralized processes as demonstrated by the resolution of or improvements on prior year findings.

The items cited above, taken individually or together, did not have any material impact on the financial statements, and the City's 2010 Comprehensive Annual Financial Report passed audit with an unqualified opinion from the auditor. However, the City continues with its initiative to document policies and procedures, and improve and standardize business practices to ensure citywide compliance with accounting and reporting requirements.

Auditor's Remarks

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

Applicable Laws and Regulations

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

> Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
>
> - Effectiveness and efficiency of operations
> - Compliance with applicable laws and regulations
> - Reliability of financial reporting
>
> Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.
>
> Controls are normally most effective when built into the government's infrastructure rather than being treated as supplemental or separate processes. In the same way, implementation and monitoring of internal controls should not be viewed as a singular event, but rather a continuous or iterative process.
>
> The Washington State Auditor's Office does not require specific controls to be implemented by entities. The State Auditor only requires that whatever controls entities choose to implement be adequate to provide reasonable assurance regarding compliance and financial reporting risks. The burden of demonstrating the adequacy of internal controls rests on management, since management is responsible both for the achievement of objectives and the determination of the design and operation of controls.

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

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

> Statement on Auditing Standards No. 115, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants, defines significant deficiency as follows:
>
> > a. Significant deficiency: A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Schedule of Prior Federal Audit Findings

City of Seattle
King County
January 1, 2010 through December 31, 2010

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.

<table>
<tr><td>Audit Period:
1/1/09 – 12/31/09</td><td>Report Reference No: 1004361</td><td>Finding Reference No: 1</td><td>CFDA Number(s):
20.507</td></tr>
<tr><td colspan="2">Federal Program Name and Granting Agency:
Federal Transit Formula Grant, Federal Transit Administration</td><td colspan="2">Pass-Through Agency Name:
NA</td></tr>
<tr><td colspan="4">Finding Caption:
City's controls are inadequate to ensure only allowable costs are charged to federal grants.</td></tr>
<tr><td colspan="4">Background:
We determined the Seattle Department of Transportation did not have controls to prevent or detect one ineligible contractor invoice totaling $185,921 that was inappropriately charged to the grant. The grant reimburses the City for 86.5 percent of the project costs. Therefore, when the City submitted $185,921 for reimbursement, the grant paid $160,822. The Department did not have effective internal controls to monitor grant charges and ensure only eligible costs were charged to the grant.</td></tr>
<tr><td colspan="4">Status of Corrective Action: (check one)
☐ Fully Corrected   ☒ Partially Corrected   ☐ No Corrective Action Taken   ☐ Finding is considered no longer valid</td></tr>
<tr><td colspan="4">Corrective Action Taken:

The finding on questioned costs specific to the grant from Federal Transit Administration has been corrected. The grantor had been notified of the 2009 billing error and the error has been corrected by a corresponding adjustment to a grant billing in 2010. The Department has strengthened its grant review processes to prevent similar errors from occurring by adding a final review by project managers of costs billed to grants to ensure only allowable costs are submitted for reimbursement by granting agencies.

With regard to the auditor's recommendation to specifically identify in the general ledger the detail project costs charged to federal grants, the City is undertaking the multi-year Financial Management Accountability Program (FinMAP) project to standardize the use of the City's automated accounting system. The Department has committed to participate in the FinMAP project.

We recommend that the specific finding related to the 2009 ineligible costs amounting to $160,822 be deemed fully corrected, and this specific audit finding be closed, even if the multi-year FinMAP project is still in progress.</td></tr>
</table>

Status of Prior Audit Findings

City of Seattle
King County
January 1, 2010 through December 31, 2010

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

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

Report No. 1003916, dated July 19, 2010

<u>Background</u>

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

<u>Status</u>

The City has taken steps to improve its annual processes. We encountered additional control deficiencies during the current audit and reported them as Finding 1 of this report. We consider the 2009 finding to be partially resolved.

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

Report No. 1003916, dated July 19, 2010

<u>Background</u>

Other auditors reported that the Seattle City Employees' Retirement System (SCERS), during 2009, had weak controls over two areas: the monitoring and valuation of investments, and the interim financial close and reporting processes.

<u>Status</u>

The Seattle City Employees' Retirement System hired an Investment Strategy Advisor and a Finance and Operations Manager which addressed the auditors' concerns. The other auditors did not report significant deficiencies in 2010. The 2009 finding is considered resolved.

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

Report No. 1003916, dated July 19, 2010

Background

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

Status

The certified public accounting firm that audits the Seattle Public Utilities issued its audit report with no significant deficiencies in internal controls. The 2009 finding is considered resolved.

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, 2010 through December 31, 2010

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, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 31, 2011. During the year ended December 31, 2010, the City implemented Governmental Accounting Standards Board Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets*.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Responses as Finding 5 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

COMPLIANCE AND OTHER MATTERS

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

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

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

This report is intended for the information and use of the audit committee, 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

August 31, 2011

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

City of Seattle
King County
January 1, 2010 through December 31, 2010

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 could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The City's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of 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 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. 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, 2, 3 and 4.

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 in accordance with OMB Circular A-133, 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.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1, 2, 3 and 4. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 the audit committee, 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 30, 2011

Independent Auditor's Report on Financial Statements

City of Seattle
King County
January 1, 2010 through December 31, 2010

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, 2010, 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, Water, Drainage and Wastewater and Solid Waste funds, which are major funds that collectively represent 99 percent, 100 percent and 99 percent, respectively, of the assets, net assets and revenues of the business-type activities.

- The financial statements of the Seattle City Employees' Retirement System, which represent 73 percent, 79 percent and 38 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, Drainage and Wastewater and Solid Waste 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 2009 financial statements and, in our report dated June 30, 2010, 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 units and remaining fund information.

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

In our opinion, based on our audit and on the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the City of Seattle, as of December 31, 2010, 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, 2010, the City implemented Governmental Accounting Standards Board Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets*.

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 64, budgetary comparison on pages 169 through 171 and pension trust fund on pages 172 through 173 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 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

August 31, 2011

Financial Section

City of Seattle
King County
January 1, 2010 through December 31, 2010

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2010

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2010
Statement of Activities – 2010
Balance Sheet – Governmental Funds and Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets – 2010
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2010
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities – 2010
Statement of Net Assets – Proprietary Funds – 2010
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds – 2010
Statement of Cash Flows – Proprietary Funds – 2010
Statement of Net Assets – Fiduciary Funds – 2010
Statement of Changes in Net Assets – Fiduciary Funds – 2010
Notes to Financial Statements – 2010

REQUIRED SUPPLEMENTAL INFORMATION

Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2010
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Transportation Fund – 2010
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Low-Income Housing Fund – 2010
Pension Plan Information – Schedule of Funding Progress – 2010
Pension Plan Information – Schedule of Employer Contributions – 2010

SUPPLEMENTAL INFORMATION

Schedule of Expenditures of Federal Awards – 2010
Notes to the Schedule of Expenditures of Federal Awards – 2010

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, 2010. 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 2010 the assets of the City of Seattle exceeded its liabilities by $4.198 billion. Net assets invested in capital assets, net of depreciation and related debt, account for 89.6 percent of this amount ($3.760 billion). The remaining net assets of $437.9 million may be used to meet the City's ongoing obligations to citizens and creditors.

- The City's net assets increased by $96.4 million (2.4 percent) during the fiscal year. The governmental net assets increased by $61.8 million (2.3 percent) over the amount reported in 2009. The business-type net assets increased $34.6 million (2.5 percent) in 2010.

- At the close of 2010 the City's governmental funds reported a combined ending fund balance of $525.8 million, a decrease of $31.0 million (5.6 percent). Of the major funds, the fund balance of the General Fund decreased $30.4 million, the Transportation Fund decreased $0.9 million, the Low-Income Housing Fund decreased $9 thousand, and the fund balances of the other nonmajor governmental funds increased $0.4 million. As the national economy stabilized and saw signs of recovery, the City saw stabilization and slight improvement in revenues over 2009. The City's three major tax revenues sources, property taxes, business taxes, and sales taxes increased by $3.5 million and $2.0 million and decreased by $3.5 million, respectively, year over year. Approximately $141.0 million (26.8 percent) of the combined ending fund balance is unreserved fund balance available to the City for discretionary spending.

- At the end of 2010 the unreserved fund balance for the General Fund was $104.7 million or 14.2 percent of total General Fund expenditures of $737.7 million. The General Fund's unreserved fund balance decreased by approximately $13.9 million from the prior year's amount of $118.6 million. Total revenues for the General Fund increased $11.6 million or 1.2 percent and expenditures and other financing uses decreased $32.0 million or 3.1 percent year over year.

- The City's total outstanding bonded debt increased by approximately $270.2 million (7.3 percent) to $3.985 billion during the current fiscal year. During the year, general obligation bonded debt for limited tax (LTGO) and unlimited tax (UTGO) increased by $29.4 million while the total revenue bonds also increased by $240.8 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 $2.0 million (11.3 percent) in 2010 reduced the bonds outstanding further to $15.7 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government activities, judicial activities, public safety, physical environment, transportation, economic environment, health and human services, and culture and recreation. The business-type activities of the City include an electric utility, a water utility, a waste disposal utility, a sewer and drainage utility, operations of regulatory and long-range planning and enforcement of policies and codes that include construction and land use, 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, Drainage and Wastewater Fund, and Solid Waste Fund, which are considered to be major enterprise funds. Information for nonmajor enterprise funds is presented in the aggregate. Information for each of the nonmajor enterprise funds is provided in the combining statements in this report.

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Combining Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve as a useful indicator of a government's financial position. Table A-1 is a condensed version of the statement of net assets for the City of Seattle. At the close of the current fiscal year the City's total assets exceeded liabilities by $4.246 billion.

Statement of Net Assets

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

(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2010	Restated 2009	2010	Restated 2009	2010	Restated 2009
Current and Other Assets	$ 1,162,519	$ 1,176,783	$ 1,070,653	$ 869,665	$ 2,233,172	$ 2,046,448
Capital Assets and Construction in Progress, Net of Accumulated Depreciation	3,235,762	3,070,181	4,039,155	3,847,640	7,274,917	6,917,821
Total Assets	4,398,281	4,246,964	5,109,808	4,717,305	9,508,089	8,964,269
Current Liabilities	247,394	230,426	307,934	312,809	555,328	543,235
Noncurrent Liabilities	1,366,672	1,294,106	3,388,459	3,025,673	4,755,131	4,319,779
Total Liabilities	1,614,066	1,524,532	3,696,393	3,338,482	5,310,459	4,863,014
Net Assets						
Invested in Capital Assets, Net of Related Debt	2,510,711	2,350,564	1,249,049	1,257,195	3,759,760	3,607,759
Restricted	179,843	225,157	79,372	71,801	259,215	296,958
Unrestricted	93,661	146,711	84,994	49,827	178,655	196,538
Total Net Assets	$ 2,784,215	$ 2,722,432	$ 1,413,415	$ 1,378,823	$ 4,197,630	$ 4,101,255

The largest portion of the City's net assets (89.6 percent) reflects an investment of $3.760 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, $259.2 million (6.2 percent), represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets, $178.7 million (4.2 percent), may be used to meet the government's obligation to citizens and creditors. Unrestricted net assets for governmental activities decreased 36.2 percent from $146.7 million in 2009 to $93.7 million in 2010.

The net assets for the business-type activities increased between 2009 and 2010 from $1.379 billion to $1.413 billion. The increase in net assets is attributed primarily to the performance of the City Light Utility, which in 2010 generated $733.0 million in charges for services and other revenues. City Light generated an operating income of $60.5 million.

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

(In Thousands)

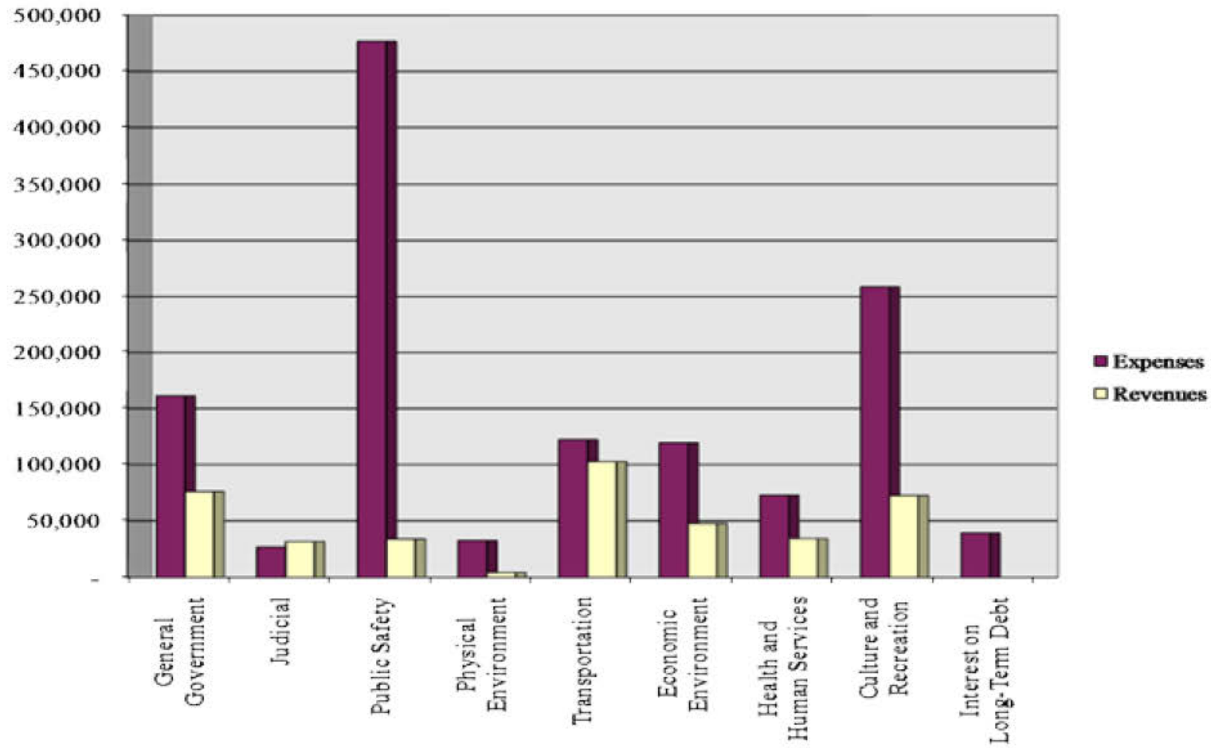
	Governmental Activities		Business-Type Activities		Total	
	2010	Restated 2009	2010	Restated 2009	2010	Restated 2009
Revenues						
Program Revenues						
Charges for Services	$ 227,238	$ 244,126	$ 1,356,673	$ 1,328,465	$ 1,583,911	$ 1,572,591
Operating Grants and Contributions	118,619	104,382	5,953	4,789	124,572	109,171
Capital Grants and Contributions	56,377	36,834	41,846	59,983	98,223	96,817
General Revenues						
Property Taxes	391,798	388,341	-	-	391,798	388,341
Sales Taxes	146,970	150,515	-	-	146,970	150,515
Business Taxes	331,570	329,572	-	-	331,570	329,572
Other Taxes	63,409	60,159	-	-	63,409	60,159
Other	44,780	6,476	8,994	9,332	53,774	15,808
Total Revenues	1,380,761	1,320,405	1,413,466	1,402,569	2,794,227	2,722,974
Expenses						
Governmental Activities						
General Government	161,329	106,732	-	-	161,329	106,732
Judicial	26,298	27,526	-	-	26,298	27,526
Public Safety	476,861	473,527	-	-	476,861	473,527
Physical Environment	32,171	32,543	-	-	32,171	32,543
Transportation	122,376	137,015	-	-	122,376	137,015
Economic Environment	119,595	98,940	-	-	119,595	98,940
Health and Human Services	72,680	75,788	-	-	72,680	75,788
Culture and Recreation	258,639	249,160	-	-	258,639	249,160
Interest on Long-Term Debt	38,929	36,825	-	-	38,929	36,825
Business-Type Activities						
Light	-	-	730,758	733,405	730,758	733,405
Water	-	-	209,554	200,921	209,554	200,921
Drainage and Wastewater	-	-	245,589	244,295	245,589	244,295
Solid Waste	-	-	145,778	145,526	145,778	145,526
Planning and Development	-	-	47,699	55,954	47,699	55,954
Downtown Parking Garage	-	-	7,648	7,824	7,648	7,824
Total Expenses	1,308,878	1,238,056	1,387,026	1,387,925	2,695,904	2,625,981
Excess Before Special Item and Transfers	71,883	82,349	26,440	14,644	98,323	96,993
Special Item - Environmental Remediation Expenses	-	-	(1,948)	(4,289)	(1,948)	(4,289)
Transfers	(10,100)	(10,245)	10,100	10,245	-	-
Increase in Net Assets	61,783	72,104	34,592	20,600	96,375	92,704
Net Assets - Beginning of Year	2,722,432	2,650,328	1,378,823	1,358,223	4,101,255	4,008,551
Net Assets - End of Year	$ 2,784,215	$ 2,722,432	$ 1,413,415	$ 1,378,823	$ 4,197,630	$ 4,101,255

Analysis of Changes in Net Assets

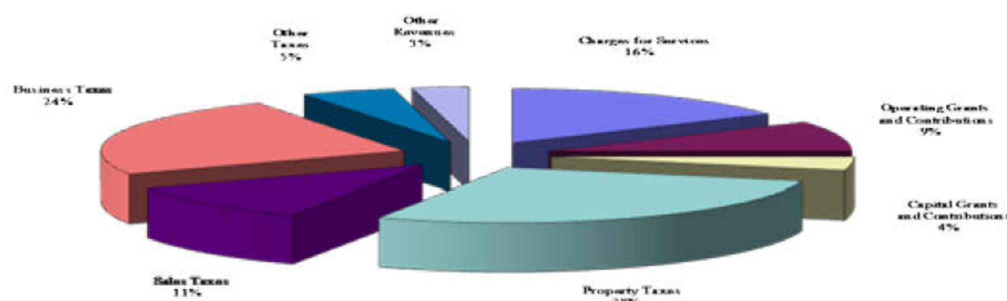
In 2010 the City’s total net assets increased by $96.4 million (2.4 percent). The increase is explained in the following discussion of governmental and business-type activities.

Governmental Activities

EXPENSES AND PROGRAM REVENUES - GOVERNMENTAL ACTIVITIES
(In Thousands)



REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



Total $1,380.8 Million

Governmental Activities. The charts on the previous page present the City's governmental expenses and revenues by function and its revenue by source. Public safety is the largest governmental expense of the City, followed by culture and recreation, transportation, general government, economic environment, health and human services, physical environment, judicial functions, and interest on long-term debt. General revenues such as the property, business, and sales taxes are not shown by function because they are used to support Citywide program activities. Governmental activities increased the City's net assets by $61.8 million in 2010 compared to an increase of $72.1 million in 2009. Key factors in the change are as follows:

- Tax revenues collected and used to support Citywide programs increased 0.6 percent, from $928.6 million to $933.7 million for 2010.

- Program generated revenues were supported by growth in the operating and capital grants, sharply increasing 23.9 percent from $141.2 million to $175.0 million. The growth is attributed primarily to an increase of $26.9 million in federal grant funds received under the American Recovery and Reinvestment Act of 2009 (ARRA). This helped offset the City's 6.9 percent decrease in the revenue generated by the City's charges for services.

- Year over year expenses for the governmental activities increased 5.7 percent, from $1.238 billion for 2009 to $1.308 billion for 2010.

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 2010 over $40.5 million in additional grant funds were appropriated. The majority of grant awards totaling $18.2 million was awarded to the Office of Sustainability and Environment, $5.9 million went to the Police Department, and $4.3 million was awarded to the Department of Finance and Administrative Services. Revenue generated by grants and contributions increased by $33.8 million in 2010 including $29.9 million from the ARRA. Operating grants increased by 13.6 percent, and capital grants increased by 53.0 percent compared to 2009.

Property taxes, the largest source of revenue supporting governmental activities, increased by $3.5 million or 0.9 percent compared to 2009. Property tax is levied primarily on real estate owned by individuals and businesses. While stable in nature, state law limits growth in the amount of tax that a jurisdiction can collect but does allow for additional voter-approved lid lifts.

The retail sales and use tax is imposed on the sale of most goods and certain services in Seattle. The tax is collected and remitted to the state. The state provides the City with its share on a monthly basis. Sales tax revenues decreased between 2009 and 2010 by $3.5 million (2.4 percent).

Business taxes are the second largest contributor to governmental revenues. The business and occupation (B&O) tax is levied by the City on the gross receipts of most business activities occurring in Seattle. The City also levies a B&O tax on the gross income derived from sales of utility services within Seattle. In 2010, B&O tax revenues remained relatively constant at $331.6 million, slightly increasing by $2.0 million or 0.6 percent.

In 2010, total expenses for governmental activities were $1.308 billion compared to $1.238 billion in 2009, a 5.7 percent increase over 2009 expenses. General government expenses went up $54.6 million, a 51.2 percent increase from 2009. Overall general government expenses were 12.3 percent and 8.6 percent of total expenses for governmental activities in 2010 and 2009, respectively. The City's contributions to health and dental insurance premiums, significant change in the actuarial value of the City's pension assets, coupled with a rise in transit subsidy were the major causes of the increase. Other expenses were mostly down across the board during 2010, in line with the City's ongoing attempts to reduce costs and balance budget.

Judicial expenses decreased $1.2 million or 4.5 percent between 2009 and 2010. The decrease is attributed to the reduced staffing level and other discretionary costs at the Municipal Court.

Public safety expenses were $476.9 million, a 0.7 percent increase over 2009 expenses. The increase is attributed to several factors: salaries and wages increases at the Police Department and the Fire Department, and increases in overtime and employee benefit expenses.

Physical environment expenses remained stable with a slight decrease of $0.4 million between 2009 and 2010, totaling to $32.2 million for 2010. The City continued to involve in the processing of the redevelopment levy proceeds and make the related intergovernmental contributions to the Pike Place Market Public Development Authority. The total contribution amounted to $23.8 million during 2010.

Transportation expenses went down $14.6 million (10.7 percent) to $122.4 million for 2010. The shrink in spending on capital projects as well as a reduction in staffing level and associated costs were the biggest drivers for the decrease.

The 2010 economic environment expenses totaled $119.6 million, an increase of $20.7 million or 20.9 percent year over year. The primary contributing factor was the increase in program expenses for items such as funding for creating affordable rental housing, loans to low-income families, and consulting and contractor services to support the low-income housing programs.

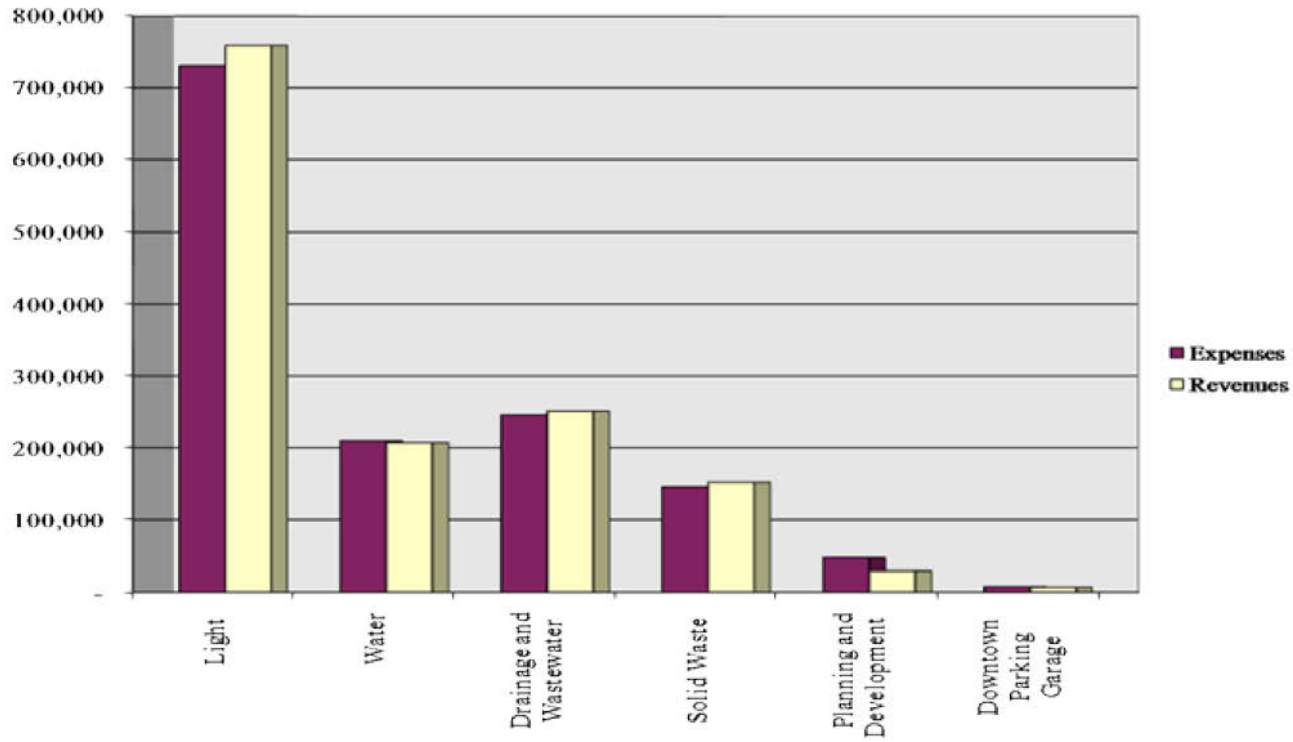
Health and human services expenses showed a decrease of $3.1 million or 4.1 percent to $72.7 million for 2010. The decrease is mainly caused by reductions in employee expenses such as salaries and wage, health and dental premiums, and other employee benefit expenses.

At $258.6 million, culture and recreation expenses were down by $9.5 million in 2010 or 3.8 percent lower than 2009. The City's Park and Recreation Fund accounts for 46.0 percent or $119.0 million of the total culture and recreation expense. The 2010 appropriation in the adopted budget for parks operations was $130.0 million for 1,002 full-time employees. Approximately 62.7 percent of the costs were funded by charter revenue received through the General Fund plus additional General Fund support, the other 37.3 percent was generated from fees collected for programs, grant funds, and other miscellaneous revenues.

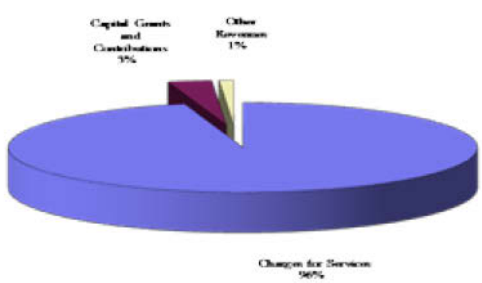
Interest on long-term debt increased $2.1 million from 2009 to 2010, rising from $36.8 million to $38.9 million. The primary reason for the increase is due to a refunding loss of approximately $3.8 million, derived from refunding the City's 2001 and 2002 LTGO bond issues. Approximately, $169.0 million of the debt was refunded and redeemed during 2010.

Business-Type Activities

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



REVENUES BY SOURCE - BUSINESS-TYPE ACTIVITIES



Total $1,413.5 Million

Business-Type Activities. Business-type activities increased the City's net assets by $34.6 million to $1.413 billion, an increase of 2.5 percent. The City's net assets increase included an adjustment of $1.4 million to reflect the consolidation of internal service fund activities related to enterprise funds. Key factors for the change were as follows:

The City Light Utility realized a net increase of $30.4 million in net assets in 2010. Total operating revenues increased by $9.9 million. Retail power revenues increased by $79.1 million primarily due to the 13.8 percent rate increase and 4.5 percent temporary rate surcharge implemented at the beginning of the year and in May 2010, respectively. Higher retail power revenues were offset by deferral of Rate Stabilization Account revenues of $54.3 million, lower net wholesale energy revenues, lower capital contributions, and higher taxes. In addition, lower administrative and general, interest, and other expenses were offset by higher power-related costs.

The Water Utility experienced an increase of $0.7 million in net assets in 2010. Operating revenues increased by $3.8 million mainly due to an increase in water rates effective January 2010, a surcharge related to the hydrant settlement, and recognition of rate stabilization revenue. Operating expenses remained relatively constant in 2010. Overall branch expenses decreased $4.9 million. This decrease was offset by an increase in City's business and occupation tax of $2.4 million due to higher tax rate, depreciation and amortization increased by $2.0 million and other taxes increased by $0.5 million. Interest expenses increased by $7.0 million and capital contributions and grants also increased by $3.6 million in 2010.

The Drainage and Wastewater Utility net assets increased $5.9 million in 2010. Operating revenues decreased by $0.5 million due to a reduction of $1.4 million in other operating revenues mainly related to other engineering services. This decrease was offset by an increase of $0.9 million in wastewater revenues. Operating expenses decreased by $0.7 million in 2010. The main factor affecting this change was a net decrease in spending of $2.9 million for field operations, project delivery, customer services, and utility systems management expenses. This spending decrease was offset by increases in claims expense of $1.6 million and tax expenses of $0.6 million. Total contributions, grants, and environmental remediation expenses decreased $1.0 million in 2010.

The Solid Waste Utility net assets increased $6.0 million in 2010 as compared to a decrease of $8.6 million in 2009. Operating revenues increased by $15.3 million mainly due to rate increases in 2010. The operating revenues increase was offset by an increase of $0.1 million in operating expenses. The increase in operating expenses was attributed to higher commercial solid waste collection contract costs of $6.0 million, which was significantly reduced by a total saving of $5.9 million in payroll, City's business and occupation taxes, and landfill closure costs.

The Planning and Development Fund net assets decreased by $8.7 million in 2010 as compared to a decrease of $11.1 million in 2009. Operating revenues decreased by $5.1 million while the operating expenses also decreased by $7.7 million. The revenue decrease was mainly due to continuous decline in building construction activities in 2010. Operating contributions and grants increased by $0.2 million. Transfers in from other City funds decreased by $0.1 million. Investment income declined by $0.2 million in 2010.

The Downtown Parking Garage Fund experienced a decrease of $1.1 million in net assets. It continues to have insufficient revenues to fully cover its expenses including depreciation, which is not specifically included in its revenue structure. Facilities Operations Division is changing the parking-fee structure in 2011.

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	
	2010	2009	2010	2009	2010	2009
Revenues						
Taxes	$ 761,170	$ 756,909	$ 64,581	$ 63,321	$ 18,621	$ 11,660
Licenses and Permits	20,401	19,333	6,113	8,965	-	-
Grants, Shared Revenues, and Contributions	31,412	28,208	46,815	57,239	14,853	6,607
Charges for Services	66,863	69,018	60,215	37,647	107	72
Fines and Forfeits	30,936	28,519	9	3	-	-
Parking Fees and Space Rent	26,868	25,478	99	154	-	-
Program Income, Interest, and Miscellaneous Revenues	16,374	14,943	243	275	4,423	9,098
Total Revenues	954,024	942,408	178,075	167,604	38,004	27,437
Expenditures	737,702	737,604	254,108	277,816	41,581	23,287
Other Financing Sources and Uses						
Long-Term Debt Issued and Refunding Payments, Net	-	1,524	-	1,250	-	-
Capital Leases Issued	-	-	-	-	-	-
Payments on Intergovernmental Agreements	-	-	-	-	-	-
Sales of Capital Assets	21,309	616	-	-	-	-
Transfers In (Out)	(268,041)	(280,908)	75,085	110,514	3,568	1,008
Total Other Financing Sources and Uses	(246,732)	(278,768)	75,085	111,764	3,568	1,008
Fund Balances						
Reserves Legally Segregated for Future Use	61,549	77,755	33,206	34,154	64,047	56,115
Reserves Not Available for Appropriation	811	1,080	2	2	-	-
Unreserved	104,676	118,611	-	-	11,103	19,044
Total Fund Balances	$ 167,036	$ 197,446	$ 33,208	$ 34,156	$ 75,150	$ 75,159

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

GOVERNMENTAL FUNDS (continued)

(In Thousands)

	Nonmajor Funds			
	Special Revenue Funds		Debt Service Funds	
	2010	2009	2010	Restated 2009
Revenues				
Taxes	$ 37,011	$ 33,490	$ 16,362	$ 18,071
Licenses and Permits	-	-	-	-
Grants, Shared Revenues, and Contributions	76,696	72,890	882	2
Charges for Services	44,324	50,344	-	-
Fines and Forfeits	1,355	1,123	-	-
Parking Fees and Space Rent	19,646	16,425	245	228
Program Income, Interest, and Miscellaneous Revenues	1,747	3,458	647	1,379
Total Revenues	180,779	177,730	18,136	19,680
Expenditures	364,175	372,425	65,180	62,512
Other Financing Sources and Uses				
Long-Term Debt Issued and Refunding Payments, Net	4,800	12,000	-	42
Capital Leases Issued	-	20	-	-
Payments on Intergovernmental Agreements	(23,825)	(16,928)	-	-
Sales of Capital Assets	1	8	-	-
Transfers In (Out)	191,344	198,036	45,635	39,735
Total Other Financing Sources and Uses	172,320	193,136	45,635	39,777
Fund Balances				
Reserves Legally Segregated for Future Use	19,923	32,774	10,640	12,049
Reserves Not Available for Appropriation	9,107	11,379	-	-
Unreserved	25,160	21,113	-	-
Total Fund Balances	$ 54,190	$ 65,266	$ 10,640	$ 12,049

	Nonmajor Funds				Total Governmental Funds	
	Capital Projects Funds		Permanent Funds			
	2010	2009	2010	2009	2010	Restated 2009
Revenues						
Taxes	$ 35,896	$ 43,836	$ -	$ -	$ 933,641	$ 927,287
Licenses and Permits	-	-	-	-	26,514	28,298
Grants, Shared Revenues, and Contributions	9,184	8,284	-	1	179,842	173,231
Charges for Services	-	-	-	-	171,509	157,081
Fines and Forfeits	-	-	-	-	32,300	29,645
Parking Fees and Space Rent	-	119	-	-	46,858	42,404
Program Income, Interest, and Miscellaneous Revenues	2,586	4,826	17	32	26,037	34,011
Total Revenues	47,666	57,065	17	33	1,416,701	1,391,957
Expenditures	64,829	67,493	119	50	1,527,694	1,541,187
Other Financing Sources and Uses						
Long-Term Debt Issued and Refunding Payments, Net	83,810	80,801	-	-	88,610	95,617
Capital Leases Issued	-	-	-	-	-	20
Payments on Intergovernmental Agreements	-	-	-	-	(23,825)	(16,928)
Sales of Capital Assets	-	-	-	-	21,310	624
Transfers In (Out)	(53,680)	(71,001)	(10)	(10)	(6,099)	(2,626)
Total Other Financing Sources and Uses	30,130	9,800	(10)	(10)	79,996	76,707
Fund Balances						
Reserves Legally Segregated for Future Use	183,396	170,429	7	26	372,768	383,302
Reserves Not Available for Appropriation	-	-	2,167	2,176	12,087	14,637
Unreserved	-	-	17	101	140,956	158,869
Total Fund Balances	$ 183,396	$ 170,429	$ 2,191	$ 2,303	$ 525,811	$ 556,808

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 $525.8 million, a decrease of $31.0 million in comparison to 2009. Approximately $141.0 million of this amount constitutes unreserved fund balance which is available for spending at the City's discretion within the purposes specified for the City's funds. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has been committed for other purposes, including (1) payment on existing contracts and purchase orders, $2.1 million; (2) funding of continuing projects and programs in future periods, $343.3 million; (3) payment of debt service, $13.8 million; and (4) a variety of other purposes, $25.7 million.

Revenues for governmental funds overall totaled approximately $1.417 billion in the fiscal year ended December 31, 2010, which represents an increase of approximately $24.7 million or 1.8 percent from the prior fiscal year balance of $1.392 billion. Expenditures in governmental funds amounted to $1.528 billion, a decrease of approximately $13.5 million or 0.9 percent compared to $1.541 billion spent in 2009. In the aggregate, expenditures for governmental funds exceeded revenues by approximately $111.0 million.

The **General Fund** is the chief operating fund of the City. It is comprised of fifteen subfunds: General, Judgment/Claims, Municipal Jail, Arts Account, Cable Television Franchise, Cumulative Reserve, Neighborhood Matching, Development Rights, Emergency, Transit Benefit, 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 2010.

At the end of 2010 the total fund balance of the General Fund was $167.0 million. Fund balance decreased by $30.4 million in 2010 compared to 2009.

Total revenues for the General Fund amounted to $954.0 million, an increase of $11.6 million, 1.2 percent higher than 2009. Tax revenues remained relatively steady, increasing by $4.3 million or 0.6 percent, between 2009 and 2010.

Revenues derived from charges for services were the only source of income that decreased in 2010, down $2.2 million. Program income, interest, and miscellaneous revenues were up $1.4 million; parking fees and space rent were up $1.4 million; and license revenue was up $1.1 million.

General Fund expenditures seemingly unchanged in 2010. Public safety accounts for 59.7 percent of this amount in 2010. Public safety's two largest expenditures were for police and fire protection. For 2010 the Police Department incurred $252.8 million and the Fire Department incurred $158.7 million of expenditures.

The other financing sources and uses category decreased the General Fund's fund balance position by $246.7 million in 2010 compared to $278.8 million in 2009. One main reason for the change was due to the sale of the City's capital assets, which brought in a net proceed of $21.3 million in 2010 compared to $0.6 million in 2009.

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 decreased by $0.9 million. The revenues collected of $178.1 million include excess property tax levy, an employee hours tax, a commercial parking tax, grants and contributions, and charges for services. Transportation's expenditures totaled $254.1 million for 2010, down $23.7 million or 8.5 percent from 2009.

The **Low-Income Housing Fund**, a special revenue fund and one of the major governmental funds of the City, manages activities undertaken by the City to preserve, rehabilitate, or replace low-income housing. It also accounts for the seven-year housing levy approved by voters in 1995 and an additional seven-year levy that was approved by the voters in November 2002. The fund balance decreased slightly by $9 thousand from 2009. Revenues from 2009 to 2010 increased by $10.6 million (38.5 percent). The expenditures reflected the increase in revenues by rising $18.3 million (78.6 percent) year over year. 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 2010 the other **special revenue funds** (SRF) showed an $11.1 million or 17.0 percent decrease in fund balance as a result of operations. The drain on fund balance was primarily attributable to the Pike Place Market Renovation Fund, which its fund balance decreased by $9.2 million to a negative $2.0 million. Other notable decreases in fund balances were in the Key Arena Settlement Proceeds Fund, $2.9 million; the Housing and Community Development Revenue Sharing Fund, $1.3 million; and the Education and Development Services Fund, $1.4 million.

Total revenues for SRF were relatively stable, increasing 1.7 percent from $177.7 million to $180.8 million year over year.

SRF expenditures decreased $8.3 million, down 2.2 percent from 2009. The decrease is primarily caused by the Park and Recreation Fund, which its expenditure decreased $4.1 million from $123.1 million to $119.0 million. The expenditures in other special revenue funds were mostly down due to the Citywide budget cuts.

The other financing sources and uses category reduced considerably in 2010, down $20.8 million or 10.8 percent compared to 2009. The receipt of bond proceeds in the Pike Place Market Renovation Fund was down $7.2 million while the contributions to the Pike Place Market Preservation and Development Authority were up $6.9 million, which resulted in $14.1 million more in other financing uses compared to 2009. Also the Pike Place Market Renovation Fund recognized $2.3 million more in transfers out than 2009 to meet the 2010 debt service obligations.

The total fund balances of the **debt service funds** decreased $1.4 million (11.7 percent) to $10.6 million at the end of 2010. To alleviate the City's budget shortfall, the City continued to use available fund balances in the debt service funds to service its general long-term obligation in 2010.

The fund balance in the **capital projects funds** increased $13.0 million (7.6 percent) from $170.4 million to $183.4 million at the end of 2010. The increase was mainly due to the creation of the 2010 Multipurpose Long-Term General Obligation Bond Fund and the receipt of bond proceeds totaling $83.8 million, leaving a fund balance of $58.6 million. The reserves for capital improvement increased to $180.2 million for 2010, up from $163.8 million in 2009.

The 2010 fund balances of the **permanent funds** decreased by $112 thousand, or 4.9 percent.

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

GENERAL FUND SUBFUNDS

(In Thousands)

	General	Judgment/ Claims	Municipal Jail	Arts Account
Revenues				
Taxes	$ 737,534	$ -	$ -	$ -
Licenses and Permits	13,499	-	-	-
Grants, Shared Revenues, and Contributions	25,996	-	-	145
Charges for Services	57,030	9,681	-	-
Fines and Forfeits	30,936	-	-	-
Parking Fees and Space Rent	26,587	-	-	-
Program Income, Interest, and Miscellaneous Revenues	2,222	210	80	8
Total Revenues	893,804	9,891	80	153
Expenditures	645,996	6,082	214	3,947
Other Financing Sources and Uses				
Long-Term Debt Issued and Premium on Bonds Issued	-	-	-	-
Sales of Capital Assets	1	-	-	-
Transfers In (Out)	(252,237)	-	-	-
Total Other Financing Sources and Uses	(252,236)	-	-	-
Fund Balances				
Reserves Legally Segregated for Future Use	3,961	-	3,867	409
Reserves Not Available for Appropriation	811	-	-	-
Unreserved	2,511	16,355	(258)	307
Total Fund Balances	$ 7,283	$ 16,355	$ 3,609	$ 716

	Cable Television Franchise	Cumulative Reserve	Neighborhood Matching	Development Rights
Revenues				
Taxes	$ -	$ 23,636	$ -	$ -
Licenses and Permits	6,902	-	-	-
Grants, Shared Revenues, and Contributions	-	5,271	-	-
Charges for Services	-	152	-	-
Fines and Forfeits	-	-	-	-
Parking Fees and Space Rent	-	281	-	-
Program Income, Interest, and Miscellaneous Revenues	36	383	-	-
Total Revenues	6,938	29,723	-	-
Expenditures	7,793	51,181	3,069	-
Other Financing Sources and Uses				
Long-Term Debt Issued and Premium on Bonds Issued	-	-	-	-
Sales of Capital Assets	-	21,308	-	-
Transfers In (Out)	(150)	(15,524)	(98)	-
Total Other Financing Sources and Uses	(150)	5,784	(98)	-
Fund Balances				
Reserves Legally Segregated for Future Use	-	36,258	3,275	-
Reserves Not Available for Appropriation	-	-	-	-
Unreserved	5,073	7,231	1,009	21
Total Fund Balances	$ 5,073	$ 43,489	$ 4,284	$ 21

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

GENERAL FUND SUBFUNDS (continued)

(In Thousands)

	Emergency	Transit Benefit	Special Employment Program	Industrial Insurance
Revenues				
Taxes	$ -	$ -	$ -	$ -
Licenses and Permits	-	-	-	-
Grants, Shared Revenues, and Contributions	-	-	-	-
Charges for Services	-	-	-	-
Fines and Forfeits	-	-	-	-
Parking Fees and Space Rent	-	-	-	-
Program Income, Interest, and Miscellaneous Revenues	-	-	-	3
Total Revenues	-	-	-	3
Expenditures	-	-	5	761
Other Financing Sources and Uses				
Long-Term Debt Issued and Premium on Bonds Issued	-	-	-	-
Sales of Capital Assets	-	-	-	-
Transfers In (Out)	(32)	-	-	-
Total Other Financing Sources and Uses	(32)	-	-	-
Fund Balances				
Reserves Legally Segregated for Future Use	215	-	-	-
Reserves Not Available for Appropriation	-	-	-	-
Unreserved	45,286	-	83	6,212
Total Fund Balances	$ 45,501	$ -	$ 83	$ 6,212

	Unemployment Compensation	Health Care	Group Term Life Insurance	Total General Fund 2010	Total General Fund 2009
Revenues					
Taxes	$ -	$ -	$ -	$ 761,170	$ 756,909
Licenses and Permits	-	-	-	20,401	19,333
Grants, Shared Revenues, and Contributions	-	-	-	31,412	28,208
Charges for Services	-	-	-	66,863	69,018
Fines and Forfeits	-	-	-	30,936	28,519
Parking Fees and Space Rent	-	-	-	26,868	25,478
Program Income, Interest, and Miscellaneous Revenues	-	13,423	9	16,374	14,943
Total Revenues	-	13,423	9	954,024	942,408
Expenditures	1,279	17,363	12	737,702	737,604
Other Financing Sources and Uses					
Long-Term Debt Issued and Premium on Bonds Issued	-	-	-	-	1,524
Sales of Capital Assets	-	-	-	21,309	616
Transfers In (Out)	-	-	-	(268,041)	(280,908)
Total Other Financing Sources and Uses	-	-	-	(246,732)	(278,768)
Fund Balances					
Reserves Legally Segregated for Future Use	-	13,564	-	61,549	77,755
Reserves Not Available for Appropriation	-	-	-	811	1,080
Unreserved	628	19,792	426	104,676	118,611
Total Fund Balances	$ 628	$ 33,356	$ 426	$ 167,036	$ 197,446

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 $30.4 million in 2010 compared to $34.2 million in 2009, or a decrease of $3.8 million (11.1 percent). Higher retail power revenues were offset by deferral of Rate Stabilization Account (RSA) revenues, lower net wholesale energy revenues, lower capital contributions, and higher taxes. In addition, lower administrative and general, interest, and other expenses were offset by higher power-related expenses. Operating expenses were again held below the budgeted amount in 2010.

Net cash provided by operating activities increased by $34.6 million to $201.8 million in 2010 compared to $167.2 million in 2009. Restricted assets increased by $108.6 million to $140.2 million in 2010 compared to $31.6 million in 2009. During 2010, a RSA was funded in the amount of $79.3 million in accordance with Ordinance 123260. Initial funding for the RSA included $25.0 million transferred from the Contingency Reserve Account established in 2005 and cash from operations.

Capital assets, net of accumulated depreciation and amortization, were $2.073 billion and $1.956 billion in 2010 and 2009, respectively, a net increase of $117.6 million. The majority of the capital asset additions was in the distribution system, intangible assets, and hydraulic production. These increases were offset by a $66.8 million increase in accumulated depreciation and amortization. In 2010, the Utility adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The Utility has intangible assets that consist of easements, purchased and internally developed software, and transmission rights. In 2010, certain assets previously recorded as capitalized relicensing costs and other deferred charges by the Utility met the criteria for intangible assets under GASB Statement No. 51 and have been reclassified to plant in service along with related accumulated amortization. Accordingly, such costs in 2009 Statement of Net Assets have been reclassified to be comparative with the 2010 presentation.

Total revenue bonds payables were $1.537 billion in 2010 and $1.383 billion in 2009, a net increase of $153.7 million. In late May 2010, the Utility issued $791.8 million of revenue and refunding revenue bonds. Interest expenses were $69.4 million in 2010 and $69.1 million in 2009. Including long-term debt, the total liabilities were $1.815 billion in 2010 and $1.552 billion in 2009.

Total net assets were $854.6 million in 2010 and $824.3 million in 2009.

Water Utility. The net operating income of the Water Utility increased by $3.9 million to $31.0 million in 2010 as compared to $27.1 million in 2009. Operating revenues increased by $3.8 million and operating expenses decreased by $41 thousand in 2010. The increase of net operating income was primarily due to higher water rates, surcharge, and recognition of rate stabilization revenue. The Utility realized a net income of $0.7 million in 2010 compared to $5.9 million in 2009.

Net cash provided by operating activities increased to $75.4 million in 2010 from $70.5 million in 2009, an increase of $4.9 million. Total operating and restricted cash and investments were $135.4 million in 2010 compared to $47.3 million in 2009, an increase of $88.1 million. This increase in cash and investments is primarily due to proceeds received from issuing bonds in January 2010.

Utility plant, net of accumulated depreciation, and other capital assets for the year ended December 31, 2010, amounted to $1.205 billion. This represents a net increase of approximately $29.8 million in 2010. The most significant asset acquisition was the West Seattle Reservoir covering project. The Water Utility has $57.2 million in construction work in progress as of December 31, 2010.

The Water Utility had revenue bonds totaling $1.006 billion in 2010 as compared to $904.0 million in 2009. A portion of the proceeds from the 2010 Water System Improvement and Refunding Revenue Bonds issuance was used to refund $61.8 million of the 1998 Water Revenue Bonds.

Total net assets were $310.9 million in 2010 and $310.2 million in 2009.

Drainage and Wastewater Utility. The Utility realized an operating income of $19.6 million in 2010 as compared to $19.4 million in 2009. Operating revenue decreased $0.5 million and operating expenses decreased $0.7 million between 2010 and 2009. The Utility realized a net income of $5.9 million in 2010 and $6.3 million in 2009. The net income in 2010 was primarily due to wastewater rate increases and a reduction in expenses.

Net cash provided by operating activities increased to $48.3 million in 2010 from $34.1 million in 2009. Total operating and restricted cash and investments were $121.7 million in 2010 as compared to $156.7 million in 2009, a decrease of $35.0 million, primarily due to the spending of 2009 bonds proceeds on construction projects bonds issued in 2009.

Utility plant, net of accumulated depreciation, and other capital assets increased to $628.0 million in 2010 from $593.7 million in 2009, an increase of $34.3 million. Acquisition of new assets included installation of drainage and sewer pipes throughout several locations in the City and completion of Phase 1 of Madison Valley Long Term Solution Project that included the purchases of land. In addition, drainage improvements at 30th Street and Johns Street, and culvert repairs at NE 105th Street and 17th Avenue. Significant capital was spent on storm water and local drainage infrastructure as well as improvements to facilities and equipment.

The Drainage and Wastewater Utility had $499.8 million outstanding revenue and refunding bond liabilities in 2010, as compared to $513.1 million in 2009. There were no new bonds issued in 2010. In 2009 the City issued $139.2 million of revenue and refunding bonds for its drainage and wastewater system. A portion of the proceeds from the issuance was set aside in the Utility's restricted cash and used in January 2010 to refund the remaining portion of the 1998 Revenue Bonds, totaling $18.4 million. Total liabilities, including revenue bonds, were $586.8 million in 2010 and $586.3 million in 2009.

Total net assets were $252.3 million in 2010 and $246.4 million in 2009.

Solid Waste Utility. The Utility realized an operating income of $6.7 million in 2010 as compared to a loss of $8.4 million in 2009. Operating revenue increased by $15.3 million while operating expenses also increased by $0.1 million between 2010 and 2009. The Utility realized a net income of $6.0 million in 2010 and a net loss of $8.6 million in 2009. The net income in 2010 was primarily due to increased revenues as a result of rate increase effective January 2010.

Net cash provided by operating activities increased to $11.1 million in 2010 as compared to a cash outflow of $0.1 million in 2009. Total operating and restricted cash and investments were $22.1 million in 2010 as compared to $32.2 million in 2009, a decrease of $10.1 million, mainly due to capital spending on projects such as the construction of South Transfer Station.

Utility plant, net of accumulated depreciation, and other capital assets increased to $80.3 million in 2010 from $67.0 million in 2009, an increase of $13.3 million. Major assets placed into service in 2010 included new solid waste containers and the solid waste data-integration computer application.

The Solid Waste Utility had $78.5 million outstanding revenue bond liabilities in 2010, as compared to $80.5 million in 2009. The decrease of $2.0 million is due to principal payments made in 2010.

Total net assets were $15.4 million in 2010 and $9.4 million in 2009.

Fiduciary Funds

The City maintains fiduciary funds for the assets of the Seattle City 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 2010 were $1.825 billion; SCERS represents 99.3 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, 2010, by $1.813 billion. SCERS net fund assets increased in valuation by $167.5 million (10.2 percent) during 2010. The primary drivers were the portfolio's allocation to equity; US equity returned 21.4 percent and foreign equity returned 12.8 percent. The fund uses the services of both active and index fund professional money managers. The fund experienced dividend and interest receipts of over $15.7 million during 2010. Employee and employer contributions in 2010 decreased $2.7 million over 2009 for total contributions of $90.6 million. The largest part of the 2010 increase in total expenses (deductions) of $11.4 million resulted from a $5.5 million increase in retiree benefits and a $5.0 million increase in contribution refunds as compared to 2009.

At December 31, 2010, 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 $11.4 million and $1.1 million, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund's 2010 final appropriation budget, including support to other funds, was $1.164 billion. This amount differed from the original budget due to supplemental appropriations approved by the City Council during the year. In fiscal year 2010 the General Fund's budget including carryforward budgets was $1.089 billion. This was increased $74.4 million (6.8 percent) during 2010 for supplemental appropriation authority approved by the Council.

The most significant budget activities are described below:

- At year-end 2010 actual expenditures were $142.3 million less than budgeted. Of this amount $108.6 million of the budget will be carried over into 2011 to cover outstanding encumbrances, grants, and capital spending.

- The total budget for the Real Estate Excise Tax (REET I and II) Cumulative Reserve Subfunds was $43.8 million of which $17.8 million of the budget was expended in 2010. The excess budget will be carried forward for continuing grants ($2.0 million) and capital appropriation ($24.0 million) in 2011.

- The majority of the carryforward budget for capital and grant projects is within the General Subfund, 38.2 percent, and the REET I and REET II Cumulative Reserve Subfunds at 16.6 percent and 7.1 percent, respectively. The amount of carryforward budgets from 2009 was $92.4 million; this amount increased 19.2 percent to $110.1 million for 2010. The budget carryforward for capital projects increased 8.1 percent, from $61.8 million to $66.8 million, and the carryforward budget for grant obligations increased 38.7 percent, from $30.5 million to $42.3 million for 2010.

- 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 2010 $30.4 million in additional grant funding was authorized by the City Council. This includes $17.9 million under agreement with the U.S. Department of Energy (DOE) for funds available under the Energy Efficiency and Conservation Block Grant (EECBG) program.

- 2010 current expenditures of the general government were $173.0 million, which were 14.1 percent below the final budget of $201.4 million. Grant budgets that will carryforward to 2011 contribute to the majority of the variation.

- Public safety expenditures in 2010 were 93.9 percent of the final budget or a $28.7 million budget savings, which is also primarily due to the amount of available grant funding within the Police Department that will continue into 2011. Detail information follows:

  - The Police Department's 2010 budget was $267.1 million. This amount breaks into $3.5 million for capital programs, $22.3 million for grant programs, and the remaining $241.3 million for operations. The 2010 actual expenditures were $252.8 million, breaking down into grants of $10.6 million, capital expenditures for equipment of $2.8 million, and the remaining $239.4 million for operations.

  - The Fire Department's 2010 budget was $164.0 million. This amount breaks into $1.8 million for capital programs, $4.8 million for grant programs, and the remaining $157.4 million for operations. The 2010 actual expenditures were $158.7 million, breaking down into grants of $1.7 million, capital expenditures for equipment of $590 thousand, and the remaining $156.4 million for operations.

- The capital outlay spending in the general government and the culture and recreation functions of the City are reported significantly under budget. This is to be expected with the City loading budgets for projects that span multiple operating cycles and reporting periods. In 2010 the general government expended 33.5 percent of the budget, only $9.0 million of the $26.9 million budgeted. This was consistent within culture and recreation which reported spending only $22.2 million of the $38.0 million budgeted, or 58.5 percent of the 2010 capital outlay budget.

- General Fund actual revenues were $67.3 million (6.6 percent) less than budget. Tax revenues were over budget by $11.0 million (1.4 percent). Grants and contributions were $31.4 million as compared to a budget of $72.9 million because there are grants awarded that span multi-years and remaining budgets are carried over to the following year.

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	
	2010	Restated 2009	2010	Restated 2009	2010	Restated 2009
Land	$ 530,894	$ 512,043	$ 160,118	$ 147,718	$ 691,012	$ 659,761
Plant in Service, Excluding Land	-	-	3,508,899	3,312,259	3,508,899	3,312,259
Buildings and Improvements	1,569,118	1,515,118	36,079	38,083	1,605,197	1,553,201
Machinery and Equipment	113,860	124,099	4,001	5,585	117,861	129,684
Infrastructure	742,151	707,046	-	-	742,151	707,046
Construction in Progress	267,778	200,100	312,303	324,362	580,081	524,462
Other Capital Assets	11,961	11,775	17,755	19,633	29,716	31,408
Total Capital Assets	$ 3,235,762	$ 3,070,181	$ 4,039,155	$ 3,847,640	$ 7,274,917	$ 6,917,821

Capital assets, net of depreciation, for governmental activities increased by $165.6 million in 2010. Major increases included the following:

- Seattle Center capitalized improvements to various facilities amounting to $1.8 million. Theater Commons improvements cost $4.7 million and Monorail improvements cost $2.0 million. Construction in progress amounted to $3.1 million at the end of 2010, a decrease of $1.7 million over last year.

- The Department of Parks and Recreation (DPR) capitalized various community parks improvements such as: South Lake Union Park II at $5.4 million; Delridge Playfield renovation at $2.4 million; Boat Moorage restoration at $1.4 million; Rainier Beach Community Center at $1.3 million; Hubbard Homestead Park at $1.1 million; and other park facilities improvements, restorations, and renovations at $27.9 million. DPR spent $12.6 million for the purchase of land, such as: the Discovery Park Capehart at $7.1 million, Capitol Hill Urban Village at $2.0 million, and other parcels at $3.5 million. DPR received a transfer of parcels of land from the Facilities Operating Division in the amount of $6.0 million. Construction in progress at December 31, 2010, stood at $0.7 million.

- The Department of Transportation capitalized $74.6 million for various infrastructure assets (roads, bridges, sidewalks, signs, illuminations, and others). $0.2 million was spent for land and easement. Construction in progress at December 31, 2010, was $231.1 million, an increase of $74.8 million over the last year.

- The Facilities Operating Division (FOD) incurred $25.7 million to complete additional improvements of various City buildings such as: Fire Station #2 at $11.4 million, Fire Station #17 at $9.6 million, Fire Station #33 at $2.0 million, and Fire Station #41 at $2.7 million. FOD spent $24.6 million for the renovation of various fire stations such as Fire Station #28 at $10.4 million, Fire Station #35 at $5.1 million, Fire Station #37 at $3.9 million, and Fire Station #39 at $5.2 million. $5.3 million was spent for the purchase of land for Fire Station #20. Construction in progress at December 31, 2010 was $23.0 million, a decrease of $25.2 million over the last year.

- The Library capitalized additions to the Central Library and the Green Lake Library at $0.6 million. There is no construction in progress amount remaining at December 31, 2010.

Capital assets, net of depreciation, for business-type activities increased $191.5 million as follows:

- City Light capital assets, net of accumulated depreciation, increased by $117.6 million in 2010. These increases comprised of hydroelectric production plant, $22.0 million; the transmission plant, $6.4 million; the distribution plant, $110.8 million ($25.2 million for underground conductors, $20.0 million for poles and towers, $19.7 million for underground conduit, $11.0 million for transformers, $10.2 million for overhead conductors, $5.8 million for streetlights, and $5.0 million for overhead services); general plant, $11.3 million; intangible assets, $28.9 million; land and land rights, $7.7 million; and accumulated depreciation and amortization, $66.8 million. Construction in progress and other assets decreased $0.8 million and $2.0 million, respectively.

- Water Utility net capital assets increased by $29.8 million in the current fiscal year. Major capital assets placed in service during 2010 included the following: $34.8 million for West Seattle Reservoir covering project, $12.5 million for water tanks and pump station improvements, $5.4 million for Cedar River Watershed improvement, $5.2 million for water pipeline upgrades and replacements. Construction in progress as of December 31, 2010, included the following: $27.5 million for water system improvements, rehabilitations, reservoir coverings, and environmental stewardship projects; $11.7 million for water conservation projects; and $8.2 million for design and construction of the sockeye hatchery at the Cedar River Watershed and Ballard Locks improvements.

- Drainage and Wastewater Utility net capital assets increased by $34.4 million compared to last year. Major capital assets placed in service during 2010 included the following: $5.2 million to replace sewer pipelines; $3.9 million for storm improvements at several locations in the City; $3.2 million for completion of Phase 1 of Madison Valley Long Term Solution Project and purchase of land in conjunction with the project; $2.9 million to replace existing pipes; $2.6 million for emergency rehab work on sewer mainline; $2.1 million for storm improvements at 30th Street and John Street; $1.6 million for culvert repairs; $1.5 million for major enhancement to I-SCADA and IMS website application; $1.5 million for pump station improvement and rehabilitation; $1.1 million of donated sewer and drainage pipes from the City's Department of Transportation and Sound Transit. Major construction projects in progress at the end of 2010 included the following: $6.9 million for improvements to mitigate flooding and sewer backup; $5.1 million for detention project to reduce flooding near North 107th Street and Midvale; $4.4 million to build a pump station; $6.5 million for various sewer overflow improvements; $1.5 million for storm drain improvements; and $1.4 million for wastewater pump station improvement and rehabilitation.

- Solid Waste Utility net capital assets increased by $13.3 million for the year ended December 31, 2010. The Utility spent $17.8 million for construction projects, of which $9.1 million was capitalized as assets and deferred charges. The increase in assets was offset by $0.9 million for asset retirements and $5.6 million for depreciation. Capital assets placed in service included $5.6 million for the purchase of new solid waste containers and $1.8 million for various management project applications and systems. Highlights of the construction in progress activity during 2010 included the following: $9.3 million for the South Transfer Station rebuild and $1.1 million for the North Transfer Station rebuild.

- Nonmajor enterprise funds net capital assets decreased by $3.6 million. Capital assets of Downtown Parking Garage Fund and Planning and Development Fund decreased by $2.0 million and $1.6 million, respectively, due to depreciation.

More detailed financial information about the City's capital asset activities is presented in Note 6 to the financial statements.

DEBT ADMINISTRATION

At the end of the fiscal year 2010 the City had $3.985 billion in outstanding bonded debt that included general obligation and revenue bonds, compared to $3.715 billion in 2009. This represents an increase of approximately $270.2 million (7.3 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 $15.7 million. A maturity and bond call payment of $2.0 million occurred in 2010 using special assessment collections from property owners within Local Improvement District No. 6750.

In 2010 the City issued LTGO bonds to finance various capital improvement projects including the Alaskan Way Viaduct ($10.3 million), Tier-1 Storage Area Network ($1.4 million), Pay Stations ($1.8 million), King Street Station ($0.5 million), Fire Stations ($6.7 million), Golf Course Improvements ($0.8 million), Pike Place Market Renovation ($4.4 million), Bridge Rehabilitation ($30.1 million), Bridge Seismic ($12.0 million), Mercer Corridor West ($8.9 million), Mercer Corridor-South Lake Union ($3.1 million), Spokane Street Viaduct ($6.7 million), and to advance refund the 2001 LTGO Bonds ($85.7 million) and 2002 LTGO Bonds ($29.5 million). The City also issued revenue bonds: $791.8 million for the Light Fund to finance certain capital improvements and conservation programs and to advance refund certain higher-interest-bearing existing Municipal Light and Power parity bonds; and $190.8 million for the Water Fund to be used for certain capital improvements projects and additions to the drainage and wastewater system and to fully refund the 1998 Water Revenue Bonds.

The City's bond ratings remained the same as in the previous year. The City's UTGO bonds are rated Aaa by Moody's Investors Service (Moody's), AAA by Fitch Ratings (Fitch), and AAA by Standard & Poor's (S&P). The City's LTGO bonds are rated Aa1 by Moody's, AA+ by Fitch, and AAA by S&P. The City maintained its high bond ratings on its Light, Water, Drainage and Wastewater, and Solid Waste revenue bonds by Moody's and S&P; these bonds are not rated by Fitch.

The City's limited and unlimited general obligation debt is capped at 7.5 percent of assessed value by state law. The 2011 assessed value of taxable properties for the City is $120.117 billion. At the end of 2010 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 $1.006 billion, well below the limit of $9.009 billion, rendering the City's legal debt margin of $8.003 billion. Within the 7.5 percent limitation, state law restricts outstanding LTGO bonds to 1.5 percent of assessed value. At year-end 2010 the net outstanding debt was $883.5 million.

The City is self-insured for workers compensation and for most health care costs. The City carries general liability insurance with a self-insured retention. For these claims, including those incurred but not reported, the City recognized a total liability of $121.5 million ($90.0 million for governmental activities and $31.5 million for business-type activities) at the end of the year. In addition, City utilities and Department of Parks and Recreation recognized a combined $44.4 million in estimated environmental liabilities. Other obligations were accrued for compensation absences for sick leave and other notes and contracts. The other notes and contracts included draws from the State's Public Works Trust Loan (PWTL) Program which are serviced with revenues from two participating City departments, one with a governmental-type fund and one whose PWTL activities are reported in two of its business-type funds.

More detailed information about the City's long-term liabilities is presented in Note 9 to the financial statements.

ECONOMIC FACTORS

With the recession ending in 2009, the U.S. economy showed signs of recovery and growth in early 2010. It hit a soft patch midyear then stabilized towards the end of the year. Recent global developments slowed the economy's momentum in the first half of 2011. The Japan disaster, political upheavals in the Middle East, debt crises in some European governments, and severe weather in many parts of the country resulted in supply chain interruptions and commodity price hikes, and dampened consumer spending and employment growth. Projections for overall growth rate for 2011 has been reduced to 2.5 percent (as of June economic report), down from the 2.7 percent projection made earlier in the year. Commodity prices remain high but inflation is expected to ease in the second half of the year due to very low wage inflation. The Federal Reserve is not expected to raise rates before September 2012, and a more comprehensive deficit-reduction plan is also not expected from the federal government before the 2012 elections.

In Puget Sound, recovery from the recession will likely trail the nation. It entered recession later, and its downturn was deeper than the nation. Regional employment is predicted to advance at the same speed as the nation: 1.2 percent in 2011 and 2.4 percent in 2012. This is an improvement over the 1.9 percent decline in 2010. The housing market hit bottom in 2010 and is expected to bounce back slowly in 2011 at 4.0 percent and in greater strides in 2012 at 36.9 percent. Personal income is expected to continue to grow: 3.8 percent in 2011 and 5.1 percent in 2012. The growth in housing permits was at 22.9 percent in 2010; increases in 2011 and 2012 are projected at 4.0 percent and 36.9 percent, respectively. The Puget Sound economic recovery is predicted to be sustained but at a slow rate especially with regard to jobs and the unemployment rate.

General Subfund. In 2009, total government revenue into the General Subfund totaled approximately $893.8 million. General Subfund revenue was projected to increase to $897.4 million in 2010, stay flat at $897.4 million in 2011, and then grow to $923.3 million in 2012. It is important to note that the 2009 and 2010 revenues were artificially high due to contributions from the Revenue Stabilization Account, or "Rainy Day Fund", in amounts of $8.9 million and $11.3 million, respectively. Also in 2010, the former Department of Executive Administration (DEA) merged with the former Fleets and Facilities Department (FFD), along with various other City functions, to form the Department of Finance and Administrative Services (FAS). This merger resulted in 2011 and 2012 revenues, which formerly accrued to the General Subfund to support work administered by the former DEA, now going directly to FAS's operating fund. Removing these effects, and those from proposed policies designed to increase revenues, would show a meager 0.7 percent and 3.7 percent rates of growth in General Subfund revenue for 2011 and 2012.

The economic downturn, with record job losses and high unemployment rates, severely impacted the real estate sector and constrained consumer behavior. Construction activity also declined, adding further pressure to the sales tax base. The results were lower business and occupation and sales taxes which were projected to continue to grow but at low rates of 1.0 percent, 1.8 percent, and 3.9 percent for 2010, 2011, and 2012, respectively.

Revenue from on-street parking for 2010 was revised downward to $26.5 million from the 2010 adopted budget figure of $28.6 million. The City continues to evaluate its parking rates and rules to more flexibly use the price of parking across different parts of the City to increase revenues and help achieve parking management tools. Increases in parking revenues are expected due to the passing of an ordinance that allows the use of immobilizing parking boot on vehicles owned by individuals with four or more outstanding parking citations. The City anticipated increased payment compliance on citations and approximately $1.7 million in additional citation revenue in 2011 and $2.0 million in 2012, respectively.

Utilities. In 2010, Seattle City Light continued to experience depressed energy prices and unusually low precipitation levels and, as a result, received lower wholesale power and other revenues than anticipated. To offset those reductions in revenues, the utility was authorized to raise retail power rates by 13.8 percent in 2010. Per City Ordinance 123260, the utility also established the Rate Stabilization Account (RSA) to help mitigate future risks to wholesale revenue. The $54.3 million transferred to the RSA in 2010 was supported by a 4.5 percent temporary rate surcharge implemented in May 2010 and debt service savings realized by the refunding of certain prior lien bonds. The 2011 adopted and 2012 endorsed budgets restore funding for core maintenance of power generating facilities which had been deferred in recent years.

The Seattle Public Utilities (SPU) saw its three utilities adversely impacted by the economic downturn. Customers generated fewer tons of garbage and used less water than assumed in earlier forecasts, and the trend is expected to continue in the next few years. Reduced revenues pose challenges for SPU to cover its fixed costs to operate the utilities; meet regulatory requirements associated with the National Pollutant Discharge Elimination System permits for stormwater and the combined sewer system; and to maintain aging infrastructure. In the 2010 adopted budget, SPU addressed its financial pressures by implementing moderate rate increases and by reducing operations and maintenance costs and capital programs, resulting in the reduction of 37 positions. SPU reduced an additional 10 positions as part of the mid-year budget review. A surcharge was also added to the water rate through December 2010 to recover costs related to the settlement of the hydrant court case.

Full Time-Equivalent (FTE) Positions. In the 2010 adopted budget, over 300 positions were eliminated citywide. Fourteen unions, representing approximately 4,282 employees, agreed to a 10-day unpaid furlough and the City extended a similar furlough to most non-represented employees. The furloughs significantly reduced the number of layoffs in 2010. Mid-year reductions in 2010 resulted in the unfunding of additional 53.2 FTEs citywide, of which 9.3 FTEs or 13 positions were filled and therefore subject to layoff effective July 2010. The 2011 adopted budget further eliminates 294 positions citywide. When the budget was adopted, 214 of the 294 positions were filled and would result in layoffs effective January 4, 2011.

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 Finance and Administrative Services, Accounting Services Division, P.O. Box 94669, Seattle, WA 98124-4669 (Telephone 206-386-9124).

B-1

Page 1 of 3

STATEMENT OF NET ASSETS

December 31, 2010

(In Thousands)

	Primary Government				
			Comparative Totals		
	Governmental Activities	Business-Type Activities	2010	Restated 2009	Component Units
ASSETS					
Current Assets					
Operating Cash and Equity in Pooled Investments	$ 499,188	$ 117,531	$ 616,719	$ 620,544	$ 1,904
Restricted Cash and Equity in Pooled Investments	7,587	1,738	9,325	8,636	-
Investments	-	-	-	-	47,289
Receivables, Net of Allowances	86,000	212,578	298,578	275,989	392
Internal Balances	15,266	(15,266)	-	-	-
Due from Other Governments	88,416	10,107	98,523	86,528	-
Inventories	2,968	29,652	32,620	34,084	-
Prepaid and Other Current Assets	1,040	2,918	3,958	2,042	15
Total Current Assets	700,465	359,258	1,059,723	1,027,823	49,600
Noncurrent Assets					
Restricted Cash and Equity in Pooled Investments	25,912	286,794	312,706	158,258	-
Restricted Investments	-	81,829	81,829	99,859	-
Restricted Investment Interest Receivable	-	131	131	645	-
Unamortized Debt Costs	4,358	19,343	23,701	20,769	-
Contracts and Notes	375,385	-	375,385	320,469	-
Deferred Conservation Costs, Net	-	208,006	208,006	196,359	-
Deferred Landfill Closure and Postclosure Costs, Net	-	18,772	18,772	24,134	-
Deferred Environmental Costs and Recoveries	-	10,641	10,641	13,061	-
Net Pension Asset	39,821	-	39,821	82,630	-
Other Deferred Charges and Noncurrent Assets	16,578	85,879	102,457	102,441	2,963
Capital Assets, Net of Accumulated Depreciation					
Land and Land Rights	530,894	160,118	691,012	659,761	-
Plant in Service, Excluding Land	-	3,508,899	3,508,899	3,312,259	-
Buildings and Improvements	1,569,118	36,079	1,605,197	1,553,201	-
Machinery and Equipment	113,860	4,001	117,861	129,684	1
Infrastructure	742,151	-	742,151	707,046	-
Construction in Progress	267,778	312,303	580,081	524,462	-
Other Capital Assets	11,961	17,755	29,716	31,408	-
Total Noncurrent Assets	3,697,816	4,750,550	8,448,366	7,936,446	2,964
Total Assets	4,398,281	5,109,808	9,508,089	8,964,269	52,564

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

B-1
Page 2 of 3

STATEMENT OF NET ASSETS
December 31, 2010
(In Thousands)

	Primary Government				
			Comparative Totals		
	Governmental Activities	Business-Type Activities	2010	Restated 2009	Component Units
LIABILITIES					
Current Liabilities					
Accounts Payable	$ 82,051	$ 64,630	$ 146,681	$ 140,676	$ 1,169
Salaries, Benefits, and Taxes Payable	19,890	8,543	28,433	26,173	-
Contracts Payable	5,785	-	5,785	5,079	-
Due to Other Governments	9,167	9,252	18,419	17,551	-
Interest Payable	11,852	61,831	73,683	56,687	-
Taxes Payable	49	11,246	11,295	11,523	-
Deposits Payable	782	-	782	813	-
Deferred Credits	4,523	19,870	24,393	20,251	-
Current Portion of Long-Term Debt					
Bonds Payable	61,635	104,322	165,957	179,151	-
Special Assessment Bonds with Governmental Commitment	-	-	-	660	-
Deferred Bond Interest	-	1,058	1,058	924	-
Compensated Absences Payable	20,357	2,922	23,279	20,236	-
Notes and Contracts Payable	2,172	1,672	3,844	3,603	-
Claims Payable	28,530	20,127	48,657	51,515	-
Habitat Conservation Program Liability	-	527	527	5,759	-
Landfill Closure and Postclosure Liability	-	1,292	1,292	1,338	-
Arbitrage Rebate Liability	76	-	76	-	-
Other Current Liabilities	525	642	1,167	1,296	-
Total Current Liabilities	247,394	307,934	555,328	543,235	1,169
Noncurrent Liabilities					
Bonds Payable, Net of					
Unamortized Premiums, Discounts, and Other	773,257	3,144,626	3,917,883	3,583,353	-
Deferred Bond Interest	-	2,493	2,493	3,081	-
Special Assessment Bonds with Governmental Commitment	15,735	-	15,735	17,045	-
Compensated Absences Payable	63,004	25,991	88,995	88,910	-
Claims Payable	62,195	54,951	117,146	107,473	-
Notes and Contracts Payable	14,424	32,434	46,858	39,129	-
Landfill Closure and Postclosure Liability	-	19,362	19,362	23,923	-
Vendor Deposits Payable	111	546	657	884	-
Habitat Conservation Program Liability	-	3,784	3,784	3,664	-
Muckleshoot Liability	-	495	495	495	-
Deferred Credits	389,942	40,107	430,049	410,787	-
Deferred Revenue - Rate Stabilization Account	-	54,266	54,266	-	-
Arbitrage Rebate Liability	-	-	-	205	-
Unfunded Other Post Employment Benefits	46,448	8,710	55,158	40,103	-
Other Noncurrent Liabilities	1,556	694	2,250	727	-
Total Noncurrent Liabilities	1,366,672	3,388,459	4,755,131	4,319,779	-
Total Liabilities	1,614,066	3,696,393	5,310,459	4,863,014	1,169

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

B-1 **STATEMENT OF NET ASSETS**

Page 3 of 3 **December 31, 2010**

(In Thousands)

	Primary Government				
			Comparative Totals		
	Governmental Activities	**Business-Type Activities**	**2010**	**Restated 2009**	**Component Units**
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 2,510,711	$ 1,249,049	$ 3,759,760	$ 3,607,759	$ 1
Restricted for					
Debt Service	10,640	29,441	40,081	36,952	-
Contingency Reserve Account	-	-	-	25,000	-
Capital Projects	138,189	-	138,189	166,784	87
Rate Stabilization Account	-	25,000	25,000	-	-
Education and Development Services	15,258	-	15,258	16,664	10,399
Special Deposits	13,564	129	13,693	25,178	-
Deferred Conservation and Environmental Costs	-	6,806	6,806	6,364	-
Bonneville Power Administration Projects	-	563	563	763	-
Deferred External Infrastructure Costs	-	7,514	7,514	8,019	-
Muckleshoot Settlement	-	348	348	460	-
Other Deferred Charges	-	9,571	9,571	8,471	-
Other Purposes	-	-	-	-	308
Nonexpendable	2,192	-	2,192	2,303	26,872
Unrestricted	93,661	84,994	178,655	196,538	13,728
Total Net Assets	$ 2,784,215	$ 1,413,415	$ 4,197,630	$ 4,101,255	$ 51,395

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

B-2
Page 1 of 2

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010
(In Thousands)

	Program Expenses		Program Revenues		
Functions/Programs	Expenses	Indirect Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
GOVERNMENTAL ACTIVITIES					
General Government	$ 162,914	$ (1,585)	$ 60,333	$ 15,271	$ 348
Judicial	26,298	-	31,078	228	-
Public Safety	478,032	(1,171)	18,848	14,891	-
Physical Environment	32,171	-	1,985	2,536	-
Transportation	121,689	687	55,680	13,149	33,798
Economic Environment	119,595	-	4,419	32,287	10,876
Health and Human Services	72,680	-	9	34,063	-
Culture and Recreation	258,639	-	54,886	6,194	11,355
Interest on Long-Term Debt	38,929	-	-	-	-
Total Governmental Activities	1,310,947	(2,069)	227,238	118,619	56,377
BUSINESS-TYPE ACTIVITIES					
Light	729,735	1,023	729,650	2,970	26,379
Water	209,184	370	194,987	540	11,644
Drainage and Wastewater	245,290	299	245,959	1,256	3,823
Solid Waste	145,649	129	150,870	782	-
Planning and Development	47,451	248	28,627	405	-
Downtown Parking Garage	7,648	-	6,580	-	-
Total Business-Type Activities	1,384,957	2,069	1,356,673	5,953	41,846
Total Government-Wide Activities	$ 2,695,904	$ -	$ 1,583,911	$ 124,572	$ 98,223
COMPONENT UNITS	$ 7,077	$ -	$ -	$ 7,008	$ -

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

B-2 **STATEMENT OF ACTIVITIES**

Page 2 of 2 **For the Year Ended December 31, 2010**

(In Thousands)

	Net Revenue (Expense) and Changes in Net Assets				
	Primary Government				
			Comparative Totals		
	Governmental Activities	Business-Type Activities	2010	Restated 2009	Component Units
GOVERNMENTAL ACTIVITIES					
General Government	$ (85,377)	$ -	$ (85,377)	$ (35,104)	
Judicial	5,008	-	5,008	1,041	
Public Safety	(443,122)	-	(443,122)	(437,915)	
Physical Environment	(27,650)	-	(27,650)	(30,793)	
Transportation	(19,749)	-	(19,749)	(40,818)	
Economic Environment	(72,013)	-	(72,013)	(59,743)	
Health and Human Services	(38,608)	-	(38,608)	(41,675)	
Culture and Recreation	(186,204)	-	(186,204)	(170,881)	
Interest on Long-Term Debt	(38,929)	-	(38,929)	(36,825)	
Total Governmental Activities	(906,644)	-	(906,644)	(852,713)	
BUSINESS-TYPE ACTIVITIES					
Light	-	28,241	28,241	29,480	
Water	-	(2,383)	(2,383)	(605)	
Drainage and Wastewater	-	5,449	5,449	8,907	
Solid Waste	-	5,874	5,874	(9,151)	
Planning and Development	-	(18,667)	(18,667)	(22,358)	
Downtown Parking Garage	-	(1,068)	(1,068)	(962)	
Total Business-Type Activities	-	17,446	17,446	5,311	
Total Government-Wide Activities	(906,644)	17,446	(889,198)	(847,402)	
COMPONENT UNITS					$ (69)
General Revenues					
Property Taxes	391,798	-	391,798	388,341	-
Sales Taxes	146,970	-	146,970	150,515	-
Business Taxes	331,570	-	331,570	329,572	-
Excise Taxes	28,815	-	28,815	27,710	-
Other Taxes	31,119	-	31,119	28,582	-
Penalties and Interest on Delinquent Taxes	3,475	-	3,475	3,867	-
Unrestricted Investment Earnings	4,685	8,796	13,481	13,735	4,714
Gain on Sale of Capital Assets	40,095	198	40,293	2,073	-
Special Item - Environmental Remediation Expenses	-	(1,948)	(1,948)	(4,289)	-
Transfers	(10,100)	10,100	-	-	-
Total General Revenues (Loss), Special Item, and Transfers	968,427	17,146	985,573	940,106	4,714
Changes in Net Assets	61,783	34,592	96,375	92,704	4,645
Net Assets - Beginning of Year	2,722,432	1,378,823	4,101,255	4,009,193	46,750
Prior-Year Adjustments	-	-	-	(642)	-
Net Assets - Beginning of Year as Restated	2,722,432	1,378,823	4,101,255	4,008,551	46,750
Net Assets - End of Year	$ 2,784,215	$ 1,413,415	$ 4,197,630	$ 4,101,255	$ 51,395

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

B-3

Page 1 of 4

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010
(In Thousands)

	General	Transportation	Low-Income Housing
ASSETS			
Cash and Equity in Pooled Investments	$ 111,993	$ 21,035	$ 74,900
Receivables, Net of Allowances			
Taxes	56,523	2,627	593
Accounts	3,358	931	33
Contracts and Notes	-	-	-
Special Assessments - Delinquent	-	-	-
Interest and Dividends	238	306	56
Unbilled and Others	68	711	-
Due from Other Funds	14,648	15,793	-
Due from Other Governments	41,317	27,552	701
Inventories	-	-	-
Prepaid and Other Current Assets	820	58	-
Deposits With Vendor	2	-	-
Contracts and Notes - Noncurrent	7,978	-	298,493
Advances to Other Funds	1,020	-	-
Deferred Charges and Other Assets	-	-	-
Total Assets	$ 237,965	$ 69,013	$ 374,776
LIABILITIES			
Accounts Payable	$ 24,113	$ 23,316	$ 532
Contracts Payable	578	3,365	-
Due to Other Funds	5,638	3,782	14
Due to Other Governments	2,286	-	16
Salaries, Benefits, and Taxes Payable	12,776	1,655	-
Interest Payable	933	14	-
Deposits Payable	194	298	93
Revenue Collected/Billed in Advance - Current	1,370	15	-
Other Current Liabilities	212	-	-
Advances from Other Funds	-	-	-
Deferred Revenues	22,829	3,360	298,971
Total Liabilities	70,929	35,805	299,626

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

B-3

Page 2 of 4

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2010

(In Thousands)

	Other Governmental	Comparative Totals 2010	Comparative Totals Restated 2009
ASSETS			
Cash and Equity in Pooled Investments	$ 280,353	$ 488,281	$ 528,036
Receivables, Net of Allowances			
Taxes	2,707	62,450	63,624
Accounts	5,765	10,087	10,623
Contracts and Notes	-	-	6
Special Assessments - Delinquent	154	154	164
Interest and Dividends	265	865	926
Unbilled and Others	1,131	1,910	3,101
Due from Other Funds	4,580	35,021	29,730
Due from Other Governments	18,364	87,934	76,675
Inventories	570	570	651
Prepaid and Other Current Assets	-	878	603
Deposits With Vendor	-	2	1
Contracts and Notes - Noncurrent	44,964	351,435	316,367
Advances to Other Funds	-	1,020	-
Deferred Charges and Other Assets	16,578	16,578	18,029
Total Assets	$ 375,431	$ 1,057,185	$ 1,048,536
LIABILITIES			
Accounts Payable	$ 27,383	$ 75,344	$ 67,544
Contracts Payable	1,842	5,785	5,078
Due to Other Funds	15,577	25,011	22,791
Due to Other Governments	6,866	9,168	8,206
Salaries, Benefits, and Taxes Payable	4,214	18,645	16,808
Interest Payable	4	951	888
Deposits Payable	197	782	813
Revenue Collected/Billed in Advance - Current	3,138	4,523	3,960
Other Current Liabilities	166	378	369
Advances from Other Funds	1,020	1,020	-
Deferred Revenues	64,607	389,767	365,271
Total Liabilities	125,014	531,374	491,728

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

B-3

Page 3 of 4

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2010

(In Thousands)

	General	Transportation	Low-Income Housing
FUND BALANCES			
Reserves Legally Segregated for Future Use			
Capital Improvements	$ 43,616	$ 33,206	$ -
Continuing Appropriations	3,406	-	63,921
Debt Service	-	-	-
Encumbrances	963	-	126
Health Care Rate Stabilization	13,564	-	-
Reserves Not Available for Appropriation			
Endowments	-	-	-
Gifts	-	-	-
Inventories	-	-	-
Petty Cash	811	2	-
Unreserved, Reported in			
Major Funds			
Designated for Special Purpose	57,666	-	-
Undesignated	47,010	-	11,103
Special Revenue Funds			
Designated for Special Purpose	-	-	-
Undesignated	-	-	-
Permanent Funds	-	-	-
Total Fund Balance	167,036	33,208	75,150
Total Liabilities and Fund Balance	$ 237,965	$ 69,013	$ 374,776

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

B-3

Page 4 of 4

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010
(In Thousands)

	Other Governmental	Comparative Totals 2010	Comparative Totals Restated 2009
FUND BALANCES			
Reserves Legally Segregated for Future Use			
Capital Improvements	$ 182,342	$ 259,164	$ 257,226
Continuing Appropriations	16,772	84,099	88,936
Debt Service	13,792	13,792	20,585
Encumbrances	1,060	2,149	3,510
Health Care Rate Stabilization	-	13,564	13,045
Reserves Not Available for Appropriation			
Endowments	2,050	2,050	2,050
Gifts	8,643	8,643	10,891
Inventories	570	570	592
Petty Cash	11	824	1,104
Unreserved, Reported in			
Major Funds			
Designated for Special Purpose	-	57,666	48,556
Undesignated	-	58,113	89,099
Special Revenue Funds			
Designated for Special Purpose	987	987	843
Undesignated	24,173	24,173	20,270
Permanent Funds	17	17	101
Total Fund Balance	250,417	525,811	556,808
Total Liabilities and Fund Balance	$ 375,431		

Amounts reported for governmental activities in the statement of net assets are different because:	2010	Restated 2009
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,543,325	2,415,982
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	31,999	12,023
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.	441,022	387,006
Net pension asset net of pension obligations	39,821	82,630
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	(27,964)	(29,164)
Accrued Interest Payable	(10,829)	(10,445)
Current Portion of Long-Term Debt	(47,171)	(45,751)
Compensated Absences Payable	(19,847)	(17,424)
General Obligation Bonds Payable	(476,928)	(438,363)
Less Bond Discount and Premium	(23,974)	(13,492)
Special Assessment Bonds	(15,735)	(17,045)
Unamortized Losses on Refunding	4,063	-
Deferred Credits	4,134	3,407
Notes and Other Long-Term Liabilities	(16,596)	(16,746)
Compensated Absences - Long-Term	(59,827)	(59,915)
Claims Payable - Long-Term	(46,023)	(40,386)
Workers' Compensation	(15,793)	(13,940)
Arbitrage	(76)	(205)
Unfunded Other Post Employment Benefits	(45,197)	(32,548)
Net Adjustments	2,258,404	2,165,624
Net Assets of Governmental Activities	$ 2,784,215	$ 2,722,432

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

B-4
Page 1 of 2

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010
(In Thousands)

	General	Transportation	Low-Income Housing
REVENUES			
Taxes	$ 761,170	$ 64,581	$ 18,621
Licenses and Permits	20,401	6,113	-
Grants, Shared Revenues, and Contributions	31,412	46,815	14,853
Charges for Services	66,863	60,215	107
Fines and Forfeits	30,936	9	-
Parking Fees and Space Rent	26,868	99	-
Program Income, Interest, and Miscellaneous Revenues	16,374	243	4,423
Total Revenues	954,024	178,075	38,004
EXPENDITURES			
Current			
General Government	172,796	-	-
Judicial	26,300	-	-
Public Safety	437,716	-	-
Physical Environment	8,704	-	-
Transportation	10,823	81,921	-
Economic Environment	21,084	-	41,576
Health and Human Services	-	-	-
Culture and Recreation	26,398	-	-
Capital Outlay			
General Government	9,001	-	-
Public Safety	2,658	-	-
Transportation	-	169,636	-
Economic Environment	-	-	5
Culture and Recreation	22,222	-	-
Debt Service			
Principal	-	2,272	-
Advance Refunding to Escrow	-	-	-
Interest	-	279	-
Bond Issuance Cost	-	-	-
Total Expenditures	737,702	254,108	41,581
Excess (Deficiency) of Revenues over Expenditures	216,322	(76,033)	(3,577)
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	-	-	-
Refunding Debt Issued	-	-	-
Premium on Bonds Issued	-	-	-
Capital Leases Issued	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-
Payments on Intergovernmental Agreements	-	-	-
Sales of Capital Assets	21,309	-	-
Transfers In	10,068	88,952	3,568
Transfers Out	(278,109)	(13,867)	-
Total Other Financing Sources (Uses)	(246,732)	75,085	3,568
Net Change in Fund Balance	(30,410)	(948)	(9)
Fund Balances - Beginning of Year	197,446	34,156	75,159
Fund Balances - End of Year	$ 167,036	$ 33,208	$ 75,150

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

B-4 **Page 2 of 2**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010
(In Thousands)

	Other Governmental	Comparative Totals 2010	Comparative Totals Restated 2009
REVENUES			
Taxes	$ 89,269	$ 933,641	$ 927,287
Licenses and Permits	-	26,514	28,298
Grants, Shared Revenues, and Contributions	86,762	179,842	173,231
Charges for Services	44,324	171,509	157,081
Fines and Forfeits	1,355	32,300	29,645
Parking Fees and Space Rent	19,891	46,858	42,404
Program Income, Interest, and Miscellaneous Revenues	4,997	26,037	34,011
Total Revenues	246,598	1,416,701	1,391,957
EXPENDITURES			
Current			
General Government	6,986	179,782	186,046
Judicial	-	26,300	26,812
Public Safety	7,286	445,002	431,413
Physical Environment	354	9,058	16,528
Transportation	637	93,381	111,531
Economic Environment	60,770	123,430	103,462
Health and Human Services	73,956	73,956	76,471
Culture and Recreation	206,886	233,284	223,340
Capital Outlay			
General Government	7,798	16,799	24,651
Public Safety	19,157	21,815	20,781
Transportation	-	169,636	179,231
Economic Environment	-	5	28
Culture and Recreation	41,299	63,521	72,905
Debt Service			
Principal	43,554	45,826	43,064
Advance Refunding to Escrow	-	-	6
Interest	24,317	24,596	24,191
Bond Issuance Cost	1,303	1,303	727
Total Expenditures	494,303	1,527,694	1,541,187
Excess (Deficiency) of Revenues over Expenditures	(247,705)	(110,993)	(149,230)
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	85,325	85,325	87,810
Refunding Debt Issued	115,185	115,185	4,390
Premium on Bonds Issued	13,270	13,270	8,152
Capital Leases Issued	-	-	20
Payment to Refunded Bond Escrow Agent	(125,170)	(125,170)	(4,735)
Payments on Intergovernmental Agreements	(23,825)	(23,825)	(16,928)
Sales of Capital Assets	1	21,310	624
Transfers In	243,963	346,551	371,345
Transfers Out	(60,674)	(352,650)	(373,971)
Total Other Financing Sources (Uses)	248,075	79,996	76,707
Net Change in Fund Balance	370	(30,997)	(72,523)
Fund Balances - Beginning of Year	250,047	556,808	629,331
Fund Balances - End of Year	$ 250,417	$ 525,811	$ 556,808

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, 2010

(In Thousands)

	Comparative Totals 2010	Comparative Totals Restated 2009
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balance - total governmental funds	$ (30,997)	$ (72,523)
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	(87,702)	(86,762)
Capital outlay reported as expenditures	217,228	284,953
Retirement and sale of capital assets	(2,181)	(1,874)
Capital assets received as donations	-	5,042
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(70)	11,369
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	(85,326)	(86,560)
Premium on general obligation bonds	(14,159)	(8,711)
Proceeds from bond refunding	(115,186)	(5,660)
Proceeds of long-term loans	19,869	-
Principal payments bonds/notes	45,825	43,064
Bond interest	(1,754)	1,522
Remittance to refunding escrow using City funds	125,169	-
Bond issuance costs	1,407	882
Remittance to refunding escrow using refunding proceeds	-	4,735
Amortization of debt expense	(401)	(358)
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	(2,337)	(7,301)
Injury and damage claims	(1,947)	3,468
Workers' compensation	(2,767)	(2,545)
Arbitrage	129	241
Unfunded OPEB liabilities	(12,649)	(12,128)
Net pension asset	(42,809)	2,129
Environmental liability	(1,572)	-
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	(1,432)	4,895
Net revenue of internal service funds activities reported with governmental activities	55,445	(5,774)
Change in Net Assets of Governmental Activities	$ 61,783	$ 72,104

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

B-6

Page 1 of 12

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2010	2009	2010	2009
ASSETS				
Current Assets				
Operating Cash and Equity in Pooled Investments	$ 56,932	$ 32,695	$ 8,504	$ 8,354
Restricted Cash and Equity in Pooled Investments	18	2,511	100	511
Receivables, Net of Allowances				
Accounts	72,229	60,319	13,628	11,462
Interest and Dividends	122	79	-	-
Unbilled	69,683	60,198	10,199	9,109
Energy Contracts, Notes, and Other Contracts	-	-	21	21
Due from Other Funds	2,849	1,579	1,606	1,487
Due from Other Governments	6,638	4,450	1,065	1,713
Materials and Supplies Inventory	24,829	26,128	4,075	4,171
Prepayments and Other Current Assets	1,709	1,332	1,185	38
Total Current Assets	235,009	189,291	40,383	36,866
Noncurrent Assets				
Restricted Cash and Equity in Pooled Investments	101,395	29,129	108,718	38,452
Restricted Investments	38,788	-	18,098	-
Restricted Investment Interest Receivable	-	-	5	-
Unamortized Bond Issue Costs, Net	9,768	8,217	5,181	4,490
Notes and Contracts Receivable	-	-	-	22
Deferred Conservation Costs, Net	178,437	162,137	29,569	34,222
Deferred Landfill Closure and Postclosure Costs, Net	-	-	-	-
Deferred Environmental Costs and Recoveries	-	-	-	-
Deferred External Infrastructure Costs	-	-	-	-
Other Deferred Charges	33,281	32,247	8,745	13,563
Capital Assets				
Land and Land Rights	90,531	82,827	40,635	39,128
Plant in Service, Excluding Land	3,205,420	3,025,981	1,627,959	1,531,299
Less Accumulated Depreciation	(1,384,291)	(1,317,482)	(522,031)	(483,482)
Buildings and Improvements	-	-	-	-
Less Accumulated Depreciation	-	-	-	-
Machinery and Equipment	-	-	-	-
Less Accumulated Depreciation	-	-	-	-
Construction in Progress	147,035	147,810	57,229	87,082
Other Property, Net	14,411	16,383	913	865
Total Noncurrent Assets	2,434,775	2,187,249	1,375,021	1,265,641
Total Assets	2,669,784	2,376,540	1,415,404	1,302,507

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

B-6
Page 2 of 12

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Solid Waste	
	2010	2009	2010	2009
ASSETS				
Current Assets				
Operating Cash and Equity in Pooled Investments	$ 30,284	$ 23,595	$ 10,270	$ 3,889
Restricted Cash and Equity in Pooled Investments	1,620	1,666	-	-
Receivables, Net of Allowances				
Accounts	16,983	14,592	11,868	12,191
Interest and Dividends	81	60	17	33
Unbilled	14,226	14,569	363	157
Energy Contracts, Notes, and Other Contracts	-	1	-	-
Due from Other Funds	2,411	1,577	109	239
Due from Other Governments	1,033	1,887	899	1,056
Materials and Supplies Inventory	609	548	139	154
Prepayments and Other Current Assets	12	6	12	-
Total Current Assets	67,259	58,501	23,677	17,719
Noncurrent Assets				
Restricted Cash and Equity in Pooled Investments	64,869	31,537	11,806	28,302
Restricted Investments	24,943	99,859	-	-
Restricted Investment Interest Receivable	126	645	-	-
Unamortized Bond Issue Costs, Net	3,228	3,375	964	1,006
Notes and Contracts Receivable	-	-	-	-
Deferred Conservation Costs, Net	-	-	-	-
Deferred Landfill Closure and Postclosure Costs, Net	-	-	18,772	24,134
Deferred Environmental Costs and Recoveries	7,181	7,491	8,340	8,072
Deferred External Infrastructure Costs	21,270	22,472	-	-
Other Deferred Charges	22,161	15,199	422	931
Capital Assets				
Land and Land Rights	14,280	11,091	1,791	1,791
Plant in Service, Excluding Land	776,878	738,819	74,200	64,598
Less Accumulated Depreciation	(228,849)	(211,904)	(40,387)	(35,571)
Buildings and Improvements	-	-	-	-
Less Accumulated Depreciation	-	-	-	-
Machinery and Equipment	-	-	-	-
Less Accumulated Depreciation	-	-	-	-
Construction in Progress	65,072	55,055	42,967	34,415
Other Property, Net	662	620	1,769	1,765
Total Noncurrent Assets	771,821	774,259	120,644	129,443
Total Assets	839,080	832,760	144,321	147,162

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

B-6
Page 3 of 12

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Nonmajor Funds		Comparative Totals	
	2010	Restated 2009	2010	Restated 2009
ASSETS				
Current Assets				
Operating Cash and Equity in Pooled Investments	$ 11,541	$ 17,339	$ 117,531	$ 85,872
Restricted Cash and Equity in Pooled Investments	-	-	1,738	4,688
Receivables, Net of Allowances				
Accounts	3,113	3,647	117,821	102,211
Interest and Dividends	8	16	228	188
Unbilled	37	43	94,508	84,076
Energy Contracts, Notes, and Other Contracts	-	-	21	22
Due from Other Funds	643	898	7,618	5,780
Due from Other Governments	472	313	10,107	9,419
Materials and Supplies Inventory	-	8	29,652	31,009
Prepayments and Other Current Assets	-	-	2,918	1,376
Total Current Assets	15,814	22,264	382,142	324,641
Noncurrent Assets				
Restricted Cash and Equity in Pooled Investments	6	13	286,794	127,433
Restricted Investments	-	-	81,829	99,859
Restricted Investment Interest Receivable	-	-	131	645
Unamortized Bond Issue Costs, Net	202	214	19,343	17,302
Notes and Contracts Receivable	-	-	-	22
Deferred Conservation Costs, Net	-	-	208,006	196,359
Deferred Landfill Closure and Postclosure Costs, Net	-	-	18,772	24,134
Deferred Environmental Costs and Recoveries	-	-	15,521	15,563
Deferred External Infrastructure Costs	-	-	21,270	22,472
Other Deferred Charges	-	-	64,609	61,940
Capital Assets				
Land and Land Rights	12,881	12,881	160,118	147,718
Plant in Service, Excluding Land	-	-	5,684,457	5,360,697
Less Accumulated Depreciation	-	-	(2,175,558)	(2,048,439)
Buildings and Improvements	60,131	60,131	60,131	60,131
Less Accumulated Depreciation	(24,052)	(22,048)	(24,052)	(22,048)
Machinery and Equipment	15,169	15,130	15,169	15,130
Less Accumulated Depreciation	(11,168)	(9,545)	(11,168)	(9,545)
Construction in Progress	-	-	312,303	324,362
Other Property, Net	-	-	17,755	19,633
Total Noncurrent Assets	53,169	56,776	4,755,430	4,413,368
Total Assets	68,983	79,040	5,137,572	4,738,009

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

B-6

Page 4 of 12

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010
(In Thousands)

	Governmental Activities - Internal Service Funds 2010	Governmental Activities - Internal Service Funds Restated 2009
ASSETS		
Current Assets		
Operating Cash and Equity in Pooled Investments	$ 10,908	$ 6,636
Restricted Cash and Equity in Pooled Investments	7,587	3,948
Receivables, Net of Allowances		
Accounts	1,535	719
Interest and Dividends	33	38
Unbilled	-	2
Energy Contracts, Notes, and Other Contracts	-	-
Due from Other Funds	7,457	7,086
Due from Other Governments	482	433
Materials and Supplies Inventory	2,398	2,425
Prepayments and Other Current Assets	161	62
Total Current Assets	30,561	21,349
Noncurrent Assets		
Restricted Cash and Equity in Pooled Investments	25,912	30,825
Restricted Investments	-	-
Restricted Investment Interest Receivable	-	-
Unamortized Bond Issue Costs, Net	1,554	1,670
Notes and Contracts Receivable	-	-
Deferred Conservation Costs, Net	-	-
Deferred Landfill Closure and Postclosure Costs, Net	-	-
Deferred Environmental Costs and Recoveries	-	-
Deferred External Infrastructure Costs	-	-
Other Deferred Charges	-	-
Capital Assets		
Land and Land Rights	100,365	101,034
Plant in Service, Excluding Land	-	-
Less Accumulated Depreciation	-	-
Buildings and Improvements	658,503	603,036
Less Accumulated Depreciation	(154,958)	(141,375)
Machinery and Equipment	171,324	167,428
Less Accumulated Depreciation	(93,185)	(83,798)
Construction in Progress	9,584	7,876
Other Property, Net	-	-
Total Noncurrent Assets	719,099	686,696
Total Assets	749,660	708,045

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

B-6
Page 5 of 12

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2010	2009	2010	2009
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 38,597	$ 41,554	$ 5,322	$ 7,479
Salaries, Benefits, and Payroll Taxes Payable	4,636	4,306	1,359	1,344
Compensated Absences Payable	1,561	1,330	400	426
Due to Other Funds	7,129	6,919	6,959	4,117
Due to Other Governments	-	-	-	79
Interest Payable	34,376	20,931	18,553	15,765
Deferred Bond Interest	-	-	-	-
Taxes Payable	9,932	10,066	541	456
General Obligation Bonds Due Within One Year	-	-	-	-
Revenue Bonds Due Within One Year	58,685	80,735	29,140	25,425
Claims Payable	10,926	7,896	1,650	1,713
Notes and Contracts Payable	-	-	858	715
Habitat Conservation Program Liability	-	-	527	5,759
Landfill Closure and Postclosure Liability	-	-	-	-
Deferred Credits	5,098	7,578	2,287	924
Other Current Liabilities	632	795	-	110
Total Current Liabilities	171,572	182,110	67,596	64,312
Noncurrent Liabilities				
Compensated Absences Payable	13,980	13,459	4,418	4,432
Claims Payable	36,500	32,771	4,088	3,645
Public Works Trust Loan	-	-	17,624	9,834
Landfill Closure and Postclosure Liability	-	-	-	-
Vendor and Other Deposits Payable	-	-	13	90
Habitat Conservation Program Liability	-	-	3,784	3,664
Muckleshoot Liability	-	-	495	495
Deferred Credits	18,452	21,148	10,845	14,414
Deferred Revenue - Rate Stabilization Account	54,266	-	-	-
Unfunded Other Post Employment Benefits	4,441	3,328	1,551	1,236
Other Noncurrent Liabilities	114	120	201	195
General Obligation Bonds, Due Serially	-	-	-	-
Less Bonds Due Within One Year	-	-	-	-
Bond Discount and Premium, Net	-	-	-	-
Deferred Bond Interest	-	-	-	-
Less Accrued Interest Due Within One Year	-	-	-	-
Revenue Bonds	1,536,775	1,383,050	1,006,300	903,985
Less Bonds Due Within One Year	(58,685)	(80,735)	(29,140)	(25,425)
Bond Discount and Premium, Net	71,146	24,957	32,857	27,804
Deferred Loss on Advanced Refunding	(33,402)	(27,922)	(16,109)	(16,346)
Total Noncurrent Liabilities	1,643,587	1,370,176	1,036,927	928,023
Total Liabilities	1,815,159	1,552,286	1,104,523	992,335

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

B-6
Page 6 of 12

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Solid Waste	
	2010	2009	2010	2009
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 9,037	$ 5,065	$ 9,729	$ 7,679
Salaries, Benefits, and Payroll Taxes Payable	1,266	1,121	498	483
Compensated Absences Payable	356	335	133	145
Due to Other Funds	6,604	4,928	1,471	1,555
Due to Other Governments	9,252	9,256	-	-
Interest Payable	6,587	6,025	1,594	1,627
Deferred Bond Interest	-	-	-	-
Taxes Payable	246	312	441	509
General Obligation Bonds Due Within One Year	-	-	-	-
Revenue Bonds Due Within One Year	13,175	13,285	2,075	1,980
Claims Payable	6,308	6,837	1,182	5,364
Notes and Contracts Payable	814	762	-	-
Habitat Conservation Program Liability	-	-	-	-
Landfill Closure and Postclosure Liability	-	-	1,292	1,338
Deferred Credits	4,420	1,122	8,065	6,666
Other Current Liabilities	-	-	-	-
Total Current Liabilities	58,065	49,048	26,480	27,346
Noncurrent Liabilities				
Compensated Absences Payable	3,927	3,489	1,473	1,509
Claims Payable	16,894	15,108	1,452	3,033
Public Works Trust Loan	14,810	12,549	-	-
Landfill Closure and Postclosure Liability	-	-	19,362	23,923
Vendor and Other Deposits Payable	527	713	-	-
Habitat Conservation Program Liability	-	-	-	-
Muckleshoot Liability	-	-	-	-
Deferred Credits	-	-	-	-
Deferred Revenue - Rate Stabilization Account	-	-	-	-
Unfunded Other Post Employment Benefits	1,379	973	517	421
Other Noncurrent Liabilities	72	48	307	-
General Obligation Bonds, Due Serially	-	-	-	-
Less Bonds Due Within One Year	-	-	-	-
Bond Discount and Premium, Net	-	-	-	-
Deferred Bond Interest	-	-	-	-
Less Accrued Interest Due Within One Year	-	-	-	-
Revenue Bonds	499,785	513,070	78,490	80,470
Less Bonds Due Within One Year	(13,175)	(13,285)	(2,075)	(1,980)
Bond Discount and Premium, Net	8,933	9,310	3,101	3,236
Deferred Loss on Advanced Refunding	(4,426)	(4,700)	(209)	(233)
Total Noncurrent Liabilities	528,726	537,275	102,418	110,379
Total Liabilities	586,791	586,323	128,898	137,725

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

B-6

Page 7 of 12

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Nonmajor Funds		Comparative Totals	
	2010	Restated 2009	2010	Restated 2009
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 1,031	$ 879	$ 63,716	$ 62,656
Salaries, Benefits, and Payroll Taxes Payable	784	897	8,543	8,151
Compensated Absences Payable	472	263	2,922	2,499
Due to Other Funds	1,493	771	23,656	18,290
Due to Other Governments	-	11	9,252	9,346
Interest Payable	721	720	61,831	45,068
Deferred Bond Interest	1,058	924	1,058	924
Taxes Payable	86	87	11,246	11,430
General Obligation Bonds Due Within One Year	1,247	1,226	1,247	1,226
Revenue Bonds Due Within One Year	-	-	103,075	121,425
Claims Payable	61	49	20,127	21,859
Notes and Contracts Payable	-	-	1,672	1,477
Habitat Conservation Program Liability	-	-	527	5,759
Landfill Closure and Postclosure Liability	-	-	1,292	1,338
Deferred Credits	-	-	19,870	16,290
Other Current Liabilities	10	20	642	925
Total Current Liabilities	6,963	5,847	330,676	328,663
Noncurrent Liabilities				
Compensated Absences Payable	2,193	2,612	25,991	25,501
Claims Payable	123	99	59,057	54,656
Public Works Trust Loan	-	-	32,434	22,383
Landfill Closure and Postclosure Liability	-	-	19,362	23,923
Vendor and Other Deposits Payable	6	13	546	816
Habitat Conservation Program Liability	-	-	3,784	3,664
Muckleshoot Liability	-	-	495	495
Deferred Credits	10,810	9,952	40,107	45,514
Deferred Revenue - Rate Stabilization Account	-	-	54,266	-
Unfunded Other Post Employment Benefits	822	656	8,710	6,614
Other Noncurrent Liabilities	-	-	694	363
General Obligation Bonds, Due Serially	62,093	63,319	62,093	63,319
Less Bonds Due Within One Year	(1,247)	(1,226)	(1,247)	(1,226)
Bond Discount and Premium, Net	3,614	3,817	3,614	3,817
Deferred Bond Interest	3,552	4,005	3,552	4,005
Less Accrued Interest Due Within One Year	(1,058)	(924)	(1,058)	(924)
Revenue Bonds	-	-	3,121,350	2,880,575
Less Bonds Due Within One Year	-	-	(103,075)	(121,425)
Bond Discount and Premium, Net	-	-	116,037	65,307
Deferred Loss on Advanced Refunding	-	-	(54,146)	(49,201)
Total Noncurrent Liabilities	80,908	82,323	3,392,566	3,028,176
Total Liabilities	87,871	88,170	3,723,242	3,356,839

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010
(In Thousands)

	Governmental Activities - Internal Service Funds 2010	Governmental Activities - Internal Service Funds Restated 2009
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 5,905	$ 8,045
Salaries, Benefits, and Payroll Taxes Payable	1,243	1,215
Compensated Absences Payable	511	316
Due to Other Funds	1,424	1,606
Due to Other Governments	-	-
Interest Payable	70	286
Deferred Bond Interest	-	-
Taxes Payable	49	93
General Obligation Bonds Due Within One Year	14,464	13,530
Revenue Bonds Due Within One Year	-	-
Claims Payable	567	488
Notes and Contracts Payable	-	-
Habitat Conservation Program Liability	-	-
Landfill Closure and Postclosure Liability	-	-
Deferred Credits	-	-
Other Current Liabilities	148	1
Total Current Liabilities	24,381	25,580
Noncurrent Liabilities		
Compensated Absences Payable	3,177	3,495
Claims Payable	1,153	993
Public Works Trust Loan	-	-
Landfill Closure and Postclosure Liability	-	-
Vendor and Other Deposits Payable	111	68
Habitat Conservation Program Liability	-	-
Muckleshoot Liability	-	-
Deferred Credits	-	-
Deferred Revenue - Rate Stabilization Account	-	-
Unfunded Other Post Employment Benefits	1,251	942
Other Noncurrent Liabilities	1,556	364
General Obligation Bonds, Due Serially	277,596	289,731
Less Bonds Due Within One Year	(14,464)	(13,530)
Bond Discount and Premium, Net	14,792	15,740
Deferred Bond Interest	-	-
Less Accrued Interest Due Within One Year	-	-
Revenue Bonds	-	-
Less Bonds Due Within One Year	-	-
Bond Discount and Premium, Net	-	-
Deferred Loss on Advanced Refunding	-	-
Total Noncurrent Liabilities	285,172	297,803
Total Liabilities	309,553	323,383

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

B-6

Page 9 of 12

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

December 31, 2010

(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2010	2009	2010	2009
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 737,531	$ 733,612	$ 275,466	$ 297,765
Restricted for				
Debt Service	-	-	16,684	9,039
Contingency Reserve Account	-	25,000	-	-
Rate Stabilization Account	25,000	-	-	-
Special Deposits and Other	129	928	-	-
Deferred Conservation and Environmental Costs	-	-	5,865	6,341
Bonneville Power Administration Projects	-	-	563	763
Deferred External Infrastructure Costs	-	-	-	-
Muckleshoot Settlement	-	-	348	460
Other Deferred Charges	-	-	1,683	3,006
Unrestricted	91,965	64,714	10,272	(7,202)
Total Net Assets	$ 854,625	$ 824,254	$ 310,881	$ 310,172

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

B-6

Page 10 of 12

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

December 31, 2010

(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Solid Waste	
	2010	2009	2010	2009
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 216,471	$ 207,139	$ 15,580	$ 13,094
Restricted for				
Debt Service	12,757	12,757	-	-
Contingency Reserve Account	-	-	-	-
Rate Stabilization Account	-	-	-	-
Special Deposits and Other	-	-	-	-
Deferred Conservation and Environmental Costs	-	-	941	23
Bonneville Power Administration Projects	-	-	-	-
Deferred External Infrastructure Costs	7,514	8,019	-	-
Muckleshoot Settlement	-	-	-	-
Other Deferred Charges	7,828	5,424	60	41
Unrestricted	7,719	13,098	(1,158)	(3,721)
Total Net Assets	$ 252,289	$ 246,437	$ 15,423	$ 9,437

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

B-6
Page 11 of 12

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Nonmajor Funds		Comparative Totals	
	2010	Restated 2009	2010	Restated 2009
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	$ 4,001	$ 5,585	$ 1,249,049	$ 1,257,195
Restricted for				
Debt Service	-	-	29,441	21,796
Contingency Reserve Account	-	-	-	25,000
Rate Stabilization Account	-	-	25,000	-
Special Deposits and Other	-	-	129	928
Deferred Conservation and Environmental Costs	-	-	6,806	6,364
Bonneville Power Administration Projects	-	-	563	763
Deferred External Infrastructure Costs	-	-	7,514	8,019
Muckleshoot Settlement	-	-	348	460
Other Deferred Charges	-	-	9,571	8,471
Unrestricted	(22,889)	(14,715)	85,909	52,174
Total Net Assets	$ (18,888)	$ (9,130)	1,414,330	1,381,170
Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds			(915)	(2,347)
Net Assets of Business-Type Activities			$ 1,413,415	$ 1,378,823

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010
(In Thousands)

	Governmental Activities - Internal Service Funds 2010	Governmental Activities - Internal Service Funds Restated 2009
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$ 401,775	$ 353,499
Restricted for		
Debt Service	-	-
Contingency Reserve Account	-	-
Rate Stabilization Account	-	-
Special Deposits and Other	-	-
Deferred Conservation and Environmental Costs	-	-
Bonneville Power Administration Projects	-	-
Deferred External Infrastructure Costs	-	-
Muckleshoot Settlement	-	-
Other Deferred Charges	-	-
Unrestricted	38,332	31,163
Total Net Assets	$ 440,107	$ 384,662

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

B-7
Page 1 of 4

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended December 31, 2010
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2010	2009	2010	2009
OPERATING REVENUES				
Charges for Services and Other Revenues	$ 732,978	$ 723,128	$ 195,203	$ 191,370
OPERATING EXPENSES				
Long-Term Purchased Power	223,591	202,003	-	-
Short-Term Wholesale Power Purchases	24,484	24,571	-	-
Generation	22,368	28,622	-	-
Transmission	46,254	47,074	-	-
Distribution	54,630	57,005	-	-
Energy Management and Other Power Expenses	52,082	53,034	-	-
Pre-Capital Planning and Development	-	-	2,059	3,830
Utility Systems Management	-	-	14,906	16,008
Field Operations	-	-	20,816	21,810
Project Delivery	-	-	6,420	5,055
Customer Services	36,137	35,662	7,667	8,295
Wastewater Treatment	-	-	-	-
Solid Waste Collection	-	-	-	-
Operations and Maintenance	-	-	-	-
General and Administrative	56,166	73,217	27,794	29,561
City Business and Occupation Taxes	38,649	33,664	29,455	27,062
Other Taxes	31,732	28,611	7,036	6,559
Amortization of Landfill and Postclosure Costs	-	-	-	-
Depreciation and Other Amortization	86,369	80,693	48,085	46,099
Total Operating Expenses	672,462	664,156	164,238	164,279
Operating Income (Loss)	60,516	58,972	30,965	27,091
NONOPERATING REVENUES (EXPENSES)				
Investment and Interest Income	2,690	2,613	3,207	678
Interest Expense	(69,369)	(69,112)	(47,577)	(40,664)
Amortization of Bonds Premiums	10,587	3,569	1,917	1,550
Amortization of Refunding Loss	(5,136)	(4,577)	(1,390)	(1,368)
Amortization of Debt Costs	(1,231)	(1,433)	(258)	(254)
Gain (Loss) on Sale of Capital Assets	81	29	153	4,726
Contributions and Grants	2,970	1,697	540	2,001
Others, Net	2,884	(1,013)	1,508	4,080
Total Nonoperating Revenues (Expenses)	(56,524)	(68,227)	(41,900)	(29,251)
Income (Loss) Before Capital Contributions and Grants, Transfers, and Special Items	3,992	(9,255)	(10,935)	(2,160)
Capital Contributions and Grants	26,379	43,413	11,644	8,032
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Environmental Remediation Expenses	-	-	-	-
Change in Net Assets	30,371	34,158	709	5,872
Net Assets - Beginning of Year	824,254	790,096	310,172	304,300
Prior-Year Adjustment	-	-	-	-
Net Assets - Beginning of Year as Restated	824,254	790,096	310,172	304,300
Net Assets - End of Year	$ 854,625	$ 824,254	$ 310,881	$ 310,172

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

B-7
Page 2 of 4

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

For the Year Ended December 31, 2010

(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Solid Waste	
	2010	2009	2010	2009
OPERATING REVENUES				
Charges for Services and Other Revenues	$ 249,734	$ 250,195	$ 150,906	$ 135,641
OPERATING EXPENSES				
Long-Term Purchased Power	-	-	-	-
Short-Term Wholesale Power Purchases	-	-	-	-
Generation	-	-	-	-
Transmission	-	-	-	-
Distribution	-	-	-	-
Energy Management and Other Power Expenses	-	-	-	-
Pre-Capital Planning and Development	1,133	510	86	69
Utility Systems Management	14,476	14,160	1,504	1,828
Field Operations	18,554	19,113	7,819	8,332
Project Delivery	8,589	10,612	569	495
Customer Services	4,739	5,329	10,291	11,849
Wastewater Treatment	111,282	111,372	-	-
Solid Waste Collection	-	-	90,851	84,806
Operations and Maintenance	-	-	-	-
General and Administrative	18,938	17,325	9,528	9,433
City Business and Occupation Taxes	29,177	28,861	14,183	17,532
Other Taxes	3,099	2,821	2,459	1,945
Amortization of Landfill and Postclosure Costs	-	-	1,609	2,845
Depreciation and Other Amortization	20,131	20,721	5,307	4,944
Total Operating Expenses	230,118	230,824	144,206	144,078
Operating Income (Loss)	19,616	19,371	6,700	(8,437)
NONOPERATING REVENUES (EXPENSES)				
Investment and Interest Income	2,595	653	213	611
Interest Expense	(22,608)	(18,252)	(2,512)	(2,613)
Amortization of Bonds Premiums	377	332	135	206
Amortization of Refunding Loss	(274)	(251)	(23)	(143)
Amortization of Debt Costs	(139)	(118)	(42)	(67)
Gain (Loss) on Sale of Capital Assets	(27)	133	(9)	(393)
Contributions and Grants	1,256	300	782	573
Others, Net	3,181	263	742	1,295
Total Nonoperating Revenues (Expenses)	(15,639)	(16,940)	(714)	(531)
Income (Loss) Before Capital Contributions and Grants, Transfers, and Special Items	3,977	2,431	5,986	(8,968)
Capital Contributions and Grants	3,823	8,129	-	409
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Environmental Remediation Expenses	(1,948)	(4,289)	-	-
Change in Net Assets	5,852	6,271	5,986	(8,559)
Net Assets - Beginning of Year	246,437	240,166	9,437	17,996
Prior-Year Adjustment	-	-	-	-
Net Assets - Beginning of Year as Restated	246,437	240,166	9,437	17,996
Net Assets - End of Year	$ 252,289	$ 246,437	$ 15,423	$ 9,437

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

B-7
Page 3 of 4

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended December 31, 2010
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Nonmajor Funds		Comparative Totals	
	2010	Restated 2009	2010	Restated 2009
OPERATING REVENUES				
Charges for Services and Other Revenues	$ 36,992	$ 42,411	$ 1,365,813	$ 1,342,745
OPERATING EXPENSES				
Long-Term Purchased Power	-	-	223,591	202,003
Short-Term Wholesale Power Purchases	-	-	24,484	24,571
Generation	-	-	22,368	28,622
Transmission	-	-	46,254	47,074
Distribution	-	-	54,630	57,005
Energy Management and Other Power Expenses	-	-	52,082	53,034
Pre-Capital Planning and Development	-	-	3,278	4,409
Utility Systems Management	-	-	30,886	31,996
Field Operations	-	-	47,189	49,255
Project Delivery	-	-	15,578	16,162
Customer Services	-	-	58,834	61,135
Wastewater Treatment	-	-	111,282	111,372
Solid Waste Collection	-	-	90,851	84,806
Operations and Maintenance	38,940	46,149	38,940	46,149
General and Administrative	11,564	12,062	123,990	141,598
City Business and Occupation Taxes	14	15	111,478	107,134
Other Taxes	31	34	44,357	39,970
Amortization of Landfill and Postclosure Costs	-	-	1,609	2,845
Depreciation and Other Amortization	3,636	3,726	163,528	156,183
Total Operating Expenses	54,185	61,986	1,265,209	1,265,323
Operating Income (Loss)	(17,193)	(19,575)	100,604	77,422
NONOPERATING REVENUES (EXPENSES)				
Investment and Interest Income	91	282	8,796	4,837
Interest Expense	(3,352)	(3,420)	(145,418)	(134,061)
Amortization of Bonds Premiums	202	203	13,218	5,860
Amortization of Refunding Loss	-	-	(6,823)	(6,339)
Amortization of Debt Costs	(11)	(11)	(1,681)	(1,883)
Gain (Loss) on Sale of Capital Assets	-	-	198	4,495
Contributions and Grants	405	218	5,953	4,789
Others, Net	-	-	8,315	4,625
Total Nonoperating Revenues (Expenses)	(2,665)	(2,728)	(117,442)	(117,677)
Income (Loss) Before Capital Contributions and Grants, Transfers, and Special Items	(19,858)	(22,303)	(16,838)	(40,255)
Capital Contributions and Grants	-	-	41,846	59,983
Transfers In	10,100	10,245	10,100	10,245
Transfers Out	-	-	-	-
Environmental Remediation Expenses	-	-	(1,948)	(4,289)
Change in Net Assets	(9,758)	(12,058)	33,160	25,684
Net Assets - Beginning of Year	(9,130)	3,571	1,381,170	1,356,129
Prior-Year Adjustment	-	(643)	-	(643)
Net Assets - Beginning of Year as Restated	(9,130)	2,928	1,381,170	1,355,486
Net Assets - End of Year	$ (18,888)	$ (9,130)	1,414,330	1,381,170
Accumulated Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds			(915)	(2,347)
Net Assets of Business-Type Activities			$ 1,413,415	$ 1,378,823
Change in Net Assets as above			33,160	25,684
Current Year Adjustment to Reflect the Consolidation of Internal Service Fund Activities Related to Enterprise Funds			1,432	(5,084)
Adjusted Change in Net Assets of Business-Type Activities			$ 34,592	$ 20,600

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

B-7
Page 4 of 4

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

For the Year Ended December 31, 2010

(In Thousands)

	Governmental Activities - Internal Service Funds	
	2010	Restated 2009
OPERATING REVENUES		
Charges for Services and Other Revenues	$ 156,330	$ 160,612
OPERATING EXPENSES		
Long-Term Purchased Power	-	-
Short-Term Wholesale Power Purchases	-	-
Generation	-	-
Transmission	-	-
Distribution	-	-
Energy Management and Other Power Expenses	-	-
Pre-Capital Planning and Development	-	-
Utility Systems Management	-	-
Field Operations	-	-
Project Delivery	-	-
Customer Services	-	-
Wastewater Treatment	-	-
Solid Waste Collection	-	-
Operations and Maintenance	94,131	110,357
General and Administrative	11,165	10,841
City Business and Occupation Taxes	4	4
Other Taxes	328	333
Amortization of Landfill and Postclosure Costs	-	-
Depreciation and Other Amortization	32,316	35,960
Total Operating Expenses	137,944	157,495
Operating Income (Loss)	18,386	3,117
NONOPERATING REVENUES (EXPENSES)		
Investment and Interest Income	344	578
Interest Expense	(12,988)	(14,543)
Amortization of Bonds Premiums	1,062	656
Amortization of Refunding Loss	-	-
Amortization of Debt Costs	(125)	(97)
Gain (Loss) on Sale of Capital Assets	967	(538)
Contributions and Grants	2,356	149
Others, Net	-	-
Total Nonoperating Revenues (Expenses)	(8,384)	(13,795)
Income (Loss) Before Capital Contributions and Grants, Transfers, and Special Items	10,002	(10,678)
Capital Contributions and Grants	49,443	13,265
Transfers In	-	-
Transfers Out	(4,000)	(7,619)
Environmental Remediation Expenses	-	-
Change in Net Assets	55,445	(5,032)
Net Assets - Beginning of Year	384,662	133,548
Prior-Year Adjustment	-	256,146
Net Assets - Beginning of Year as Restated	384,662	389,694
Net Assets - End of Year	$ 440,107	$ 384,662

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

B-8
Page 1 of 8

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2010
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2010	2009	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 734,185	$ 676,967	$ 193,875	$ 197,143
Cash Paid to Suppliers	(271,388)	(253,436)	(29,811)	(35,081)
Cash Paid to Employees	(191,061)	(195,601)	(54,676)	(58,657)
Cash Paid for Taxes	(69,956)	(60,682)	(33,994)	(32,946)
Net Cash from Operating Activities	201,780	167,248	75,394	70,459
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating Grants Received	2,916	1,614	525	1,982
Rental Income	-	-	-	-
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Receipts for Energy Conservation Augmentation	10	218	-	-
Payments for Energy Conservation Augmentation	(29,732)	(24,105)	-	-
Proceeds from Interfund Loans	-	-	-	-
Principal Payments on Interfund Loans	-	-	-	-
Loans Provided to Other Funds	-	-	-	-
Payments for Environmental Liabilities	-	-	-	-
Other Cash Inflows	-	-	2,936	5,586
Other Cash Outflows	-	-	(39)	(69)
Gains from Bankruptcy Distributions	5	29	-	-
Net Cash from Noncapital Financing Activities	(26,801)	(22,244)	3,422	7,499
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Sale of Bonds and Other Long-Term Debt	853,837	-	141,644	3,030
Principal Payments on Long-Term Debt and Refunding	(67,360)	(146,325)	(27,415)	(122,210)
Capital Expenditures and Deferred Charges Paid	(196,997)	(219,683)	(61,482)	(81,134)
Interest Paid on Long-Term Debt	(51,045)	(70,514)	(47,484)	(42,044)
Capital Fees and Grants Received	15,620	22,952	1,605	3,154
Payment to Trustee for Defeased Bonds	(595,557)	-	-	-
Interest Received for Suburban Infrastructure Improvements	1,323	980	-	-
Debt Issuance Costs	(3,415)	(7)	(231)	-
Proceeds from Sale of Capital Assets	90	-	559	4,700
Net Cash from Capital and Related Financing Activities	(43,504)	(412,597)	7,196	(234,504)
CASH FLOWS FROM INVESTING ACTIVITIES [a]				
Proceeds from Sale of Investments	136,164	125,779	60,400	131,250
Purchases of Investments	(175,034)	-	(78,500)	-
Interest Received on Investments	1,405	2,188	2,093	742
Net Cash from Investing Activities	(37,465)	127,967	(16,007)	131,992
Net Increase (Decrease) in Cash and Equity in Pooled Investments	94,010	(139,626)	70,005	(24,554)
CASH AND EQUITY IN POOLED INVESTMENTS				
Beginning of Year	64,335	203,961	47,317	71,871
End of Year	$ 158,345	$ 64,335	$ 117,322	$ 47,317
CASH AT THE END OF THE YEAR CONSISTS OF				
Operating Cash and Equity in Pooled Investments	$ 56,932	$ 32,695	$ 8,504	$ 8,354
Current Restricted Cash and Equity in Pooled Investments	18	2,511	100	511
Noncurrent Restricted Cash and Equity in Pooled Investments	101,395	29,129	108,718	38,452
Total Cash at the End of the Year	$ 158,345	$ 64,335	$ 117,322	$ 47,317

[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.

B-8
Page 2 of 8

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2010
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Solid Waste	
	2010	2009	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 251,066	$ 246,179	$ 152,709	$ 137,445
Cash Paid to Suppliers	(126,923)	(135,661)	(105,303)	(97,021)
Cash Paid to Employees	(46,039)	(44,937)	(20,466)	(21,539)
Cash Paid for Taxes	(29,755)	(31,461)	(15,867)	(18,980)
Net Cash from Operating Activities	48,349	34,120	11,073	(95)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating Grants Received	1,186	300	782	573
Rental Income	-	-	2	446
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Receipts for Energy Conservation Augmentation	-	-	-	-
Payments for Energy Conservation Augmentation	-	-	-	-
Proceeds from Interfund Loans	-	-	-	-
Principal Payments on Interfund Loans	-	-	-	-
Loans Provided to Other Funds	-	-	-	-
Payments for Environmental Liabilities	(2,794)	(3,408)	-	-
Other Cash Inflows	4,358	263	1,368	1,401
Other Cash Outflows	(27)	(1,136)	-	-
Gains from Bankruptcy Distributions	-	-	-	-
Net Cash from Noncapital Financing Activities	2,723	(3,981)	2,152	2,420
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Sale of Bonds and Other Long-Term Debt	2,847	122,835	-	-
Principal Payments on Long-Term Debt and Refunding	(13,818)	(10,180)	(1,980)	(6,535)
Capital Expenditures and Deferred Charges Paid	(55,570)	(44,576)	(17,788)	(16,818)
Interest Paid on Long-Term Debt	(24,106)	(19,721)	(3,867)	(4,191)
Capital Fees and Grants Received	2,727	4,466	-	409
Payment to Trustee for Defeased Bonds	-	-	-	-
Interest Received for Suburban Infrastructure Improvements	-	-	-	-
Debt Issuance Costs	-	(765)	-	-
Proceeds from Sale of Capital Assets	49	234	66	157
Net Cash from Capital and Related Financing Activities	(87,871)	52,293	(23,569)	(26,978)
CASH FLOWS FROM INVESTING ACTIVITIES [a]				
Proceeds from Sale of Investments	108,600	-	-	-
Purchases of Investments	(34,400)	(98,800)	-	-
Interest Received on Investments	2,574	781	229	720
Net Cash from Investing Activities	76,774	(98,019)	229	720
Net Increase (Decrease) in Cash and Equity in Pooled Investments	39,975	(15,587)	(10,115)	(23,933)
CASH AND EQUITY IN POOLED INVESTMENTS				
Beginning of Year	56,798	72,385	32,191	56,124
End of Year	$ 96,773	$ 56,798	$ 22,076	$ 32,191
CASH AT THE END OF THE YEAR CONSISTS OF				
Operating Cash and Equity in Pooled Investments	$ 30,284	$ 23,595	$ 10,270	$ 3,889
Current Restricted Cash and Equity in Pooled Investments	1,620	1,666	-	-
Noncurrent Restricted Cash and Equity in Pooled Investments	64,869	31,537	11,806	28,302
Total Cash at the End of the Year	$ 96,773	$ 56,798	$ 22,076	$ 32,191

[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.

B-8
Page 3 of 8

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2010
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Nonmajor Funds		Comparative Totals	
	2010	Restated 2009	2010	Restated 2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	$ 39,682	$ 39,582	$ 1,371,517	$ 1,297,316
Cash Paid to Suppliers	(24,553)	(29,663)	(557,978)	(550,862)
Cash Paid to Employees	(25,761)	(29,656)	(338,003)	(350,390)
Cash Paid for Taxes	(1,326)	(1,242)	(150,898)	(145,311)
Net Cash from Operating Activities	(11,958)	(20,979)	324,638	250,753
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating Grants Received	405	218	5,814	4,687
Rental Income	-	-	2	446
Transfers In	10,100	10,245	10,100	10,245
Transfers Out	-	-	-	-
Receipts for Energy Conservation Augmentation	-	-	10	218
Payments for Energy Conservation Augmentation	-	-	(29,732)	(24,105)
Proceeds from Interfund Loans	1,130	500	1,130	500
Principal Payments on Interfund Loans	(500)	-	(500)	-
Loans Provided to Other Funds	-	-	-	-
Payments for Environmental Liabilities	-	-	(2,794)	(3,408)
Other Cash Inflows	-	-	8,662	7,250
Other Cash Outflows	-	-	(66)	(1,205)
Gains from Bankruptcy Distributions	-	-	5	29
Net Cash from Noncapital Financing Activities	11,135	10,963	(7,369)	(5,343)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Sale of Bonds and Other Long-Term Debt	-	-	998,328	125,865
Principal Payments on Long-Term Debt and Refunding	(1,226)	(1,204)	(111,799)	(286,454)
Capital Expenditures and Deferred Charges Paid	(49)	(17)	(331,886)	(362,228)
Interest Paid on Long-Term Debt	(3,806)	(3,672)	(130,308)	(140,142)
Capital Fees and Grants Received	-	-	19,952	30,981
Payment to Trustee for Defeased Bonds	-	-	(595,557)	-
Interest Received for Suburban Infrastructure Improvements	-	-	1,323	980
Debt Issuance Costs	-	-	(3,646)	(772)
Proceeds from Sale of Capital Assets	-	-	764	5,091
Net Cash from Capital and Related Financing Activities	(5,081)	(4,893)	(152,829)	(626,679)
CASH FLOWS FROM INVESTING ACTIVITIES [a]				
Proceeds from Sale of Investments	-	-	305,164	257,029
Purchases of Investments	-	-	(287,934)	(98,800)
Interest Received on Investments	99	341	6,400	4,772
Net Cash from Investing Activities	99	341	23,630	163,001
Net Increase (Decrease) in Cash and Equity in Pooled Investments	(5,805)	(14,568)	188,070	(218,268)
CASH AND EQUITY IN POOLED INVESTMENTS				
Beginning of Year	17,352	31,920	217,993	436,261
End of Year	$ 11,547	$ 17,352	$ 406,063	$ 217,993
CASH AT THE END OF THE YEAR CONSISTS OF				
Operating Cash and Equity in Pooled Investments	$ 11,541	$ 17,339	$ 117,531	$ 85,872
Current Restricted Cash and Equity in Pooled Investments	-	-	1,738	4,688
Noncurrent Restricted Cash and Equity in Pooled Investments	6	13	286,794	127,433
Total Cash at the End of the Year	$ 11,547	$ 17,352	$ 406,063	$ 217,993

[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.

B-8
Page 4 of 8

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2010
(In Thousands)

	Governmental Activities - Internal Service Funds	
	2010	**Restated 2009**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$ 155,970	$ 160,203
Cash Paid to Suppliers	(57,023)	(70,325)
Cash Paid to Employees	(48,575)	(52,471)
Cash Paid for Taxes	(376)	(281)
Net Cash from Operating Activities	49,996	37,126
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating Grants Received	2,357	149
Rental Income	-	-
Transfers In	-	-
Transfers Out	(4,000)	(7,619)
Receipts for Energy Conservation Augmentation	-	-
Payments for Energy Conservation Augmentation	-	-
Proceeds from Interfund Loans	-	-
Principal Payments on Interfund Loans	-	-
Loans Provided to Other Funds	(1,130)	(500)
Payments for Environmental Liabilities	-	-
Other Cash Inflows	-	-
Other Cash Outflows	-	-
Gains from Bankruptcy Distributions	-	-
Net Cash from Noncapital Financing Activities	(2,773)	(7,970)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Bonds and Other Long-Term Debt	-	9,396
Principal Payments on Long-Term Debt and Refunding	(12,195)	(10,527)
Capital Expenditures and Deferred Charges Paid	(20,277)	(27,306)
Interest Paid on Long-Term Debt	(13,030)	(14,160)
Capital Fees and Grants Received	348	124
Payment to Trustee for Defeased Bonds	-	-
Interest Received for Suburban Infrastructure Improvements	-	-
Debt Issuance Costs	-	-
Proceeds from Sale of Capital Assets	581	633
Net Cash from Capital and Related Financing Activities	(44,573)	(41,840)
CASH FLOWS FROM INVESTING ACTIVITIES [a]		
Proceeds from Sale of Investments	-	-
Purchases of Investments	-	-
Interest Received on Investments	348	676
Net Cash from Investing Activities	348	676
Net Increase (Decrease) in Cash and Equity in Pooled Investments	2,998	(12,008)
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of Year	41,409	53,417
End of Year	$ 44,407	$ 41,409
CASH AT THE END OF THE YEAR CONSISTS OF		
Operating Cash and Equity in Pooled Investments	$ 10,908	$ 6,636
Current Restricted Cash and Equity in Pooled Investments	7,587	3,948
Noncurrent Restricted Cash and Equity in Pooled Investments	25,912	30,825
Total Cash at the End of the Year	$ 44,407	$ 41,409

[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.

B-8
Page 5 of 8

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2010
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Light		Water	
	2010	2009	2010	2009
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ 60,516	$ 58,972	$ 30,965	$ 27,091
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities				
Depreciation and Amortization	88,172	82,572	48,085	46,099
Amortization of Deferred Power Costs	9,174	7,731	-	-
Changes in Operating Assets and Liabilities				
Accounts Receivable	(21,788)	(4,865)	(2,156)	8,689
Unbilled Receivables	(9,484)	(119)	(1,090)	(173)
Bad Debt Expense	8,030	5,271	-	-
Power Revenue and Expense	416	2,491	-	-
Other Receivables	(419)	(363)	22	20
Due from Other Funds	(1,269)	(1,104)	(129)	(830)
Due from Other Governments	(2,188)	1,007	647	(459)
Materials and Supplies Inventory	550	5,068	97	824
Accounts Payable	5,512	2,282	(2,157)	2,248
Salaries, Benefits, and Payroll Taxes Payable	330	(5,396)	14	(2,136)
Compensated Absences Payable	751	1,126	(40)	654
Due to Other Funds	210	(243)	2,842	106
Due to Other Governments	-	-	(79)	17
Claims Payable	(3,094)	(866)	380	164
Taxes Payable	(134)	1,459	85	675
Deferred Credits	-	-	(2,863)	195
Other Deferred Assets and Charges	(1,810)	1,470	-	-
Other Assets and Liabilities	14,039	10,755	771	(12,725)
Rate Stabilization Deferred Revenue	54,266	-	-	-
Total Adjustments	141,264	108,276	44,429	43,368
Net Cash from Operating Activities	$ 201,780	$ 167,248	$ 75,394	$ 70,459
SCHEDULE OF NONCASH ACTIVITIES				
In-Kind Capital Contributions	$ 6,804	$ 19,560	$ -	$ -
Amortization of Debt Related Costs, Net	4,220	(2,440)	-	-
Change in Valuation of Deferrals on Power Exchange	914	(1,497)	-	-
Allowance for Funds Used During Construction	5,145	3,833	-	-
Power Exchange Revenues	28,933	25,844	-	-
Power Exchange Expenses	(29,002)	(27,699)	-	-
Power Revenue Netted against Power Expenses	17,426	7,241	-	-
Power Expense Netted against Power Revenues	(15,877)	(24,218)	-	-
Fair Value Adjustment of Long-Term Investments	-	-	(8)	(108)
Contributed Infrastructure	-	-	10,039	4,878
Total Noncash Activities	$ 18,563	$ 624	$ 10,031	$ 4,770

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

B-8
Page 6 of 8

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2010
(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Drainage and Wastewater		Solid Waste	
	2010	2009	2010	2009
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ 19,616	$ 19,371	$ 6,700	$ (8,437)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities				
Depreciation and Amortization	20,131	20,721	6,916	7,789
Amortization of Deferred Power Costs	-	-	-	-
Changes in Operating Assets and Liabilities				
Accounts Receivable	(2,391)	(865)	323	(1,694)
Unbilled Receivables	343	(1,048)	(206)	123
Bad Debt Expense	-	-	-	-
Power Revenue and Expense	-	-	-	-
Other Receivables	-	-	-	-
Due from Other Funds	(833)	(241)	130	83
Due from Other Governments	854	(1,182)	156	(549)
Materials and Supplies Inventory	(61)	(548)	16	(143)
Accounts Payable	3,972	(1,927)	2,049	351
Salaries, Benefits, and Payroll Taxes Payable	145	(1,301)	15	(548)
Compensated Absences Payable	458	305	(48)	227
Due to Other Funds	1,676	1,249	(84)	357
Due to Other Governments	(4)	1,075	-	-
Claims Payable	901	(1,127)	69	13
Taxes Payable	(66)	108	(67)	112
Deferred Credits	3,368	(680)	1,399	3,220
Other Deferred Assets and Charges	-	-	-	-
Other Assets and Liabilities	240	210	(6,295)	(999)
Rate Stabilization Deferred Revenue	-	-	-	-
Total Adjustments	28,733	14,749	4,373	8,342
Net Cash from Operating Activities	$ 48,349	$ 34,120	$ 11,073	$ (95)
SCHEDULE OF NONCASH ACTIVITIES				
In-Kind Capital Contributions	$ -	$ -	$ -	$ -
Amortization of Debt Related Costs, Net	-	-	-	-
Change in Valuation of Deferrals on Power Exchange	-	-	-	-
Allowance for Funds Used During Construction	-	-	-	-
Power Exchange Revenues	-	-	-	-
Power Exchange Expenses	-	-	-	-
Power Revenue Netted against Power Expenses	-	-	-	-
Power Expense Netted against Power Revenues	-	-	-	-
Fair Value Adjustment of Long-Term Investments	43	(47)	-	-
Contributed Infrastructure	1,096	1,907	-	-
Total Noncash Activities	$ 1,139	$ 1,860	$ -	$ -

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

B-8 **STATEMENT OF CASH FLOWS**

Page 7 of 8 **PROPRIETARY FUNDS**

For the Year Ended December 31, 2010

(In Thousands)

	Business-Type Activities - Enterprise Funds			
	Nonmajor Funds		Comparative Totals	
	2010	Restated 2009	2010	Restated 2009
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES				
Operating Income (Loss)	$ (17,193)	$ (19,575)	$ 100,604	$ 77,422
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities				
Depreciation and Amortization	3,636	3,726	166,940	160,907
Amortization of Deferred Power Costs	-	-	9,174	7,731
Changes in Operating Assets and Liabilities				
Accounts Receivable	533	(15)	(25,479)	1,250
Unbilled Receivables	7	(43)	(10,430)	(1,260)
Bad Debt Expense	-	-	8,030	5,271
Power Revenue and Expense	-	-	416	2,491
Other Receivables	-	-	(397)	(343)
Due from Other Funds	255	(203)	(1,846)	(2,295)
Due from Other Governments	(159)	513	(690)	(670)
Materials and Supplies Inventory	8	(3)	610	5,198
Accounts Payable	153	(577)	9,529	2,377
Salaries, Benefits, and Payroll Taxes Payable	(113)	(534)	391	(9,915)
Compensated Absences Payable	(210)	157	911	2,469
Due to Other Funds	92	(147)	4,736	1,322
Due to Other Governments	(11)	(31)	(94)	1,061
Claims Payable	37	14	(1,707)	(1,802)
Taxes Payable	-	23	(182)	2,377
Deferred Credits	858	(4,337)	2,762	(1,602)
Other Deferred Assets and Charges	-	-	(1,810)	1,470
Other Assets and Liabilities	149	53	8,904	(2,706)
Rate Stabilization Deferred Revenue	-	-	54,266	-
Total Adjustments	5,235	(1,404)	224,034	173,331
Net Cash from Operating Activities	$ (11,958)	$ (20,979)	$ 324,638	$ 250,753
SCHEDULE OF NONCASH ACTIVITIES				
In-Kind Capital Contributions	$ -	$ -	$ 6,804	$ 19,560
Amortization of Debt Related Costs, Net	-	-	4,220	(2,440)
Change in Valuation of Deferrals on Power Exchange	-	-	914	(1,497)
Allowance for Funds Used During Construction	-	-	5,145	3,833
Power Exchange Revenues	-	-	28,933	25,844
Power Exchange Expenses	-	-	(29,002)	(27,699)
Power Revenue Netted against Power Expenses	-	-	17,426	7,241
Power Expense Netted against Power Revenues	-	-	(15,877)	(24,218)
Fair Value Adjustment of Long-Term Investments	-	-	35	(155)
Contributed Infrastructure	-	-	11,135	6,785
Total Noncash Activities	$ -	$ -	$ 29,733	$ 7,254

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

B-8

Page 8 of 8

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2010
(In Thousands)

	Governmental Activities - Internal Service Funds 2010	Restated 2009
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Operating Income (Loss)	$ 18,386	$ 3,117
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash from Operating Activities		
Depreciation and Amortization	32,316	35,960
Amortization of Deferred Power Costs	-	-
Changes in Operating Assets and Liabilities		
Accounts Receivable	(816)	(183)
Unbilled Receivables	2	(2)
Bad Debt Expense	-	-
Power Revenue and Expense	-	-
Other Receivables	-	-
Due from Other Funds	760	(177)
Due from Other Governments	(49)	249
Materials and Supplies Inventory	27	(245)
Accounts Payable	(2,140)	651
Salaries, Benefits, and Payroll Taxes Payable	29	(1,413)
Compensated Absences Payable	(122)	361
Due to Other Funds	(182)	(1,070)
Due to Other Governments	-	-
Claims Payable	238	177
Taxes Payable	(45)	56
Deferred Credits	-	-
Other Deferred Assets and Charges	-	-
Other Assets and Liabilities	1,592	(355)
Rate Stabilization Deferred Revenue	-	-
Total Adjustments	31,610	34,009
Net Cash from Operating Activities	$ 49,996	$ 37,126
SCHEDULE OF NONCASH ACTIVITIES		
In-Kind Capital Contributions	$ -	$ -
Amortization of Debt Related Costs, Net	783	474
Change in Valuation of Deferrals on Power Exchange	-	-
Allowance for Funds Used During Construction	-	-
Power Exchange Revenues	-	-
Power Exchange Expenses	-	-
Power Revenue Netted against Power Expenses	-	-
Power Expense Netted against Power Revenues	-	-
Fair Value Adjustment of Long-Term Investments	-	-
Contributed Infrastructure	-	-
Total Noncash Activities	$ 783	$ 474

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

B-9

STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
December 31, 2010
(In Thousands)

	Pension Trust Funds	S. L. Denny Private-Purpose Trust	Agency Funds
ASSETS			
Cash and Equity in Pooled Investments	$ 29,033	$ 208	$ 16,916
Short-Term Investments	3,183	-	-
Securities Lending Collateral	33,896	-	-
Investments at Fair Value			
U.S. Government Obligations	198,597	-	-
Domestic Corporate Bonds	81,251	-	-
Domestic Stocks	757,208	-	-
International Stocks	368,335	-	-
Real Estate	186,162	-	-
Alternative/Venture Capital	165,781	-	-
Mezzanine Debt	49,094	-	-
Total Investments at Fair Value	1,806,428	-	-
Receivables			
Employer - Other	3,308	-	967
Interest and Dividends	1,753	-	-
Total Receivables	5,061	-	967
Total Assets	1,877,601	208	17,883
LIABILITIES			
Accounts Payable	-	-	1,646
Refunds Payable and Other	15,016	-	-
Salaries, Benefits, and Payroll Taxes Payable	-	-	6,493
Deposits Payable	-	-	9,736
Claims/Judgments Payable	-	-	8
Securities Lending Collateral	37,295	-	-
Total Liabilities	52,311	-	17,883
Net Assets Held in Trust for Pension Benefits and Other Purposes	$ 1,825,290	$ 208	$ -

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

B-10

STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
For the Year Ended December 31, 2010
(In Thousands)

	Pension Trust Funds	S.L. Denny Private-Purpose Trust
ADDITIONS		
Contributions		
Employer	$ 86,039	$ -
Plan Member	45,365	-
Total Contributions	131,404	-
Investment Income (Loss)		
From Investment Activities		
Net Appreciation (Depreciation) in Fair Value of Investments	197,315	-
Interest	8,641	2
Dividends	7,064	-
Total Investment Activities Income (Loss)	213,020	2
Investment Activities Expenses		
Investment Management Fees	4,050	-
Performance Measurement Fees	371	-
Investment Custodial Fees	112	-
Total Investment Activities Expenses	4,533	-
Net Income (Loss) from Investment Activities	208,487	2
From Securities Lending Activities		
Securities Lending Income	71	-
Securities Lending Expenses		
Borrower Rebates	(14)	-
Management Fees	21	-
Total Securities Lending Expenses	7	-
Net Income (Loss) from Securities Lending Activities	64	-
Total Net Investment Income (Loss)	208,551	2
Total Additions	339,955	2
DEDUCTIONS		
Benefits	154,318	-
Refund of Contributions	14,715	-
Administrative Expense	4,483	-
Total Deductions	173,516	-
Change in Net Assets	166,439	2
Net Assets - Beginning of Year	1,658,851	206
Net Assets - End of Year	$ 1,825,290	$ 208

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

The City of Seattle (the primary government for financial reporting purposes) consists of the funds, departments, agencies, boards and commissions (referred to in this note as organizations) over which the City exercises financial accountability, and component units over which the City is not financially accountable but is required to be reported due to the nature and significance of its relationship with the City. Additional information on the component unit may be found in Note 12. The City does not have other relationships with organizations of such nature and significance that exclusion would render the City's financial statements incomplete or misleading.

Indicators of Financial Accountability

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

- Appointment by the City of a majority of voting members of the governing body of an organization, and

  - Ability of the City to impose its will on the daily operations of an organization, such as the power to remove appointed members at will; to modify or approve budgets, rates, or fees; or to make other substantive decisions; or

  - Provisions by the organization of specific financial benefits to the City; or

  - Imposition by any organization of specific financial burdens on the City, such as the assumption of deficits or provision of support;

- Or, fiscal dependency by the organization on the City, such as from the lack of authority to determine its budget or issue its own bonded debt without City approval.

Joint Venture

A joint venture is an organization that results from a contractual arrangement and is owned, operated, or governed by two or more participants as a separate activity. In addition to joint control, each participant must have either an ongoing financial interest or an ongoing financial responsibility. The City participates in a joint venture with King County with regard to the Seattle-King County Work Force Development Council. Additional information on the existing joint venture may be found in Note 13.

Organizations Excluded: Related Organizations

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

Housing Authority of the City of Seattle

City of Seattle Industrial Development Corporation

Burke-Gilman Place Public Development Authority

ACCOUNTING STANDARDS

In 2010, the City implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This statement establishes accounting and financial reporting standards for intangible assets. It provides guidance in the definition, recognition, and amortization of intangible assets, and requires intangible assets within its scope to be reported as capital assets. To allow comparative analysis of 2009 and 2010 balances, certain balances included in the 2009 balance sheets were reclassified to conform to the new requirements. Implementation of GASB Statement No. 51 in 2010, including reclassification of affected 2009 balances, did not have a significant impact on the City's financial statements.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, establishes accounting and financial reporting standards for all state and local governments that enter into derivative instruments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The City implemented this statement early, in 2009. There was no significant impact on the City's financial statements.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Statement of Net Assets

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

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

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

Statement of Activities

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

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

Fund Financial Statements

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

The City reports the following major governmental funds:

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

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

The **Low-Income Housing Fund** accounts for activities undertaken by the City to rehabilitate, replace, and preserve low-income housing stock and to assist low-income tenants in Seattle. It is supported by a seven-year housing levy approved by the voters in 2009 and federal grants. The fund accounts for long-term housing loan assistance programs that are either deferred or amortized. Most of the loans are deferred and are payable in full on sale, on change of use, or at the end of the loan term. Terms will generally permit borrowers to further defer payment of principal, deferred interest, and contingent interest by extending the loan term. A majority of the current loans are deferred for 50 years and may be extended for an additional 25 years. Amortizing loans will be required if project budgets can afford repayment and meet required rent levels.

The City reports the following major proprietary funds:

The **Light Fund** (City Light) accounts for operating the City's electric utility which owns and operates generating, transmission, and distribution facilities. The Utility supplies electricity to approximately 399,000 customers in the Seattle area as well as to other city agencies.

The **Water Fund** accounts for operating the City's water utility. The Utility maintains more than 187 miles of water supply mains, 1,714 miles of distribution lines, and 339 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 664,000 people. The Utility also sells to 25 surrounding cities and water districts that provide water to an additional 767,000 people.

The **Drainage and Wastewater Fund** accounts for operating the City’s sewer and drainage utility facilities and its pumping stations. These facilities, which consist of 1,901 miles of sewers and drainage mainlines and 66 pumping stations, are necessary to collect the sewage of the City and discharge it into the King County Department of Natural Resources Wastewater Treatment System for treatment and disposal.

The **Solid Waste Fund** accounts for the collection and disposal of residential and commercial garbage; collection and recycling of yard waste and other recyclable materials; operation of two transfer stations and hazardous waste facilities; and management of the post-closure maintenance and environmental monitoring of the City’s two closed landfills. The collection and disposal or processing of garbage, yard waste, and recyclable materials is performed by private companies under contract with the Utility.

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, Multifamily Rental Housing Improvement, Salary, Voucher, and Pass-Through Grants Funds.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-wide Financial Statements

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

Governmental Fund Financial Statements

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

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

Proprietary Fund Financial Statements

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

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

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

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

Fiduciary Fund Financial Statements

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

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

BUDGETS AND BUDGETARY ACCOUNTING

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

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Investments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Receivables

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

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

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

Inventories

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

The costs are recorded as expenditures in governmental funds at the time individual inventory items are purchased. This is known as the purchase method. However, any significant inventories in a governmental fund may also be reported as assets, as allowed by GAAP, and are equally offset by a fund balance reserve to indicate that they do not constitute available spendable resources even though they are included in net current assets.

Inventories in the proprietary funds are expensed as consumed.

Capital Assets

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

Governmental infrastructure assets include long-lived capital assets, such as roads, bridges, and tunnels that normally can be preserved for a significantly greater number of years than most capital assets. Estimated historical costs are established based on the City’s street reports to the state. Works of art are valued at historical cost. In cases where the historical cost is not available, the method used is “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 and programmatic conservation costs.

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

Prepaid Items

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

Accumulated Compensated Absences

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

Vacation Pay

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

Sick Pay

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

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

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

Other Compensated Absences

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

Risk Management

A liability for claims is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims liabilities are discounted at the City's average investment rate of return (Note 15).

Other Accrued Liabilities

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

Interfund Activity and Contracts/Advances

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

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

Deferred Revenues

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

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

Reservations and Designations

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

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

Program Revenues

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

Prior-Year Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City of Seattle's financial statements for the year ended December 31, 2009, 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)

	2010
Annual Budget	$ 1,175,296
Carryovers	
Encumbrances	3,110
Continuing Appropriations	88,390
Carryover Adjustments	-
Intrafund	(177,969)
Budget Revisions	74,794
Total Budget	$ 1,163,621

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 City Budget Office 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 City Budget Office's approval.

Budgetary comparisons for proprietary funds may be requested from the Department of Finance and Administrative Services. 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 City Budget Office to carry over to the following year, and are included with expenditures.

FUND BALANCE DESIGNATED FOR SPECIAL PURPOSES

Within the fund financial statements the City reports fund balances as "Unreserved Designated for Special Purposes" on the Balance Sheet of its governmental funds. In the General Fund the balances are comprised of amounts billed and collected internally by the City's Personnel Department for purposes of industrial insurance, unemployment compensation, special employment, life insurance, and health care. Also included are the designated but unreserved balances of the Cumulative Reserve Subfunds, the Neighborhood Matching Subfund, the Judgment and Claims Subfunds, Arts Account Subfund, and the Cable Television Franchise Subfund. These subfunds collect revenues and make disbursements as designated by law.

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

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

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

(In Thousands)

Fund	2010	2009
General Fund		
Group Term Life Insurance	$ 426	$ 429
Health Care	19,792	24,249
Unemployment Compensation	628	1,907
Industrial Insurance	6,212	6,971
Special Employment Program	83	87
Cumulative Reserve	7,782	-
Judgment and Claims	16,354	11,227
Arts Account	307	-
Neighborhood Matching	1,009	-
Cable Television Franchise	5,073	3,686
Special Revenue Fund		
Seattle Center McCaw Hall	987	843
	$ 58,653	$ 49,399

DEFICITS IN FUND BALANCES AND NET ASSETS

The Downtown Parking Garage Fund has negative fund net assets of $22.3 million as of December 31, 2010. The negative fund balance is mostly attributable to cumulative depreciation expenses which were not planned to be covered by operating revenues. The management strategy for the Garage is to generate sufficient operating revenues to cover debt service payments and cash expenses, but not enough to cover depreciation expenses. Accordingly, the negative fund equity will continue. In recent years, negative operating cash flow has also contributed to the negative net assets. The City is currently addressing operating cash flow with a long-term plan which includes alternative parking rate strategies and may include City subsidies to the fund.

The Seattle Streetcar Fund has negative fund balance of $3.5 million as of December 31, 2010. The fund was created by Ordinance 122424 and later amended by Ordinance 123102 to increase the amount of the interfund loan which now allows a loan from the City's Consolidated (Residual) Cash Pool of up to $3.7 million. This loan is to be repaid no later than December 31, 2018, from the sale of surplus property, grants, donations, transfers, and other monies as authorized by ordinance.

The Pike Place Market Renovation Fund has a negative fund balance of $2.0 million at December 31, 2010. This was caused by advancing funds to the Pike Place Market Preservation and Development Authority to expedite the completion of a construction project scheduled to be completed by July 2011. The agreement to provide interim financing was made pending receipt of property taxes. The negative balance was cured by the use of long-term general obligation bond proceeds in the amount of $10.7 million received in March 2011.

(3) CASH AND INVESTMENTS

CASH AND EQUITY IN POOLED INVESTMENTS

Cash resources of all City funds are combined into a cash pool that is managed by the Department of Finance and Administrative Services. 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. The custodial credit risk of deposits is the risk that, in the event of bank failure for one of the City's depository institutions, the City's deposits may not be returned in a timely manner, or in the case of collateralized securities, the City may not be able to recover the collateral held in the possession of an outside party.

The City has very limited custodial credit risk of its deposits due to insurance provided by the Federal Deposit Insurance Corporation (FDIC) as well as protection provided by the Washington State Public Deposit Protection Commission (PDPC) as established in RCW 39.58. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC by requiring banks and thrifts to pledge securities as collateral.

As of December 31, 2010, the City held $95,000 in its cash vault. Additional small amounts of cash were held in departmental revolving fund accounts with the City's various custodial banks, all of which fell within the FDIC's $250,000 standard maximum deposit insurance amount. Any of the City's cash not held in its vault, or a local depository, was held in the City's operating fund (investment pool), and at the close of every business day, any cash remaining in the operating fund is swept into an overnight repurchase agreement that matures the next day.

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, 2010, the City's investment pool held the following investments.

Table 3-1

INVESTMENTS AND MATURITIES

TREASURY RESIDUAL POOLED INVESTMENTS AND SECURITIES HELD FOR DEDICATED FUNDS

(In Thousands)

	Fair Value as of December 31, 2010			
Investments	**Treasury Residual Pooled Investments**	**Security Held for Dedicated Funds**	**Total Fair Value**	**Weighted Average Maturity (Days)**
Repurchase Agreements	$ 56,366	$ -	$ 56,366	3
U.S. Treasury and U.S. Government-Backed Securities	39,625	-	39,625	398
U.S. Government Agency Securities	624,899	81,534	706,433	655
U.S. Government Agency Mortgage-Backed Securities	3,105	-	3,105	771
Commercial Paper	256,364	-	256,364	21
Municipal Bonds	1,020	-	1,020	213
Total	$ 981,379	$ 81,534	$ 1,062,913	
Weighted Average Maturity of the Treasury Residual Pooled Investments and Securities Held for Dedicated Funds				458

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. The City's investment policy limits the maturity of individual securities to fifteen years and limits the weighted average maturity of the total investment portfolio to no longer than five years.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City mitigates credit risk in many ways.

By state statutes and investment policy, the City may purchase securities that carry the highest credit ratings issued by Moody's Investors Service, Standard & Poor's, and/or Fitch Ratings. Securities purchased must have the following ratings: Securities backed by issuers with long-term credit ratings of Aaa, Aa1, and Aa2 by Moody's Investors Service; AAA, AA+, and AA by Standard & Poor's; and AAA, AA+, and AA by Fitch Ratings; and securities backed by issuers having short-term ratings of MIG1, VMIG1, and P1 by Moody's Investors Service; A1+ and A1 by Standard & Poor's; and F1 and F1+ by Fitch Ratings.

The City invests in U.S. Treasury securities which are considered free of credit risk, and in securities backed by the full faith and credit of the U.S. government, such as bonds issued by the Department of Housing and Urban Development (HUD). These securities have the highest long-term and short-term credit ratings of Aaa, AAA, P1, A1+ and F1+. The City also invests in securities issued by U.S. government sponsored enterprises including Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Bank. These securities were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's. Material credit risk in the City's investment portfolio resides in its holdings of commercial paper and municipal securities. In accordance with state statutes and its internal investment policy, the City manages that credit risk by purchasing securities backed by issuers having long-term and short-term credit ratings as noted above. The City also subscribes to asset-backed commercial paper research from Moody's Investors Service and Fitch Ratings, conducts internal due diligence of commercial paper and municipal issuers, and maintains an "approved list" of commercial paper issuers based upon internal and external credit research.

Concentration Risk. Concentration risk is the risk of loss attributed to the magnitude of investments in a single issuer other than the U.S. government or U.S. government-guaranteed issuer. In accordance with its investment policy and state statutes, the City manages concentration risk by limiting its investments in any one issuer as follows: 10 percent of the portfolio per bank for certificates of deposit or bankers' acceptances; 5 percent per commercial paper or municipal bond issuer; and 20 percent per U.S. government agency, excluding investments maturing less than one year from date of purchase. U.S. government agency collateralized mortgage obligations 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 single issuers, including those maturing less than one year from date of purchase, and amounting to 5 percent or more of the total portfolio as of December 31, 2010, are shown in the following table.

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

(In Thousands)

Issuer	Fair Value	Percent of Total Investments
Federal National Mortgage Association (Fannie Mae)	$ 276,374	26 %
Federal Home Loan Bank	218,645	21
Federal Home Loan Mortgage Corporation (Freddie Mac)	114,398	11
Federal Farm Credit Bank	100,121	9
Sheffield Receivables Corporation	54,343	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 have access to, or be able to recover, its investments or collateral securities that are in the possession of an outside party. The City minimizes custodial credit risk for its investments by having its investment securities held by the City's contractual custodial 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 contractual custodial agent.

By investment policy, the City maintains a list of approved securities dealers for transacting business. For repurchase agreements, the City transacts only with large primary dealers with investment grade credit ratings provided by at least two of the nationally recognized statistical rating organizations (NRSROs). The City also conducts its own due diligence as to the financial wherewithal of its counterparties.

The City mitigates counterparty custodial risk from repurchase agreements by using a third-party custodian for tri-party repos. The City conforms with industry standard requiring execution of a master repurchase agreement with each counterparty prior to transacting a repurchase agreement, execution of a third-party custodial agreement between the City, the broker, and the clearing bank, before transacting a third-party repurchase agreement, and over-collateralizing by a minimum of 102 percent. By investment policy, the underlying securities the City is willing to accept as collateral must have the highest credit ratings of at least two NRSROs. Throughout 2010, the collateral underlying the City's repurchase agreements excluded securities other than U.S. Treasury, agencies, and agency mortgage-backed pass-throughs.

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	$ 198,588
Domestic Corporate Bonds	81,251
Domestic Stocks	757,208
International Stocks	368,335
Other	
Short-Term Investment Funds	3,183
Securities Lending	33,896
Mezzanine Debt	49,094
Real Estate	186,162
Alternative/Venture Capital	165,781
Total	$ 1,843,498

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 eight external money management firms. SCERS' investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from interest rates.

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

(In Thousands)

		Investment Maturities (In Years)			
Investment Type	**Fair Value**	**<1**	**1 - 5**	**6 - 10**	**>10**
Fixed Income					
U.S. Government					
Treasuries, Notes, and Bonds	$ 42,505	$ 7,835	$ 15,071	$ 15,432	$ 4,167
Treasury Inflation-Protected Securities	1,463	-	-	-	1,463
Agencies	13,202	-	7,828	3,334	2,040
Municipal	1,448	-	164	266	1,018
Mortgage-Backed					
Government Pass-Throughs	40,368	-	371	8,523	31,474
Corporate Pass-Throughs	7,196	-	-	1,884	5,312
Government Collateralized Mortgage Obligations	2,173	-	-	98	2,075
Corporate Collateralized Debt and Loan Obligations	5,521	-	38	112	5,371
Corporate					
Bonds	39,738	777	10,798	18,670	9,493
Asset-Backed	13,686	805	4,393	2,832	5,656
Private Placements	17,065	701	7,501	3,599	5,264
Government/Sovereign Developed Markets	307	-	-	307	-
Foreign Government/Bonds	115	115	-	-	-
Total Portfolio	$ 184,787	$ 10,233	$ 46,164	$ 55,057	$ 73,333

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

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

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

(In Thousands)

Investment Type	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC and Below**	**Not Rated**
Fixed Income								
Mortgage-Backed Corporate Pass-Throughs	$ 5,013	$ -	$ 190	$ 77	$ -	$ -	$ 1,744	$ 144
Corporate								
Bonds	-	4,282	15,729	15,021	1,841	2,696	169	-
Asset-Backed	5,633	237	-	718	668	1,945	3,285	1,201
Private Placements	6,632	2,193	3,917	744	67	1,423	-	2,089
CDO's and CLO's	-	-	-	-	15	-	133	159
Foreign Sovereign								
Bonds	-	-	-	-	-	-	47	68
Total Portfolio	$ 17,278	$ 6,712	$ 19,836	$ 16,560	$ 2,591	$ 6,064	$ 5,378	$ 3,661

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

Asset Class	Actual	Target
Cash and Cash Equivalents	0.9 %	1.0 %
Equities		
Domestic	41.0	38.0
International	20.2	20.0
Bonds	15.4	14.0
Alternative	9.6	10.0
Mezzanine	2.7	5.0
Real Estate	10.2	12.0
Total	100.0 %	100.0 %

Concentration of Credit Risk. The Investment Committee reviews its portfolio holdings quarterly with the Investment Consultant to ensure compliance with the specified targets and performance results. Rebalancing of the portfolio back to the target percentages is undertaken to ensure compliance with the specified targets. 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. In general, these guidelines require that investments in any issuer may not exceed 5 percent of the net asset value of a manager's portfolio. Managers do not have authority to depart from these guidelines.

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

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

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 lent 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. 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. In 2010, SCERS continued to work with the custodian through the bankruptcy process. The defaulted dollar value of the asset is de minimis to the overall portfolio value.

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

(In Thousands)

Type of Securities Lent	2010 Fair Values of Securities Lent	2010 Collateral	2009 Fair Values of Securities Lent	2009 Collateral
U.S. Government and Agencies	$ 14,338	$ 14,630	$ 14,598	$ 14,911
U.S. Corporate Fixed Income	2,867	2,937	1,211	1,229
U.S. Equities	19,275	19,728	23,557	24,298
Total Securities Lent	$ 36,480	$ 37,295	$ 39,366	$ 40,438

Collateral	2010	2009
U.S. Corporate Obligations	$ 3,500	$ 20,500
Mutual Funds	-	5,535
Repurchase Agreements	31,796	1,875
Asset-Backed Securities	1,999	7,651
Certificates of Deposit	-	4,877
Total Collateral	$ 37,295	$ 40,438

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 2010 Revenues	December 31 2010 Receivables
Property Taxes	$ 391,798	$ 20,763
General Business and Occupation Taxes	331,570	49,734
Totals	$ 723,368	$ 70,497

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 $1.78 per $1,000 for general operations and Firemen's Pension Fund in 2010. In addition, the levy included $1.14 per $1,000 of assessed value for debt service and other voter-approved levies. The total 2010 levy was $2.92 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 and remained at $0.30 per $1,000 of assessed value in 2010.

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, 2010, as reported in the fund financial statements.

Table 4-2 **DUE FROM AND TO OTHER FUNDS [a]**

(In Thousands)

Receivable Fund	Payable Fund(s)	Amount
General	Drainage and Wastewater	$ 3,990
	Nonmajor Enterprise	134
	Nonmajor Governmental	1,690
	Internal Service	473
	Low-Income Housing	6
	Transportation	293
	Light	4,138
	Solid Waste	905
	Water	3,019
	Total General Fund	14,648
Transportation	Drainage and Wastewater	151
	Nonmajor Enterprise	106
	General	1,432
	Nonmajor Governmental	10,481
	Internal Service	20
	Light	1,862
	Solid Waste	3
	Water	1,737
	Total Transportation	15,792
Light	Drainage and Wastewater	739
	General	232
	Nonmajor Governmental	14
	Internal Service	571
	Transportation	41
	Solid Waste	105
	Water	1,146
	Total Light Fund	2,848
Water	Drainage and Wastewater	1,171
	General	40
	Internal Service	45
	Transportation	33
	Light	14
	Solid Waste	302
	Total Water Fund	1,605
Solid Waste	Drainage and Wastewater	1
	General	29
	Nonmajor Governmental	48
	Internal Service	13
	Light	15
	Water	3
	Total Solid Waste Fund	109
Drainage and Wastewater	Nonmajor Enterprise	17
	General	50
	Nonmajor Governmental	19
	Internal Service	35
	Transportation	2,163
	Light	59
	Solid Waste	6
	Water	59
	Total Drainage and Wastewater Fund	2,408
Nonmajor Governmental	Drainage and Wastewater	222
	General	1,520
	Nonmajor Governmental	2,138
	Internal Service	81
	Low-Income Housing	9
	Transportation	192
	Light	215
	Solid Waste	42
	Water	159
	Total Nonmajor Governmental Funds	4,578

[a] Some amounts may have rounding differences with Balance Sheet or Statement of Net Assets.

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

(In Thousands)

Receivable Fund	Payable Fund(s)	Amount
Nonmajor Enterprise	Drainage and Wastewater	$ 250
	General	16
	Nonmajor Governmental	9
	Internal Service	4
	Transportation	35
	Light	193
	Solid Waste	68
	Water	68
	Total Nonmajor Enterprise Funds	643
Internal Service	Drainage and Wastewater	78
	Nonmajor Enterprise	1,235
	General	2,318
	Nonmajor Governmental	1,179
	Internal Service	182
	Transportation	1,025
	Light	633
	Solid Waste	39
	Water	769
	Total Internal Service Funds	7,458
Grand Total		$ 50,089

[a] Some amounts may have rounding differences with Balance Sheet or Statement of Net Assets.

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

Table 4-3 **ADVANCES FROM AND TO OTHER FUNDS**

(In Thousands)

Advances From	Advances To	Amount
General Fund	Seattle Center Fund	$ 1,020

The advance from the General Fund to the Seattle Center Fund was for the purpose of cash flow. It was repaid in 2011.

Table 4-4 **INTERFUND TRANSFERS**

(In Thousands)

	Transfers Out				
Transfers In	General	Nonmajor Governmental	Internal Service	Transportation	Total
General Fund	$ -	$ 6,067	$ 4,000	$ -	$ 10,067
Low-Income Housing	3,568	-	-	-	3,568
Nonmajor Enterprise	10,100	-	-	-	10,100
Nonmajor Governmental	218,148	11,948	-	13,867	243,963
Transportation	46,293	42,660	-	-	88,953
Total Transfers	$ 278,109	$ 60,675	$ 4,000	$ 13,867	$ 356,651

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, (2) move revenues from the fund with collection authority to the debt service fund as debt service principal and interest payments become due, and (3) apply unrestricted revenues collected in the General Fund to various programs accounted for in other funds in accordance with budgetary authorizations.

(5) SHORT-TERM ENERGY CONTRACTS AND DERIVATIVE INSTRUMENTS

The Seattle City Light (SCL) engages in an ongoing process of resource optimization relating to short-term energy contracts, which involves the economic selection from available energy resources to serve the SCL's load obligations and using these resources to capture available economic value. SCL makes frequent projections of electric loads at various points in time based on, among other things, estimates of factors such as customer usage and weather, as well as historical data and contract terms. SCL also makes recurring projections of resource availability at these points in time based on variables such as estimates of streamflows, availability of generating units, historic and forward market information, contract terms, and experience. On the basis of these projections, SCL purchases and sells wholesale electric capacity and energy to match expected resources to expected electric load requirements and to realize earnings from surplus energy resources. These transactions can be up to 18 months forward. Under these forward contracts, SCL commits to purchase or sell a specified amount of energy at a specified time, or during a specified time in the future. Except for limited intraday and interday trading to take advantage of owned hydro storage, SCL does not take market positions in anticipation of generating revenue. Energy transactions in response to forecasted seasonal resource and demand variations require approval by SCL's Risk Oversight Council.

Effective January 1, 2009, the City adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which requires that changes in fair values of investment derivative instruments be recorded on the statement of revenues, expenses, and changes in equity and that changes in fair values of effective hedging derivative instruments be recorded as deferrals on the balance sheet, except as provided by the normal purchase and normal sales exception to that standard. It is the City's policy to apply the normal purchase and normal sales exception of GASB Statement No. 53 as appropriate. Certain forward purchase and sale of electricity contracts in SCL meet the definition of a derivative instrument, but are intended to result in the purchase or sale of electricity delivered and used in the normal course of operations. Accordingly, SCL considers these forward contracts as normal purchases and normal sales under GASB Statement No. 53. These transactions are not required to be recorded at fair value in the financial statements.

The following table presents (in thousands) the aggregate contract amounts, fair value, and unrealized gain (loss) of SCL's commodity derivative instruments qualifying as normal purchases and normal sales at December 31:

Year 2010	Aggregate Contract Amount	Aggregate Fair Value	Unrealized Gain (Loss)
Sales	$ 8,028	$ 7,296	$ 732
Purchases	11,895	11,139	(756)
Total	$ 19,923	$ 18,435	$ (24)

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

Fair value measurements at December 31, 2010 and 2009 used an income valuation technique consisting of Platts M2M Power Curves and interest rates from HIS Global Insight that are used to calculate discount rates. Risk, such as for nonperformance and inactive markets, was evaluated internally resulting in no valuation adjustments to forward power contracts.

All derivative instruments not considered as normal purchases and normal sales are to be recorded within the financial statements. In 2010, the City Council adopted a resolution granting SCL authority to enter into certain physical put and call options that would not be considered normal purchases and normal sales under GASB Statement No. 53. SCL did not have any such activity for 2010 and 2009. In addition, the City Council has deferred recognition of the effects of reporting the fair value of derivative financial instruments for rate-making purposes and maintains regulatory accounts to defer the accounting impact of these accounting adjustments in accordance with ASC 980-10-05, *Effect of Regulatory Accounting*.

Market Risk. Market risk is, in general, the risk of fluctuation in the market price of the commodity being traded and is influenced primarily by supply and demand. Market risk includes the fluctuation in the market price of associated derivative commodity instruments. Market risk may also be influenced by the number of active, creditworthy market participants, and to the extent that nonperformance by market participants of their contractual obligations and commitments affects the supply of or demand for, the commodity.

Credit Risk. Credit risk relates to the potential losses that SCL would incur as a result of nonperformance by counterparties of their contractual obligations to deliver energy or make financial settlements. Changes in market prices may dramatically alter the size of credit risk with counterparties, even when conservative credit limits are established. SCL seeks to mitigate credit risk by entering into bilateral contracts that specify credit terms and protections against default, applying credit limits and duration criteria to existing and prospective counterparties, and actively monitoring current credit exposures. SCL also seeks assurances of performance through collateral requirements in the form of letters of credit, parent company guarantees, or prepayment.

SCL has concentrations of suppliers and customers in the electric industry including electric utilities, electric generators and transmission providers, financial institutions, and energy marketing and trading companies. In addition, SCL has concentrations of credit risk related to geographical location as it operates in the western United States. These concentrations of counterparties and concentrations of geographic location may impact SCL's overall exposure to credit risk, either positively or negatively, because the counterparties may be similarly affected by changes in conditions.

Other Operational and Event Risk. There are other operational and event risks that can affect the supply of the commodity, and SCL's operations. Due to SCL's primary reliance on hydroelectric generation, the weather, including spring time snow melt, runoff, and rainfall, can significantly affect SCL's operations. Other risks include regional planned and unplanned generation outages, transmission constraints or disruptions, environmental regulations that influence the availability of generation resources, and overall economic trends.

(6) CAPITAL ASSETS

Table 6-1 **CHANGES IN CAPITAL ASSETS [a]**

(In Thousands)

	Restated Balance January 1	Additions	Deletions	Balance December 31
GOVERNMENTAL ACTIVITIES [b]				
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	$ 512,043	$ 18,850	$ -	$ 530,893
Construction in Progress	200,100	269,802	202,125	267,777
Total Capital Assets Not Being Depreciated	712,143	288,652	202,125	798,670
CAPITAL ASSETS BEING DEPRECIATED				
Buildings and Improvements	2,009,814	105,756	2,707	2,112,863
Machinery and Equipment	273,903	20,835	12,199	282,539
Infrastructure	1,240,348	74,662	-	1,315,010
Other Capital Assets	13,068	357	-	13,425
Total Capital Assets Being Depreciated	3,537,133	201,610	14,906	3,723,837
Accumulated Depreciation				
Buildings and Improvements	494,696	50,457	1,409	543,744
Machinery and Equipment	149,804	29,857	10,980	168,681
Infrastructure	533,302	39,558	-	572,860
Other Capital Assets	1,293	171	-	1,464
Total Accumulated Depreciation	1,179,095	120,043	12,389	1,286,749
Total Capital Assets Being Depreciated, Net	2,358,038	81,567	2,517	2,437,088
Governmental Activities Capital Assets, Net	$ 3,070,181	$ 370,219	$ 204,642	$ 3,235,758
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land	$ 147,717	$ 12,400	$ -	$ 160,117
Construction in Progress	324,363	371,749	383,809	312,303
Total Capital Assets Not Being Depreciated	472,080	384,149	383,809	472,420
CAPITAL ASSETS BEING DEPRECIATED				
Plant in Service, Excluding Land	5,360,698	390,249	66,489	5,684,458
Buildings	60,131	-	-	60,131
Machinery and Equipment	15,130	48	9	15,169
Other Capital Assets	22,255	128	2,002	20,381
Total Capital Assets Being Depreciated	5,458,214	390,425	68,500	5,780,139
Accumulated Depreciation				
Plant in Service, Excluding Land	2,048,440	156,317	29,200	2,175,557
Buildings	22,048	2,004	-	24,052
Machinery and Equipment	9,545	1,632	9	11,168
Other Capital Assets	2,622	4	-	2,626
Total Accumulated Depreciation	2,082,655	159,957	29,209	2,213,403
Total Capital Assets Being Depreciated, Net	3,375,559	230,468	39,291	3,566,736
Business-Type Activities Capital Assets, Net	$ 3,847,639	$ 614,617	$ 423,100	$ 4,039,156

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

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

Table 6-2 **DEPRECIATION EXPENSE BY FUNCTION**

(In Thousands)

GOVERNMENTAL ACTIVITIES	
General Government	$ 6,966
Public Safety	5,336
Transportation	40,265
Economic Environment	17
Culture and Recreation	35,118
Subtotal	87,702
Capital assets held by internal service funds are charged to the various functions based on their usage of the assets	32,341
Total Governmental Activities	$ 120,043
BUSINESS-TYPE ACTIVITIES	
Light	$ 92,569
Water	40,864
Solid Waste	5,608
Drainage and Wastewater	17,280
Planning and Development	1,632
Parking Garage	2,004
Total Business-Type Activities	$ 159,957

(7) COMPENSATED ABSENCES

The following discussion on the general liabilities of the City and the tables for the other City funds present the accrued compensated absences at the end of 2010 and 2009. The tables show the accrued liabilities by group between governmental activities, business-type activities, and pension trust funds, and further by type of funds, as applicable.

GOVERNMENTAL ACTIVITIES

Governmental Funds

Unpaid compensated absences associated with governmental fund operations of $79.7 million and $77.3 million at December 31, 2010 and 2009, respectively, have been recorded in the government-wide financial statements. These amounts include unpaid holiday, compensatory, merit, and furlough time of $17.3 million and $16.7 million at the end of 2010 and 2009, respectively; accumulated unpaid vacation pay of $50.7 million and $50.4 million at the end of 2010 and 2009, respectively; and the balance for sick leave (estimated based on the termination method) of $11.7 million and $10.2 million at December 31, 2010 and 2009, respectively.

Internal Service Funds

Table 7-1 **COMPENSATED ABSENCES IN INTERNAL SERVICE FUNDS**

(In Thousands)

	2010	**2009**
Fleets and Facilities	$ 1,891	$ 2,012
Information Technology	1,797	1,798
Totals	$ 3,688	$ 3,810

BUSINESS-TYPE ACTIVITIES

Enterprise Funds

Table 7-2 **COMPENSATED ABSENCES IN ENTERPRISE FUNDS**

(In Thousands)

	2010	2009
Light	$ 15,540	$ 14,789
Water	4,818	4,858
Drainage and Wastewater	4,282	3,824
Solid Waste	1,606	1,654
Planning and Development	2,665	2,876
Totals	$ 28,911	$ 28,001

PENSION TRUST FUNDS

Table 7-3 **COMPENSATED ABSENCES IN PENSION TRUST FUNDS**

(In Thousands)

	2010	2009
Employees' Retirement	$ 74	$ 71
Firemen's Pension	29	80
Police Relief and Pension	49	84
Totals	$ 152	$ 235

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

(8) LEASES

CAPITAL LEASES

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

Table 8-1 **CAPITAL LEASES**

(In Thousands)

Net Capital Lease Assets	Capital Assets Governmental Activities
Machinery and Equipment	$ 20
Less Accumulated Depreciation	(6)
December 31, 2010	$ 14

Minimum Capital Lease Payments	Long-Term Liabilities Governmental Activities
2011	$ 5
2012	5
2013	4
2014	2
Total Minimum Lease Payments	16
Less Interest	(2)
Principal	$ 14

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

OPERATING LEASES

Governmental Activities

The City, through its Fleets and Facilities Fund, 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 Fund paid rentals of approximately $4.8 million and $4.3 million in 2010 and 2009, 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 original lease agreement expired on July 30, 2010 but was renewed for another five years with new expiration date of July 30, 2015. The renewed lease agreement requires a fixed rent of $23,420 per month subject to increases on each July 1 beginning in 2011 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 $304,250 and $300,793 in 2010 and 2009, respectively, on the lease. Rents are paid as they become due and payable.

Minimum payments under the leases are:

Table 8-2 **OPERATING LEASE COMMITMENTS**

GOVERNMENTAL ACTIVITIES

(In Thousands)

	Minimum Lease Payments		
Year Ending December 31	**Fleets and Facilities**	**Seattle Center**	**Total**
2011	$ 4,539	$ 285	$ 4,824
2012	3,935	285	4,220
2013	3,541	285	3,826
2014	2,778	285	3,063
2015	1,941	167	2,108
2016 - 2017	2,070	-	2,070
Total	$ 18,804	$ 1,307	$ 20,111

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 $1.1 million and $0.6 million in 2010 and 2009, 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 2010 and 2009 were: $375,965 and $560,033 for the Water Fund; $105,887and $103,574 for the Drainage and Wastewater Fund, and $171,300 and $164,667 for the Solid Waste Fund. Rents are paid as they become due and payable.

Minimum payments under the leases are:

Table 8-3 **OPERATING LEASE COMMITMENTS**

BUSINESS-TYPE ACTIVITIES

(In Thousands)

	Minimum Payments				
Year Ending December 31	**City Light**	**Water**	**Drainage & Wastewater**	**Solid Waste**	**Total**
2011	$ 1,116	$ 373	$ 104	$ 167	$ 1,760
2012	1,136	369	101	164	1,770
2013	1,145	263	65	170	1,643
2014	1,045	248	59	176	1,528
2015	1,072	257	62	182	1,573
2016 - 2020	1,754	264	53	156	2,227
2021 - 2025	-	54	-	-	54
2026 - 2029	-	43	-	-	43
Total	$ 7,268	$ 1,871	$ 444	$ 1,015	$ 10,598

LEASE REVENUES - GOVERNMENTAL ACTIVITIES

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

Table 8-4 **MAJOR SOURCES OF RENTAL INCOME ON REAL PROPERTY MANAGED BY FLEETS AND FACILITIES**

(In Millions)

	2010	**2009**
Non-City Property Occupied by City Departments	$ 5.3	$ 4.9
City-Owned Property Occupied by City Departments	54.2	53.9
City-Owned Property Leased to Non-City Tenants	2.8	2.9
Total	$ 62.3	$ 61.7

Additionally, in 2010 the SeaPark Garage and the Seattle Municipal Tower Building generated $2.5 million total parking revenues, which were recorded in the Fleets and Facilities Fund.

Also, in 2010 the City recognized $6.6 million in parking revenues in the Downtown Parking Garage Fund, an enterprise fund, from the operation of the garage at Pacific Place.

(9) LONG-TERM DEBT

GENERAL OBLIGATION BONDS

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

The original amount of general obligation bonds issued for bonds outstanding at the end of 2009 was $1.372 billion. The amount of bonds outstanding at December 31, 2009, was $834.4 million. The following paragraphs discuss the general obligation bonds issued during 2010. No outstanding general obligation bonds were defeased in 2010.

On March 31, 2010, the City issued the $201.9 million LTGO Improvement and Refunding Bonds, 2010. This issue consists of Series A, Build America Bonds, in the amount of $66.5 million with interest rates ranging from 4.0 percent to 5.0 percent maturing serially from August 1, 2010 through August 1, 2030; and Series B, tax-exempt bonds, in the amount of $135.4 million with interest rates ranging from 2.5 percent to 5.0 percent maturing serially from August 1, 2010 through August 1, 2031. The proceeds of these LTGO bonds are used to pay all or part of the costs of construction and acquisition of various City capital projects, including the Alaskan Way Viaduct, Tier-1 Storage Area Network, Pay Stations, King Street Station, Fire Stations, Golf, Pike Place Market Renovation, Bridge Rehabilitation, Bridge Seismic, Mercer Corridor-South Lake Union, Mercer Corridor West, Spokane Street Viaduct, and to partially refund $85.9 million of the 2001 LTGO Various Purpose Bonds and $30.3 million of the 2002 LTGO Improvement and Refunding Bonds. Further discussion on the refunding is shown in the Advance and Current Refundings section of this note.

The City had no short-term general obligation debt at the end of 2010.

The following table presents the individual general obligation bonds outstanding as of December 31, 2010, and other relevant information on each outstanding bond issue.

Table 9-1 **GENERAL OBLIGATION BONDS**

(In Thousands)

Name and Purpose of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Bond Issuance	Redemptions 2010	Redemptions To Date [a]	Bonds Outstanding December 31
LIMITED TAX GENERAL OBLIGATION (LTGO) BONDS - NON-VOTED							
Refunding - Various LTGO Bonds, 1998, Series B	03/17/98	09/01/98-12	4.493 %	$ 43,710	$ 3,005	$ 39,150	$ 4,560
Deferred Interest Parking Garage, 1998, Series E	11/12/98	12/15/01-14	4.714	13,042	1,226	8,579	4,463 [b]
Various Purpose - Civic Center, South Police Precincts, Training Facilities, Information Technology, Etc., 2001	08/21/01	08/01/02-31	4.908	129,760	89,305	126,180	3,580
Improvement (Various) and Refunding, 2002	01/30/02	07/01/02-32	4.778	125,510	34,475	89,585	35,925
Various Purpose and Refunding, 2003	02/26/03	08/01/04-23	3.469	60,855	1,045	52,145	8,710
Refunding, 2004	05/24/04	07/01/04-20	4.118	91,805	5,590	23,865	67,940
Various Purpose and Refunding, 2005	03/23/05	08/01/05-28	4.167	129,540	8,225	40,620	88,920
Various Purpose and Refunding, 2006	04/26/06	03/01/07-26	4.254	24,905	1,665	6,255	18,650
Various Purpose and Refunding, 2007	05/02/07	10/01/07-28	4.251	95,550	2,280	7,610	87,940
Various Purpose and Refunding, 2008	07/02/08	12/01/08-28	4.398	139,830	6,555	11,905	127,925
Various Purpose and Refunding, 2009	03/25/09	11/01/09-05/01/34	3.574	99,860	7,265	7,575	92,285
Improvement and Refunding, 2010, Series A [c]	03/31/10	08/01/10-30	4.394	66,510	-	-	66,510
Improvement and Refunding, 2010, Series B	03/31/10	08/01/10-31	4.394	135,395	510	510	134,885
Total Limited Tax General Obligation Bonds				1,156,272	161,146	413,979	742,293
UNLIMITED TAX GENERAL OBLIGATION (UTGO) BONDS - VOTED							
Refunding-Various UTGO Bonds, 1998, Series A	03/17/98	09/01/98-17	4.470	53,865	1,300	49,130	4,735
Improvement (Library Facilities) and Refunding, 2002	09/26/02	12/01/03-21	3.892	117,025	4,500	53,960	63,065
Refunding, 2007	05/02/07	12/01/07-18	3.886	60,870	5,555	7,175	53,695
Total Unlimited Tax General Obligation Bonds				231,760	11,355	110,265	121,495
Total General Obligation Bonds				$ 1,388,032	$ 172,501	$ 524,244	$ 863,788

[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] The accreted value of the outstanding bonds as of December 31, 2010, is $8,014,381. 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.

[c] Issued as direct-pay Build America Bonds, created under Section 1531 of the American Recovery and Reinvestment Act of 2009 whereby state or local governmental issuers of this type of bonds receives a federal subsidy through Treasury Department and the Internal Revenue Service in an amount equal to 35 percent of the total coupon interest payable to investors or buyers of the bonds.

The requirements to amortize the general obligation bonds as of December 31, 2010, are presented in the following table. Debt service for the LTGO bonds is met by transfers generally from the General Fund and certain special revenue funds and by reimbursements from proprietary funds of the City. Debt service for the UTGO bonds is covered by property tax levies that authorized the bond issues and were approved by at least 60 percent of the voters in elections in which the number of voters exceeded 40 percent of the voters in the most recent election preceding the election to vote on the bond issue.

Table 9-2 ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY

GENERAL OBLIGATION BONDS

(In Thousands)

Year Ending December 31	Governmental Activities Principal	Governmental Activities Interest	Business-Type Activities Principal	Business-Type Activities Interest	Total
2011	$ 58,770	$ 37,227	$ 1,247	$ 3,940	$ 101,184
2012	62,240	34,441	1,257	4,094	102,032
2013	60,705	31,576	1,262	4,259	97,802
2014	57,135	28,629	1,857	3,740	91,361
2015	51,085	26,075	2,950	2,823	82,933
2016 - 2020	243,110	110,863	20,175	11,558	385,706
2021 - 2025	191,355	40,796	31,330	5,438	268,919
2026 - 2030	65,860	9,973	2,015	200	78,048
2031 - 2034	11,435	761	-	-	12,196
Total	$ 801,695	$ 320,341	$ 62,093	$ 36,052	$ 1,220,181

SPECIAL ASSESSMENTS BONDS WITH GOVERNMENTAL COMMITMENT

The bonds are special fund obligations of the City, the debt service of which will be paid from collections from related local improvement district (LID) assessments levied against the benefited properties located within the boundaries of the LID. Though guaranteed by the City's LID Guaranty Fund, this type of special assessment bonds does not constitute an obligation of any political subdivision thereof other than the City, and neither the full faith and credit nor the taxing power of the City is pledged to the payment of the bonds. The amount of special assessment bonds outstanding at the end of 2010 was $15.7 million. There were no new bond issues in 2010.

The following table shows more detail on the outstanding issue.

Table 9-3 SPECIAL ASSESSMENT BONDS WITH GOVERNMENTAL COMMITMENT

(In Thousands)

Name of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Bond Issuance	Redemptions 2010	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	$ 1,970	$ 6,190	$ 15,735

The requirements to amortize the special assessments with governmental commitment as of December 31, 2010, are shown below.

Table 9-4 ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY

SPECIAL ASSESSMENT BONDS WITH GOVERNMENTAL COMMITMENT

(In Thousands)

Year Ending December 31	Principal	Interest	Total
2011	$ -	$ -	$ -
2012	1,130	43	1,173
2013	1,220	47	1,267
2014	1,220	47	1,267
2015	1,220	48	1,268
2016 - 2020	6,085	250	6,335
2021 - 2024	4,860	207	5,067
Total	$ 15,735	$ 642	$ 16,377

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 Commerce (formerly Department of Community, Trade, and Economic Development). The notes were drawn at varying low annual interest rates ranging from 0.5 percent to 3.0 percent. The proceeds of the loan support City road and bridge improvements. No additional amount was drawn against the notes in 2010 and the City paid $2.3 million and $0.3 million in principal and interest, respectively, in 2010. The outstanding balance on the notes at December 31, 2010, is $16.6 million. The following table presents the annual debt service requirements to maturity on the notes as of the end of 2010.

Table 9-5 **ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY**

SEATTLE DEPARTMENT OF TRANSPORTATION

PUBLIC WORKS TRUST LOAN NOTES

(In Thousands)

Year Ending December 31	Principal	Interest	Total
2011	$ 2,169	$ 278	$ 2,447
2012	2,070	237	2,307
2013	1,947	200	2,147
2014	1,698	166	1,864
2015	1,560	136	1,696
2016 - 2020	5,386	334	5,720
2021 - 2023	1,752	34	1,786
Total	$ 16,582	$ 1,385	$ 17,967

REVENUE BONDS

The City also issues revenue bonds to provide financing for the capital programs of the four utilities of the City, namely, City Light and the utilities grouped under Seattle Public Utilities, which are Water, Drainage and Wastewater, and Solid Waste. The City does not pledge its full faith and credit for the payment of debt service on revenue bonds. Payment of debt service on the bonds issued for each utility is derived solely from the revenues generated by the related utility. The original amount of revenue bonds issued for bonds outstanding at the end of 2009 was approximately $4.075 billion. The total outstanding amount at December 31, 2009, was $2.881 billion. During 2010 an additional $982.6 million of revenue and refunding bonds were issued.

City Light

On May 26, 2010, the City issued $791.8 million in Municipal Light and Power Revenue and Refunding Bonds, Series A, B, and C that bear interest at rates ranging from 2.0 percent to 5.6 percent and mature serially from February 1, 2011 to February 1, 2040. Series A, in the amount of $181.6 million was issued as taxable Build America Bonds while Series B in the amount of $596.9 million was issued as tax-exempt bonds. A third type, Series C with a par amount of $13.3 million, was issued as a taxable Recovery Zone Economic Development Bonds. Proceeds in the amount of $250.0 million in new money are to be used to finance certain capital improvements and conservation programs. The remaining proceeds of $541.8 million were used to advance refund certain higher-interest-bearing existing Municipal Light and Power parity bonds. Further discussion on the refunding is shown in the Advance and Current Refundings section of this note.

Water

On January 21, 2010, the City issued a total of $190.8 million in Water System Improvement and Refunding Revenue Bonds, Series A and B. With a par value of $109.1 million, Series A is taxable Build America Bonds with varying principal payments due beginning on August 1, 2019 and ending on August 1, 2040 at interest rates ranging from 4.7 percent to 5.9 percent. Series B, on the other hand, is tax- exempt revenue bonds with a par value of $81.8 million at interest rates ranging from 3.0 percent to 5.0 percent and varying annual principal payments due beginning on August 1, 2010 and ending on August 1, 2027. A portion of the proceeds from the issuance are being used for certain capital improvements projects and additions to the water system. The remaining proceeds were used to fully refund the 1998 Water Revenue Bonds. Further discussion on the refunding is shown in the Advance and Current Refundings section of this note.

The business-type funds had no short-term debt at December 31, 2010.

The following table presents the individual revenue bonds outstanding as of December 31, 2010, and other pertinent information on each outstanding bond issue.

Table 9-6 **REVENUE BONDS**

(In Thousands)

Name and Purpose of Issue	Issuance Date	Maturity Dates	Effective Interest Rates	Bond Issuance	Redemptions 2010	Redemptions To Date [a]	Bonds Outstanding December 31
MUNICIPAL LIGHT AND POWER (ML&P) BONDS							
1997 Parity	12/30/97	07/01/03-22	5.131	$ 30,000	$ 22,565	$ 30,000	$ -
1998 Parity, Series A, Refunding	01/27/98	07/01/98-20	4.884	104,650	77,325	104,650	-
1998 Parity, Series B	10/29/98	06/01/04-24	4.919	90,000	72,590	90,000	-
2000 Parity	12/27/00	12/01/06-25	5.298	98,830	86,475	98,830	-
2001 Parity	03/29/01	03/01/04-26	5.082	503,700	337,150	396,870	106,830
2002 Parity, Refunding	12/04/02	12/01/03-14	3.470	87,735	10,675	70,145	17,590
2003 Parity, Refunding	08/20/03	11/01/04-28	3.517	251,850	12,770	117,805	134,045
2004 Parity	12/23/04	08/01/05-29	4.159	284,855	9,285	40,120	244,735
2008 Parity	12/30/08	04/01/09-29	5.222	257,375	9,210	15,570	241,805
2010 Parity, Series A [b]	05/26/10	02/01/21-40	3.566	181,625	-	-	181,625
2010 Parity, Series B	05/26/10	02/01/11-26	3.413	596,870	-	-	596,870
2010 Parity, Series C [c]	05/26/10	02/01/11-40	3.112	13,275	-	-	13,275
Total Light Bonds				2,500,765	638,045	963,990	1,536,775
MUNICIPAL WATER BONDS							
1998 Parity	07/07/98	10/01/99-27	5.110	80,000	61,825	80,000	-
2001 Parity	11/20/01	11/01/05-31	4.972	52,525	1,260	6,895	45,630
2003 Parity, Refunding	05/12/03	09/01/03-33	4.083	271,320	8,145	77,080	194,240
2004 Parity	10/25/04	09/01/05-34	4.580	84,750	1,615	9,320	75,430
2005 Parity, Refunding	12/28/05	09/01/06-29	4.482	138,040	4,390	10,440	127,600
2006 Parity, Refunding	10/23/06	02/01/08-37	4.424	189,970	4,285	7,870	182,100
2008 Parity, Refunding	12/15/08	12/15/09-38	4.753	205,080	3,580	11,195	193,885
2010 Parity, Series A [b]	01/21/10	08/01/19-40	5.700	109,080	-	-	109,080
2010 Parity, Series B, Refunding	01/21/10	08/01/10-27	4.403	81,760	3,425	3,425	78,335
Total Water Bonds				1,212,525	88,525	206,225	1,006,300
MUNICIPAL DRAINAGE AND WASTEWATER BONDS							
2001 Parity	06/22/01	11/01/02-31	5.260	60,680	1,345	10,400	50,280
2002 Refunding	12/17/02	07/01/03-32	4.751	78,550	2,050	13,730	64,820
2004 Parity	10/28/04	09/01/05-34	4.609	62,010	1,235	6,575	55,435
2006 Refunding	11/01/06	02/01/07-37	4.180	121,765	3,565	9,940	111,825
2008 Parity	04/16/08	06/01/09-38	4.830	84,645	1,395	2,740	81,905
2009 Parity, Series A [b]	12/17/09	11/01/10-39	3.450	102,535	-	-	102,535
2009 Parity & Refunding, Series B	12/17/09	11/01/10-27	3.000	36,680	3,695	3,695	32,985
Total Drainage and Wastewater Bonds				546,865	13,285	47,080	499,785
SOLID WASTE BONDS							
2007 Revenue & Refunding	12/12/07	02/01/08-33	4.505	82,175	1,980	3,685	78,490
Total Utility Revenue Bonds				$ 4,342,330	$ 741,835	$ 1,220,980	$ 3,121,350

[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] Issued as taxable direct-pay Build America Bonds, created under Section 1531 of the American Recovery and Reinvestment Act of 2009 whereby state or local governmental issuers of this type of bonds receives a federal subsidy through Treasury Department and the Internal Revenue Service in an amount equal to 35 percent of the total coupon interest payable to investors or buyers of the bonds.

[c] Issued as taxable Recovery Zone Economic Development Bonds, a third type of Build America Bonds which provides for a deeper federal subsidy through a refundable tax credit paid to state or local governmental issuers in an amount equal to 45 percent of the total coupon interest payable to investors or buyers of the bonds.

The requirements to amortize the revenue bonds as of December 31, 2010, are presented below.

Table 9-7 **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
2011	$ 58,685	$ 83,148	$ 29,140	$ 49,412	$ 13,175	$ 24,083	$ 2,075	$ 3,773	$ 263,491
2012	83,865	73,257	31,425	48,104	13,695	23,589	2,185	3,667	279,787
2013	90,335	69,303	32,795	46,709	14,290	23,043	2,295	3,555	282,325
2014	91,565	65,011	34,240	45,252	14,935	22,456	2,415	3,437	279,311
2015	93,165	60,367	35,810	43,676	15,590	21,848	2,535	3,313	276,304
2016 - 2020	437,840	234,090	206,950	190,337	89,935	97,747	14,325	14,489	1,285,713
2021 - 2025	393,940	129,777	234,390	134,933	100,625	74,649	16,400	10,701	1,095,415
2026 - 2030	171,485	50,311	203,870	78,577	108,840	48,657	21,045	6,054	688,839
2031 - 2035	52,730	25,160	131,825	34,692	83,735	22,764	15,215	1,048	367,169
2036 - 2040	63,165	9,059	65,855	8,155	44,965	4,849	-	-	196,048
Total	$ 1,536,775	$ 799,483	$ 1,006,300	$ 679,847	$ 499,785	$ 363,685	$ 78,490	$ 50,037	$ 5,014,402

NOTES AND CONTRACTS PAYABLE – BUSINESS-TYPE ACTIVITIES

Seattle Public Utilities (SPU) has various construction projects that are financed by low-interest loans issued by the State of Washington. The loan agreements require that SPU finance a portion of these projects from other sources. SPU's Water Fund as well as its Drainage and Wastewater Fund have availed of these loans to enhance and protect the City's water, drainage, and wastewater systems.

Water

During 1993, the Fund entered into a loan agreement to borrow up to $2.2 million from the Washington State Department of Commerce 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. Proceeds from this loan were used to finance the Magnolia Manor Reservoir project. As of December 31, 2010, this loan has an outstanding balance of $0.4 million.

In 2008, the Fund entered into a loan agreement to borrow $8.1 million from the same program at 1.5 percent interest per year and a repayment period of 17 to 18 years. Proceeds from this loan were used to finance the Myrtle and Beacon Reservoir projects. As of December 31, 2010, this loan has an outstanding balance of $6.8 million.

In 2009, the Fund entered into a loan agreement to borrow $3.0 million from the same program at 1.5 percent per annum and payable in 18 years. Proceeds from this loan were used to finance the West Seattle Reservoir project. As of December 31, 2010, this loan has an outstanding balance of $2.7 million.

Also in 2009, the Fund entered into two loan agreements to borrow, totaling $9.1 million, from the same program to be used to finance the Maple Lead Reservoir project. The first loan, in the amount of $6.1 million, was funded with resources from the American Recovery and Reinvestment Act of 2009 (ARRA) at 1.0 percent annual interest and payable in 23 years. The second loan, in the amount of $3.0 million, bears interest of 1.5 percent per annum and a repayment period of 19 years. In 2010, drawdown from these two loans amounted to $8.6 million. As of December 31, 2010, these loans have an outstanding balance of $8.6 million.

Amounts paid for all loans in 2010 totaled $714,766 and $197,353 in principal and interest, respectively. The combined outstanding balance of the loans at December 31, 2010 is $18.5 million. The minimum debt service requirements to maturity are included in Table 9-8.

Drainage and Wastewater

During 2004, the Fund entered into a loan agreement to borrow up to $3.7 million from the Washington State Department of Commerce under its Public Works Trust Loan program for the construction of certain capital improvements. Amounts borrowed under the agreement accrue interest at 0.5 percent per annum and are to be repaid in 20 annual installments plus interest. Proceeds from this loan were used to finance the Thornton Creek Natural Drainage Systems. As of December 31, 2010, this loan has an outstanding balance of $2.7 million.

In 2005, the Fund entered into a loan agreement with the Washington State Department of Ecology under its Public Works Trust Loan program to borrow up to $2.7 million to support the construction of improvements of the High Point Natural Drainage Systems project. Amounts under this agreement accrue interest at 1.5 percent per annum and are to be repaid in 20 annual installments. As of December 31, 2010, the loan has an outstanding balance of $2.5 million.

In 2006, the Fund entered into a loan agreement with the Washington State Department of Commerce under its Public Works Trust Loan program to borrow up to $3.4 million to support the construction of the South Park Flood Control and Local Drainage program. Amounts borrowed under the agreement accrue interest at 0.5 percent per annum and are to be repaid over 20 years. As of December 31, 2010, the loan has an outstanding balance of $3.0 million.

In 2008, the Fund entered into a loan agreement with the Washington State Department of Ecology to borrow up to $7.0 million to support the 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 2010. As of December 31, 2010, the loan has an outstanding balance of $7.0 million.

In 2009, the Fund entered into a loan agreement with the Washington State Department of Ecology to borrow up to $1.4 million to support the Ballard Green Streets project. This loan was funded with resources from the ARRA which provides a 50-percent forgivable provision. In 2010, the Fund borrowed $0.7 million of which $0.4 million is forgivable. More draw downs are anticipated in the future. As of December 31, 2010, the loan has an outstanding balance of $0.4 million.

Amounts paid to all loans in 2010 totaled $533,467 in principal and approximately $53,000 in interest. Total loans outstanding as of December 31, 2010 are $15.6 million. The minimum debt service requirements to maturity are included in Table 9-8.

Table 9-8 **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
2011	$ 858	$ 183	$ 814	$ 210	$ 2,065
2012	858	316	887	174	2,235
2013	1,154	221	888	163	2,426
2014	1,036	206	885	153	2,280
2015	1,036	192	891	143	2,262
2016 - 2020	5,181	749	4,564	562	11,056
2021 - 2025	5,181	397	4,355	309	10,242
2026 - 2030	2,586	106	2,340	84	5,116
2031 - 2032	592	9	-	-	601
Total	$ 18,482	$ 2,379	$ 15,624	$ 1,798	$ 38,283

The following table shows the long-term liability activities during the year ended December 31, 2010.

Table 9-9 **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	$ 771,065	$ 201,905	$ 171,275	$ 801,695	$ 61,635
Add (Deduct) Deferred Amounts					
Issuance Premiums	27,624	13,384	3,746	37,262	-
Issuance Discounts	(2)	-	-	(2)	-
On Refunding	-	(7,893)	(3,830)	(4,063)	-
Special Assessment Bonds with Governmental Commitment [b]	17,705	-	1,970	15,735	-
Total Bonds Payable	816,392	207,396	173,161	850,627	61,635
Notes and Contracts					
Capital Leases	18	-	4	14	4
Other Notes and Contracts	18,854	-	2,272	16,582	2,168
Total Notes and Contracts	18,872	-	2,276	16,596	2,172
Compensated Absences	81,146	75,553	73,337	83,362	20,358
Claims Payable					
Workers' Compensation	22,274	9,908	6,903	25,279	8,333
General Liability	59,053	8,884	6,973	60,964	16,513
Health Care Claims	3,648	3,683	3,647	3,684	3,684
Environmental Liability [c]					
General Contamination Cleanup	-	797	-	797	-
Total Claims Payable [d]	84,975	23,272	17,523	90,724	28,530
Arbitrage Rebate Liability	205	-	129	76	76
Total Long-Term Liabilities from Governmental Activities	$ 1,001,590	$ 306,221	$ 266,426	$ 1,041,385	$ 112,771
BUSINESS-TYPE ACTIVITIES					
Bonds Payable					
General Obligation Bonds	$ 63,319	$ -	$ 1,226	$ 62,093	$ 1,247
Revenue Bonds	2,880,575	982,610	741,835	3,121,350	103,075
Add (Deduct) Deferred Amounts					
Issuance Premiums	70,794	61,387	11,326	120,855	-
Issuance Discounts	(1,671)	(81)	(548)	(1,204)	-
On Refunding	(49,200)	(18,605)	(13,660)	(54,145)	-
Total Bonds Payable	2,963,817	1,025,311	740,179	3,248,949	104,322
Accrued Interest - Deferred Interest Bonds	4,005	471	924	3,552	1,058
Notes and Contracts - Other	23,861	11,494	1,248	34,107	1,672
Compensated Absences	28,001	31,166	30,255	28,912	2,922
Claims Payable					
Workers' Compensation	8,590	3,423	2,344	9,669	3,187
General Liability	21,052	5,099	4,302	21,849	5,918
Environmental Liability [c]					
General Contamination Cleanup	44,371	11,304	12,115	43,560	11,022
Total Claims Payable [d]	74,013	19,826	18,761	75,078	20,127
Muckleshoot Liability	495	-	-	495	-
Habitat Conservation Program Liability	9,423	-	5,111	4,312	527
Landfill Closure and Postclosure Costs	25,260	-	4,606	20,654	1,292
Total Long-Term Liabilities from Business-Type Activities	$ 3,128,875	$ 1,088,268	$ 801,084	$ 3,416,059	$ 131,920

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

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

[c] See Note 10, Environmental Liabilities for a detailed discussion.

[d] See Note 15, Contingencies, for a discussion of risk management, environmental, and other matters. The table in Note 15 also includes information on workers' compensation and health care.

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 $3.7 million and $1.7 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 governmental activity funds are paid from the governmental funds while environmental liabilities of business-type activity funds are paid respectively from the utility funds. Purchased power obligations are obligations of City Light and therefore paid from the Light Fund. For further discussion on purchased power, see Note 14, Commitments.

ADVANCE AND CURRENT REFUNDINGS

In order to lower interest costs the City refunded and defeased certain bonds. To do so, the City issued new refunding bonds to refund certain prior bond issues and also used its own resources to defease certain prior bond issues. In most cases, City resources and the proceeds of refunding bonds are placed in irrevocable trusts for the purchase of federal, state, and local government securities to provide for all future debt service on the old bonds. As a result, the old bonds including those refunded are considered defeased, and the corresponding liabilities are not included in the statement of net assets. In some cases, like for City Light and Water bonds in the past three years, proceeds are kept with the City as restricted cash until the refunded bonds are called, usually within 90 days. The following paragraphs discuss the advance and current refundings that occurred in 2010.

The refunding portion of the $201.9 million LTGO Improvement and Refunding Bonds, 2010, issued by the City on March 31, 2010, in the amount of $115.2 million were used to partially refund $85.9 million of the 2001 LTGO Various Purpose Bonds and $30.3 million of the 2002 LTGO Improvement and Refunding Bonds. The aggregate total debt service on the refunded bonds requires a cash flow of $181.7 million, including $65.5 million in interest. The aggregate total debt service on the refunding bonds requires a cash flow of $167.2 million, including interest of $52.0 million. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled approximately $14.5 million, and the aggregate economic gain amounted to approximately $10.8 million at net present value.

Part of the proceeds totaling $541.8 million of the $596.9 million Series B 2010 Municipal Light and Power Revenue and Refunding Revenue Bonds were used to advance refund higher-interest-bearing Municipal Light and Power parity bonds, Series 1997, 1998A, 1998B, 2000, and 2001, with a combined principal of $570.7 million. The aggregate total debt service on the refunded bonds requires a cash flow of $817.6 million, including $246.9 million in interest. The aggregate total debt service on the refunding bonds requires a cash flow of $760.1 million, including interest of $218.3 million. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled approximately $57.5 million, and the aggregte economic gain amounted to approximately $51.8 million at net present value.

The Water Sytem Improvement and Refunding Revenue Bonds, 2010, Series B, issued on January 21, 2010, in the amount of $81.8 million refunded the remaining portion of the 1998 Water Revenue Bonds, totaling $61.8 million. The aggregate total debt service on the refunded bonds requires a cash flow of $95.4 million, including interest of $33.6 million. The aggregate total debt service on the refunding bonds requires a cash flow of $85.9 million, including interest of $26.8 million. The difference between the cash flows required to service the old and the new debt and complete the refunding totaled approximately $9.5 million, and the aggregte economic gain amounted to approximately $6.7 million at net present value.

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

Table 9-10 **REFUNDED/DEFEASED BONDS**

(In Thousands)

Name of Issue	Issuance Date	Maturity Date	Effective Interest Rate	Original Bond Issuance	Amount Transferred To Trustee	Trustee Redemptions To Date 2010	Defeased Outstanding December 31
GENERAL OBLIGATION BONDS							
Limited Tax (Non-Voted)							
Refunding - Various LTGO Bonds, 1998, Series B, Defeased 9/26/05	03/17/98	09/01/98-12	4.493 %	$ 43,710	$ 620	$ 420	$ 200
Improvement (Various), 2001, Refunded 3/31/10	08/21/01	08/01/02-31	4.908	129,760	85,890	-	85,890
Improvement (Various) and Refunding, 2002, Defeased 9/26/05	01/30/02	07/01/02-32	4.778	125,510	8,470	2,935	5,535
Improvement (Various) and Refunding, 2002, Refunded 3/31/10					30,275	-	30,275
Various Purpose and Refunding, 2002, Series B Defeased 12/17/08	09/26/02	10/01/03-14	3.127	64,560	24,730	7,660	17,070
Various Purpose and Refunding, 2003, Defeased 4/4/07	02/26/03	08/01/04-23	3.469	60,855	2,715	530	2,185
Various Purpose and Refunding, 2003, Defeased 8/30/07					3,180	450	2,730
Various Purpose and Refunding, 2003, Defeased 12/17/08					6,480	1,920	4,560
Various Purpose and Refunding, 2005, Defeased 12/17/08	03/23/05	08/01/05-28	4.167	129,540	775	775	-
REVENUE BONDS							
Municipal Light and Power							
1997 Parity	12/30/97	07/01/03-22	5.131	30,000	22,565	22,565	-
1998 Parity, Series A, Refunding	01/27/98	07/01/98-20	4.884	104,650	77,325	77,325	-
1998 Parity, Series B	10/29/98	06/01/04-24	4.919	90,000	72,590	72,590	-
2000 Parity	12/27/00	12/01/06-25	5.298	98,830	86,475	86,475	-
2001 Parity	03/29/01	03/01/04-26	5.082	503,700	311,730	-	311,730
Municipal Water							
1998 Parity	07/07/98	10/01/99-27	5.110	80,000	61,825	61,825	-
Drainage and Wastewater							
1998 Parity	06/11/98	11/01/10-27	5.122	24,170	18,395	18,395	-
Total Refunded/Defeased Bonds				$ 1,485,285	$ 814,040	$ 353,865	$ 460,175

ARBITRAGE

Since 1995 the City has been reviewing arbitrage rebate liability on its outstanding tax-exempt bonds and certificates of participation under Section 148(f) of the Internal Revenue Code. For bonds that have reached their installment computation dates (bonds outstanding for five years initially and every five years thereafter until the last of the bond issue matures), the City paid no arbitrage rebate in 2009 and in 2010 on its general obligation bonds and revenue bonds. At the end of 2010, the City recognized approximately $76,000 in estimated arbitrage liability on the general obligation bonds and none on the revenue bonds.

(10) ENVIRONMENTAL LIABILITIES

Following is a brief description of the significant sites:

- The Harbor Island Superfund Site. Harbor Island was designated as a federal Superfund site by the Environmental Protection Agency (EPA) in 1983. The City and other entities are sharing costs of investigating contamination in the East Waterway alongside Harbor Island. The City's involvement stems from its sale of transformers to a company on Harbor Island, discharges from storm drains, and combined sewer outflows. In 2006 the EPA issued an Administrative Order on Consent (AOC) for a supplemental Remedial Investigation and Feasibility Study (RI/FS). Subsequent to an agreement between the EPA, the Port of Seattle (Port), King County, and the City, the

Port alone signed the order. Both the City and King County signed a Memorandum of Agreement with the Port to participate as cost share partners in the work required by the EPA. No specific requirements for remediation by Potentially Responsible Parties (PRPs) have been made by the EPA as of the date of this note. The Remedial Investigation is anticipated to be completed by 2014.

- 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, except those related to specific early action sites. In order to manage the liability, the City is working with the EPA and other PRPs on a RI/FS to evaluate the risk to human health and the environment within the six-mile Superfund area, identify the possible early action cleanup sites, and generally evaluate the feasibility of cleanup options for use in the ultimate remedial actions that the EPA will require. The Remedial Investigation document has been completed and the draft Feasibility Study was submitted to the EPA at the end of 2010. The EPA will likely complete their proposed plan in 2012 followed by a Record of Decision in 2013. The City and other PRPs have voluntarily agreed to initiate cleanup of two early action sites identified during the Remedial Investigation under AOC for Slip 4 and T-117. The City filed suit in King County Superior Court against the Boeing Company to require Boeing to pay its fair share of costs. The case settled in 2010 with Boeing paying part of the City's past costs and agreeing to pay a specific percentage of future costs related to the cleanup.

- North Boeing Field/Georgetown Steam Plant. The City, King County, and Boeing have signed an Administrative Order by the DOE requiring them to pay for DOE's investigation and possible removal of contamination in an area that encompasses North Boeing Field, the Georgetown Steam Plant, and the King County Airport. The three potentially liable parties have agreed to share costs equally on an interim basis for the current investigative phase. The contaminated areas will be cleaned up after the investigative phase, Boeing agreed to pay a specific percentage of DOE's costs and all costs for work on the property it uses, except Georgetown Steam Plant for which the City Light will bear the entire costs for cleanup.

- Gas Works Park Sediment Site. In 2002 the DOE named the City and Puget Sound Energy (PSE) as PRPs for contamination at the Gas Works Sediments Site in North Lake Union. The City and PSE signed an Agreed Order with the DOE in 2005 to initiate a City-led RI/FS in the western portion of the site and a PSE-led RI/FS in the eastern portion. The City is now working to complete the RI/FS for the western portion for submittal to the DOE. The RI/FS includes an evaluation of the nature and extent of contamination on the site, an evaluation of multiple alternatives for remediating the sediments, and a recommended preferred alternative. A Clean-up Action Plan is expected from the DOE in 2012 or 2013.

- 7th Avenue South Pump Station. The City acquired land in the South Park area of Seattle to construct the 7th Avenue South Pump Station. The land was determined to be contaminated subsequent to the purchase. The City has voluntarily agreed to clean up the contamination in order to continue with the planned construction of the pump station. The cleanup is anticipated to be completed in 2011.

- South Park. The DOE has indicated that it will require the cleanup and remediation of the historic South Park landfill sites under the State Model Toxics Control Act. No specific requirements for remediation by PRPs have been made by the DOE as of the date of this note. In order to manage the liability, the City is working with the DOE and other PRPs on a RI/FS to evaluate the risk to human health and the environment and to assess the feasibility of cleanup options for use in the ultimate remedial actions that the DOE may require. The RI/FS is anticipated to be completed in late 2011 or 2012.

- 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 remedial action was substantially completed in 2010.

- Maple Leaf Reservoir. In 2009, contaminated soils were discovered during the reconstruction of the Maple Leaf Reservoir. The City entered into the DOE's Voluntary Cleanup Program. The cleanup of Maple Leaf Reservoir's lead-contaminated soils occurred under the supervision of the DOE and was completed in 2009. No liability was recorded because the cleanup work was essentially complete. The City received a "No Further Action" determination from DOE.

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

The City is aggressively pursuing other third parties that may have contributed to the contamination of the sites noted above. The City's estimate for not-yet-realized recoveries from other parties for their share of remediation work that offset the City's estimated environmental liability was $1.7 million and $2.4 million, at December 31, 2010 and 2009, respectively.

The changes in the provision for environmental liability, net of recovery (in thousands) at December 31, 2010 and 2009 are as follows:

	2010	Restated 2009
Environmental Liability – Beginning of Year	$ 44,371	$ 34,701
Payments or Amortization	(12,115)	(8,911)
Incurred Environmental Liability	12,101	18,581
Environmental Liability – End of Year	$ 44,357	$ 44,371

The provision for environmental liability (in thousands) included in current and noncurrent liability at December 31, 2010 and 2009, is as follows:

	2010	Restated 2009
Claims Payable, Current	$ 11,022	$ 12,373
Claims Payable, Noncurrent	33,335	31,998
Total	$ 44,357	$ 44,371

Information on the City's environmental liability is also presented in Note 9, Long-Term Debt, Table 9-9.

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

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

Table 11-1 **PENSION PLAN INFORMATION**

	Employees' Retirement	Firemen's Pension	Police Relief and Pension	LEOFF Plan 1	LEOFF Plan 2
Actuarial Valuation Date	1/1/2011	1/1/2011	1/1/2011	6/30/2009	6/30/2009
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Aggregate [a]
Asset Valuation Method	5-Year Smoothing Method	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	Does Not Amortize [d]	27.0 years	27.0 years	14.5 years	N/A
Approach	Open	Closed	Closed	Closed	N/A
Actuarial Assumptions					
Inflation Rate (CPI)	3.50%	2.50% [e]	2.50% [e]	3.50%	3.00%
Investment Rate of Return	7.75%	4.00%	4.00%	8.00%	8.00%
Projected Salary Increases - General	4.00%	3.50% [e]	3.50% [e]	4.00%	4.50%
Projected Salary Increases - Step Merit	N/A	N/A	N/A	Varies [f]	Varies [f]
Postretirement Benefit Increases	1.50%	Varies [g]	Varies [g]	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] In 2011, the contribution rate (18.06%) is below the ARC computed January 1, 2011 actuarial valuation of 21.3%. If the contribution rate and ARC were to remain at these levels, the UAAL would not fully amortize in less than 30 years.

[e] Long-term assumption is listed. Specific short-term assumptions are used through 2010.

[f] For specific information, please refer to the 2009 Actuarial Valuation Report issued by the Washington Office of the State Actuary.

[g] 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, 2010:

Retirees and Beneficiaries Receiving Benefits	5,428
Terminated Plan Members Entitled To But Not Yet Receiving Benefits, Vested	1,649
Terminated Plan Members Who Have Restored Their Contributions Due to the Provisions of the Portability Statutes and May Be Eligible for Future Benefits, Vested	349
Active Plan Members, Vested and Non-vested	8,599

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 credited 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 an independent financial report. A copy of the report is available from the Seattle City Employees' Retirement System at 720 Third Avenue, Suite 900, Seattle, WA 98104; by telephone at 206-386-1293; or by accessing the website 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 securities 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 is determined by the investment sponsor. Securities and securities lending transactions are reflected in the financial statements on a trade-date basis. The Retirement Board provides its investment managers with a set of investment guidelines. In general, these guidelines require that investments with any one issuer do not exceed 5 percent of the net asset value of a manager's portfolio.

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 Actuarial 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 for 2010 were 8.03 percent for members and 8.03 percent for the employer. Plan member and employer contributions for 2010 are $45,364,624 and $45,224,787, respectively. There are no long-term contracts for contributions outstanding and no legally required reserves.

Historically, actuarial studies for SCERS were determined through biennial actuarial valuations. Commencing with the year ending December 31, 2010, actuarial studies are being performed annually. Based on this valuation, the actuarial value of plan net assets available for benefits was $2.014 billion, and the actuarial accrued liability was $2.709 billion. The unfunded actuarial accrued liability (UAAL) was $695.4 million and the funding ratio was 74.3 percent. The funding ratio had been 62.0 percent, based on the previous January 1, 2010 actuarial valuation. The increase in the current funding ratio is due mainly to the adoption of the asset smoothing method.

The three-year trend information (in thousands) presented directly below and the annual pension cost and net pension obligation data in Table 11-2 cover the years 2008-2010.

Fiscal Year Ending December 31	Annual Pension Cost (APC)	Total Employer Contribution	Percentage of APC Contributed	Net Pension Obligation (NPO)
2008	$ 46,245	$ 45,961	99 %	$ (78,149)
2009	46,933	46,650	99	(77,866)
2010	93,924	45,225	48	(29,167)

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
2010	$95,744	$(6,034)	$4,214	$93,924	$45,225	$48,699	$(77,866)	$(29,167)

Seattle City Employees' Retirement System's net pension asset decreased from $77.9 million to $29.2 million, a decrease of $48.7 million as calculated in the following table.

Table 11-2 **ANNUAL PENSION COST AND NET PENSION OBLIGATION**

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM

For the Year Ended December 31, 2010

(In Thousands)

	2010	2009
Total Normal Cost Rate	15.23 %	13.32 %
Employee Contribution Rate	8.03	8.03
Employer Normal Cost Rate	7.20	5.29
Total Employer Contribution Rate	8.03 %	8.03 %
Amortization Payment Rate	0.83	2.74
Amortization Period (Year)	Does Not Amortize [a]	16.20
GASB 27 Amortization Rate	9.80	2.74
Total Annual Required Contribution (ARC) Rate [b]	17.00	8.03
Covered Employee Payroll [c]	$ 563,198	$ 580,948
ARC	$ 95,744	$ 46,650
Interest on Net Pension Obligation (NPO)	(6,034)	(6,056)
Adjustment to ARC	4,214	6,339
Annual Pension Cost (APC)	$ 93,924	$ 46,933
Employer Contribution	$ 45,225	$ 46,650
Change in NPO	$ 48,699	$ 283
NPO at Beginning of Year	(77,866)	(78,149)
NPO at End of Year	$ (29,167)	$ (77,866)

[a] In 2011, the contribution rate (18.06%) is below the ARC computed January 1, 2011 actuarial valuation of 21.3%. If the contribution rate and ARC were to remain at these levels, the UAAL would not fully amortize in less than 30 years.

[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.

Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
$2,013,700	$2,709,000	$695,400	74.3%	$563,197	123.5%

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

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

FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS

Plan Description

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

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

All law enforcement officers and fire fighters of the City who served before March 1, 1970, are participants of these pension plans, and may be eligible for a supplemental retirement benefit plus disability benefits under these plans. Those officers and fire fighters hired between March 1, 1970, and September 30, 1977, are not eligible for a supplemental retirement benefit, but may be eligible for disability benefits under this plan. Eligible law enforcement officers may retire with full benefits after 25 years of service at any age and fire fighters at age 50 after completing 25 years of service. These pension plans provide death benefits for eligible active and retired employees. In addition, these plans provide medical benefits in accordance with state statutes and City ordinances to active and retired members from the City. Currently 931 fire and 990 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 $10.4 million in 2010 and $9.1 million in 2009; and for Police Relief and Pension, $12.0 million in 2010 and $11.9 million in 2009.

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, 2010:

	Firemen's Pension	Police Relief and Pension
Retirees and Beneficiaries Receiving Benefits	828	838
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	-	-
Active Plan Members, Vested	47	38
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 transactions or events occur. Employer contributions are reported in the period in which the contributions are due. Member benefits, including refunds, are due and payable by the plan in accordance with the plan terms.

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

Contributions and Reserves

Since both pension plans were closed to new members effective October 1, 1977, the City is not required to adopt a plan to fund the actuarial accrued liability (AAL). An actuarial fund was established for the Firemen's Pension in July 1994 and is discussed in more detail below; the City funds the Police Relief and Pension Fund as benefits become due. Contributions are no longer required from plan members or the City departments they represent. Under state law, partial funding of the Firemen's Pension Fund may be provided by an annual tax levy of up to \$0.225 per \$1,000 of assessed value of all taxable property of the City. The Firemen's Pension Fund also receives a share of the state tax on fire insurance premiums. Additional funding through the General Fund adopted budget is provided to both pension funds as necessary. The Police Relief and Pension Fund also receives police auction proceeds of unclaimed property. Administrative costs for the Firemen's Pension are financed by the General Fund and fire insurance premium tax. Administrative costs for the Police Relief and Pension are financed by police auction proceeds and the General Fund. Contribution rates are not applicable to these plans.

Three-year trend information (in thousands) for the Firemen's Pension and the Police Relief and Pension Funds as of the January 1, 2011, 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	2008	$ 10,662	141 %	$ (3,465)
	2009	8,320	137	(6,566)
	2010	8,098	90	(5,723)
Police Relief and Pension Fund	2008	9,224	105	1,398
	2009	8,343	95	1,803
	2010	7,872	125	(167)

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 AAL.

	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	$11,430	$126,794	$115,364	9.0%	N/A	N/A
Police Relief and Pension Fund	1,105	137,497	136,392	1.0	N/A	N/A

In July 1994 the City adopted a funding policy under Ordinance 117216 that is designed to fully fund the AAL of the Firemen's Pension Fund by the year 2018 plus additional contributions, if necessary, to fund benefit payments in excess of contributions to fully fund all retirement benefit liabilities by December 31, 2018. In 2006 the Board of Directors amended the fully funded date from 2018 to December 31, 2023. The level contributions were set aside in the Firemen's Pension Actuarial Account with a fund balance of $9.6 million as of December 31, 2010. 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, 2010, based on the actuarial valuation as of January 1, 2011, was $126.8 million for Firemen's Pension and $137.5 million for Police Relief and Pension. The Police Relief and Pension AAL is funded on a pay-as-you-go basis. Annual requirements are funded through the City's adopted budget, and any budget requirements exceeding the adopted budget are fully covered by supplemental appropriations.

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

The net pension obligation of the Firemen's Pension Fund is a $5.7 million net pension asset at December 31, 2010. The net pension obligation of the Police Relief and Pension Fund is a $0.2 million net pension asset at December 31, 2010.

Table 11-3 **ANNUAL PENSION COST AND NET PENSION OBLIGATION**

FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS

For the Year Ended December 31, 2010

(In Thousands)

	Firemen's Pension			Police Relief and Pension		
	2010	2009	2008	2010	2009	2008
Annual Required Contribution (ARC)						
Annual Normal Cost - Beginning of Year	$ -	$ -	$ -	$ -	$ -	$ -
Amortization of UAAL - Beginning of Year	7,668	7,909	10,153	7,602	8,005	8,797
Interest to End of Year	307	356	520	304	360	451
ARC at End of Year	7,975	8,265	10,673	7,906	8,365	9,248
Interest on NPO	(263)	(156)	46	72	63	97
Adjustment to ARC	386	211	(57)	(106)	(85)	(121)
Annual Pension Cost (APC)	8,098	8,320	10,662	7,872	8,343	9,224
Employer Contribution	7,255	11,421	15,027	9,842	7,938	9,723
Change in NPO	843	(3,101)	(4,365)	(1,970)	405	(499)
NPO at Beginning of Year	(6,566)	(3,465)	900	1,803	1,398	1,897
NPO at End of Year	$ (5,723)	$ (6,566)	$ (3,465)	$ (167)	$ 1,803	$ 1,398

Following are the Firemen's Pension and the Police Relief and Pension financial statements for fiscal year ending December 31, 2010.

Table 11-4

STATEMENT OF NET ASSETS
FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS
December 31, 2010
(In Thousands)

	Firemen's Pension	Police Relief and Pension	2010	2009
ASSETS				
Cash and Equity in Pooled Investments	$ 13,098	$ 3,052	$ 16,150	$ 16,241
Investments at Fair Value				
U.S. Government Obligations	9	-	9	-
Receivables				
Employer - Other	1	4	5	9
Interest and Dividends	7	-	7	-
Total Receivables	8	4	12	9
Total Assets	13,115	3,056	16,171	16,250
LIABILITIES				
Refunds Payable and Other	1,684	1,952	3,636	2,697
Total Liabilities	1,684	1,952	3,636	2,697
Net Assets Held in Trust for Pension Benefits	$ 11,431	$ 1,104	$ 12,535	$ 13,553

Table 11-5

STATEMENT OF CHANGES IN PLAN NET ASSETS
FIREMEN'S PENSION AND POLICE RELIEF AND PENSION FUNDS
For Year Ended December 31, 2010
(In Thousands)

	Defined Benefit		Postemployment Healthcare			
	Firemen's Pension	Police Relief and Pension	Firemen's Pension	Police Relief and Pension	2010	2009
ADDITIONS						
Contributions						
Employer	$ 7,921	$ 10,364	$ 10,477	$ 12,052	$ 40,814	$ 41,496
Investment Income						
From Investment Activities						
Net Appreciation (Depreciation) in Fair Value of Investments	(75)	-	-	-	(75)	(21)
Interest	98	-	-	-	98	165
Total Net Investment Income	23	-	-	-	23	144
Total Additions	7,944	10,364	10,477	12,052	40,837	41,640
DEDUCTIONS						
Benefits	9,121	9,017	10,477	12,052	40,667	38,915
Administrative Expense	666	522	-	-	1,188	1,093
Total Deductions	9,787	9,539	10,477	12,052	41,855	40,008
Change in Net Assets	(1,843)	825	-	-	(1,018)	1,632
Net Assets - Beginning of Year	13,274	279	-	-	13,553	11,921
Net Assets - End of Year	$ 11,431	$ 1,104	$ -	$ -	$ 12,535	$ 13,553

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

Plan Description

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

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

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to Plans 1 and Plan 2 accrue interest at a rate specified by DRS. During fiscal year 2010 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 July 26, 2009:

- House Bill 1551 extends eligibility for an unreduced benefit to survivors of members who leave an employer and die during a period of war while honorably serving in the National Guard or military reserves. It applies to Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), School Employees' Retirement System (SERS), Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), Washington State Patrol Retirement System (WSPRS), and Public Safety Employees' Retirement System (PSERS).

- House Bill 1616 gives domestic partners of LEOFF Plan 2 members the same pension rights and options as spouses.

Effective March 17, 2010:

- Senate Bill 6546 provides that the Director of Fire Protection, who was previously a member of LEOFF Plan 2, now has the choice to continue membership in LEOFF Plan 2 while employed in this role. This position is otherwise covered by PERS.

Effective June 10, 2010:

- House Bill 1679 provides that the payment of medical insurance premiums for qualifying LEOFF Plan 2 and WSPRS members who are catastrophically disabled in the line of duty, and their spouses and dependent children will now be made for LEOFF Plan 2 members and for WSPRS members.

- House Bill 2196 provides that PERS Plan 1 members who retired on or after January 1, 1998, can use any service transferred from LEOFF Plan 1 to qualify for military service credit at no cost.

- House Bill 2519 gives additional benefits are provided to survivors of police officers, fire fighters, and state patrol officers killed in the line of duty.

- Senate Bill 6453 provides that shared leave can now be treated as reportable compensation for LEOFF Plan 2 members. Earnings can be used in the calculation of a member's benefit and service credit will be earned according to hours reported.

Effective January 1, 2014:

- Engrossed Second Substitute Senate Bill 5688 provides that domestic partners registered with the state will be treated the same as married spouses, to the extent that treatment is not in conflict with federal law. The bill's effective date is January 1, 2014.

There were no other material changes in benefit provisions for the fiscal year ended June 30, 2010. LEOFF pension benefit provisions have been established by RCW 41.26.

There are 69 participating employers in LEOFF Plan 1 and 372 participating employers in Plan 2 as of June 30, 2010. Membership in LEOFF consisted of the following as of the latest actuarial valuation date of June 30, 2009:

	Plan 1	Plan 2
Retirees and Beneficiaries Receiving Benefits	8,087	1,367
Terminated Members Entitled To But Not Yet Receiving Benefits	2	672
Active Plan Members, Vested	356	13,007
Active Plan Members, Nonvested	-	3,944
Total	8,445	18,990

All law enforcement officers and fire fighters of the City of Seattle participate in LEOFF. Current active members (vested and non-vested) are 87 under Plan 1 and 2,262 under Plan 2.

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

Summary of Significant Accounting Policies

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

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from national security exchanges and security pricing services or by the respective fund managers for securities that are not actively traded. Privately held mortgages are valued at cost which approximates fair market value. Certain pension trust fund investments, including real estate and private equity, are valued based on appraisals or by independent advisors. LEOFF pension plans contain no single investment (other than any issued or explicitly guaranteed by the U.S. government, or involving mutual funds or investment pools) that comprised more than five percent of DRS's net investments at the end of fiscal year 2010.

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 2010 are as follows:

	LEOFF Actual Contribution Rates	
	Plan 1	Plan 2
Employer (includes an administrative expense rate of 0.16 percent)	0.16 %	5.24 %
Employee	-	8.62
State of Washington Contributions	-	3.38

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 2010 the state contributed $51.4 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
2008	$ -	N/A	$ 102.1	117 %
2009	-	N/A	105.3	122
2010	-	N/A	112.2	114

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
2008	$ 15	$ 10,649
2009	15	11,520
2010	14	12,061

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, 2010	June 30, 2009
Plan 1	$ 50,199	$ 56,053
Plan 2	1,704,680	1,542,388

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, 2010	June 30, 2009
Plan 1	$ 4,534,925	$ 4,298,667
Plan 2	3,376,726	2,766,301

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

DEFERRED COMPENSATION PLAN

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

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

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

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

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

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description and Funding Policy

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

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

Annual OPEB Cost and Net OPEB Obligation

The amount of expected contributions and change in net obligation for the City of Seattle Healthcare Blended Premium Subsidy is based on an actuarial valuation date of January 1, 2010; this valuation is performed on alternate years. The actuarial valuation date of January 1, 2010 also included disclosure information for 2009 which was based on the January 1, 2008 valuation. The amount of expected contributions and changes in net obligation for Firemen's Pension and Police Pension and Relief are based on an actuarial valuation date of January 1, 2011.

Table 11-6 **ANNUAL OPEB COST AND NET OPEB OBLIGATION**

	Healthcare Blended Premium Subsidy	Firemen's Pension (LEOFF1)	Police Relief and Pension (LEOFF1)	Total
Annual Required Contribution	$ 10,709,000	$ 14,886,043	$ 16,180,409	$ 41,775,452
Interest on Net OPEB Obligation	898,000	447,600	327,320	1,672,920
Adjustment to Annual Required Contribution	(1,239,000)	(658,903)	(481,842)	(2,379,745)
Annual OPEB Cost (Expense)	10,368,000	14,674,740	16,025,887	41,068,627
Expected Contribution (Employer-Paid Benefits)	3,202,000	10,476,744	12,051,575	25,730,319
Increase in Net OPEB Obligation	7,166,000	4,197,996	3,974,312	15,338,308
Net OPEB Obligation – Beginning of Year	20,446,000	11,189,996	8,183,007	39,819,003
Net OPEB Obligation – End of Year	$ 27,612,000	$ 15,387,992	$ 12,157,319	$ 55,157,311

The City's annual OPEB cost, percentage of annual OPEB cost contributed, and the net OPEB obligation for each plan based on an actuarial valuation of January 1, 2010, for Healthcare Blended Premium Subsidy and January 1, 2011, for Firemen's Pension (LEOFF1) and Police Relief and Pension (LEOFF1) are displayed below for the current and latest two years. The January 1, 2010 valuation for the Healthcare Blended Premium Subsidy also included disclosure information for January 1, 2009 based on the January 1, 2008 valuation.

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Healthcare Blended Premium Subsidy	12/31/2008	$ 8,628,329	26.1%	$ 14,353,000
	12/31/2009	9,047,000	32.7	20,446,000
	12/31/2010	10,368,000	30.9	27,612,000
Firemen's Pension (LEOFF1)	12/31/2008	13,250,373	64.0	6,344,860
	12/31/2009	13,996,040	65.0	11,189,996
	12/31/2010	14,674,740	71.0	15,387,992
Police Relief and Pension (LEOFF1)	12/31/2008	14,002,767	81.0	4,899,757
	12/31/2009	15,174,858	78.0	8,183,007
	12/31/2010	16,025,887	75.0	12,157,319

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. The January 1, 2010 valuation for the Healthcare Blended Premium Subsidy also included disclosure information for 2009 based on the January 1, 2008 valuation. The funded status for the Police Relief and Pension (LEOFF1) AAL and UAAL was adjusted 1.9 percent in 2009 due to a change in assumption for the long-term-care model; the 2010 amount was adjusted upward 0.003 percent. Following is the funded status (in thousands) for each of the plans for the last three years:

	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	1/1/2008	-	$78,816	$78,816	-	$837,142	9.4%
	1/1/2009	-	84,096	84,096	-	903,263	9.3
	1/1/2010	-	93,519	93,519	-	869,116	10.8
Firemen's Pension (LEOFF1)	1/1/2009	-	221,915	221,915	-	N/A	N/A
	1/1/2010	-	242,493	242,493	-	N/A	N/A
	1/1/2011	-	241,443	241,443	-	N/A	N/A
Police Relief and Pension (LEOFF1)	1/1/2009	-	240,113	240,113	-	N/A	N/A
	1/1/2010	-	264,219	264,219	-	N/A	N/A
	1/1/2011	-	261,040	261,040	-	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 11-7 **OPEB INFORMATION**

Description	Healthcare Blended Premium Subsidy	Firemen's Pension (LEOFF1)	Police Relief and Pension (LEOFF1)
Actuarial Valuation Date	1/1/2010	1/1/2011	1/1/2011
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	26 years	26 years
Records and Data	City records	Supplied by the City	Supplied by the City
Replacement of Terminated Employees	Open to new retirees	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	4.39%	4.0%	4.0%
Medical Inflation		7.8%, grading down to 4.7% in 2081 and beyond.	7.8%, grading down to 4.7% in 2081 and beyond.
Traditional and Preventive Plans	10.0%, decreasing by 0.5% each year for 10 years until it reaches an ultimate rate of 5.0%		
Group Health Standard and Deductible Plans	9.5% decreasing by 0.5% each year for 9 succeeding years until it reaches an ultimate rate of 5.0%		
Long-Term Care Inflation Rate	N/A	4.75%	4.75%
Dental Inflation Rate	N/A	5.0% until 2076, then medical inflation thereafter.	5.0% until 2076, then medical inflation thereafter.
Participation/Service Retirement	40% of actives who retire are assumed to participate.	All actives are assumed to retire at the valuation date.	All actives are assumed to retire at the valuation date.
Mortality	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 members, RP-2000 Mortality Table (combined healthy) project to 2019 using 50% of Project Scale AA, with ages set back one year for males and forward one year for females. For disabled members, RP-2000 Mortality Table (combined healthy) projected to 2019 using 50% of Project Scale AA, with ages set forward two years.	For active and service-retired members, RP-2000 Mortality Table (combined healthy) project to 2019 using 50% of Project Scale AA, with ages set back one year for males and forward one year for females. For disabled members, RP-2000 Mortality Table (combined healthy) projected to 2019 using 50% of Project Scale AA, with ages set forward two years.
Marital Status	60% of members electing coverage are assumed to be married or to have a registered domestic partner. Male spouses are assumed to be two years older than their female spouses.	N/A	N/A

Table 11-7 **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: 104.3% to 172.5% for male retirees, 76.8% to 127.1% for female retirees, 138.9% to 229.8% for male spouses, and 102.3% to 169.3% for female spouses.		
Preventive Plan	Morbidity rate ranges assumed for ages 50 through 64 are as follows: 112.6% to 186.4% for male retirees, 82.9% to 137.3% for female retirees, 138.6% to 229.4% for male spouses, and 102.1% to 168.9% for female spouses. For the above 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: 123.0% to 203.6% for males and 90.6% to 150.0% for females.		
Other Considerations	Active employees with current spouse and/or dependent coverage are assumed to elect the same plan and coverage. After retirement, it is assumed that children will have aged off of coverage and will have $0 liability.	N/A	N/A

(12) COMPONENT UNITS

DISCRETELY PRESENTED COMPONENT UNITS

Seattle Public Library Foundation

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

The Foundation reports on a fiscal year-end consistent with the City, the primary government. The Foundation issues its own audited financial statements. To obtain complete audited statements for all years, please contact: Seattle Public Library Foundation, 1000 Fourth Avenue, Seattle, WA 98104, phone 206-386-4130.

Seattle Investment Fund LLC

The Seattle Investment Fund LLC (SIF) was established by Ordinance 123146 for the purpose of implementing the U.S. Treasury Department's New Market Tax Credit (NMTC) program. The City is its sole and managing member. SIF is a qualified Community Development Entity (CDE) and the Primary Allocatee. One subsidiary, Seattle Subsidiary Investment Fund I LLC (SSIFI), has been established. SSIFI is a CDE and operates as a Subsidiary Allocatee. Detailed information on this program and complete audited financial statements are available by contacting the City's Office of Economic Development at 700 Fifth Avenue, Seattle, WA 98104 or by telephone at 206-684-8090.

SIF is a limited liability corporation in accordance with RCW 35.21.735. It has no employees and administrative work is performed by the staff of the City's Office of Economic Development. The members of its Investment Committee and Advisory Board are selected by the Mayor and confirmed by the City Council. The City is not financially accountable for SIF, but under this structure the City may impose its will upon the organization. In accordance with GASB Statement No. 39, SIF is presented as a nonmajor discrete component unit of the City.

The following presents condensed financial statements for each of the discretely presented component units:

Table 12-1 **CONDENSED STATEMENT OF NET ASSETS**

SEATTLE PUBLIC LIBRARY FOUNDATION AND

SEATTLE INVESTMENT FUND LLC

December 31, 2010

(In Thousands)

	Discretely Presented Component Units					
	Seattle Public Library Foundation		Seattle Investment Fund LLC		Total	
	2010	2009	2010	2009	2010	2009
ASSETS						
Cash and Other Assets	$ 4,974	$ 4,634	$ 300	$ -	$ 5,274	$ 4,634
Investments	47,288	42,929	1	-	47,289	42,929
Capital Assets, Net	1	1	-	-	1	1
Total Assets	52,263	47,564	301	-	52,564	47,564
LIABILITIES						
Current Liabilities	1,168	814	1	-	1,169	814
Total Liabilities	1,168	814	1	-	1,169	814
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	1	1	-	-	1	1
Restricted	37,666	34,594	-	-	37,666	34,594
Unrestricted	13,428	12,155	300	-	13,728	12,155
Total Net Assets	$ 51,095	$ 46,750	$ 300	$ -	$ 51,395	$ 46,750

Table 12-2

CONDENSED STATEMENT OF ACTIVITIES
SEATTLE PUBLIC LIBRARY FOUNDATION AND
SEATTLE INVESTMENT FUND LLC
For Year Ended December 31, 2010
(In Thousands)

	Discretely Presented Component Units					
	Seattle Public Library Foundation		Seattle Investment Fund LLC		Total	
	2010	2009	2010	2009	2010	2009
PROGRAM REVENUES						
Contributions/Endowment Gain	$ 6,708	$ 2,353	$ -	$ -	$ 6,708	$ 2,353
Placement Fee Income	-	-	300	-	300	-
Total Program Revenues	6,708	2,353	300	-	7,008	2,353
GENERAL REVENUES						
Investment Income	4,714	6,565	-	-	4,714	6,565
Total Program Support and Revenues	11,422	8,918	300	-	11,722	8,918
EXPENSES						
Support to Seattle Public Library	6,353	3,081	-	-	6,353	3,081
Management and General	384	395	-	-	384	395
Fundraising	340	338	-	-	340	338
Total Expenses	7,077	3,814	-	-	7,077	3,814
Change in Net Assets	4,345	5,104	300	-	4,645	5,104
NET ASSETS						
Net Assets - Beginning of Year	46,750	41,646	-	-	46,750	41,646
Net Assets - End of Year	$ 51,095	$ 46,750	$ 300	$ -	$ 51,395	$ 46,750

BLENDED COMPONENT UNIT

Seattle Transportation Benefit District

The Seattle Transportation Benefit District (STBD) is a quasi-municipal corporation created in September 2010 by Ordinance 123397 pursuant to RCW 36.73. Consistent with state law, it has authority to establish fees and other revenue sources to provide funding to preserve and maintain transportation infrastructure; improve public safety; implement elements of the City's Transportation Strategic Plan and other planning documents; invest in bicycle, pedestrian, freight mobility, and transit enhancements; and provide people with choices to meet their mobility needs. STBD has no employees and its officers are either City Council members serving in an ex officio capacity or City employees. Ordinance 123586 authorized an interlocal agreement between STBD and the City and details their roles and responsibilities related to the collection and expenditure of revenues for transportation purposes. The operations of STBD are so intertwined with those of the City that it qualifies to be a blended component unit as defined in GASB Statement No. 39. Although STBD was established in 2010, its financial transactions start in 2011. Hence, no financial statements are available for 2010.

(13) JOINT VENTURES

SEATTLE-KING COUNTY WORKFORCE DEVELOPMENT COUNCIL

The Seattle-King County Workforce Development Council (WDC) is a joint venture between King County and the City of Seattle. It was established as a nonprofit corporation in the State of Washington on July 1, 2000, as authorized under the Workforce Investment Act (WIA) of 1998. It functions as the Department of Labor pass-through agency to receive the employment and training funds for the Seattle-King County area. The King County Executive and the Mayor of the City of Seattle, serving as the chief elected officials (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, King County and the City of Seattle who each will be responsible for one-half of the disallowed amount. As of December 31, 2010, 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 2010, WDC paid $0.9 million to the City of Seattle.

The WDC issues independent financial statements that may be obtained from its offices at 2003 Western Avenue, Suite 250, Seattle, WA 98121-2162, by accessing its website at http://www.seakingwdc.org/reports/reports-publications.html, or by telephone at 206-448-0474.

(14) COMMITMENTS

GENERAL

Capital Improvement Program

The City adopted the 2010-2011 Capital Improvement Program (CIP) which functions as a capital financing plan totaling $4.311 billion for the years 2010-2015. The adopted CIP for 2010 was $717.8 million, consisting of $444.4 million for City-owned utilities and $273.4 million for nonutility departments. The utility allocations are: $228.6 million for City Light, $93.9 million for Water, $79.4 million for Drainage and Wastewater, $32.1 million for Solid Waste, and $10.4 million for Seattle Public Utilities' technology projects. Expenditures may vary significantly based upon facility requirements and unforeseen events. A substantial portion of contractual commitments relates to these amounts.

CITY LIGHT

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

Table 14-1 **LONG-TERM PURCHASED POWER**

(In Average Annual Megawatts)

	2010	2009
Bonneville Power Administration Block	237.3	237.6
Bonneville Power Administration Slice	361.1	379.4
Lucky Peak	32.6	36.9
British Columbia - High Ross Agreement	35.1	35.7
Renewable Energy - State Line Wind	39.8	40.2
Grant County Public Utility District	19.2	3.8
Grand Coulee Project Hydroelectric Authority	27.5	29.7
British Columbia - Boundary Encroachment	1.8	1.7
Renewable Energy - Other	9.7	1.8
Exchange Energy at fair value	17.0	14.0
Long-Term Purchased Power Booked Out	(16.9)	(16.9)
Total Long-Term Purchased Power	764.2	763.9

Purchased and Wholesale Power

Bonneville Power Administration

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

The Utility and BPA amended the Block agreement in 2006 to enable the Utility to participate in the BPA Flexible Priority Firm (PF) Program. Under the provisions of this program, which expired in 2009, the Block product was subject to a Flexible PF Charge on a power bill increasing the amount payable by the Utility for power service in a given month followed by reductions in the amount payable for power service in subsequent months until the charge was recovered. Participation in the program provided the Utility with a monthly discount on its Block bill whether or not the Flexible PF Charge was applied. In order to participate, the Utility was required to enter into an irrevocable standby letter of credit for $16.5 million issued by the Bank of America with a term from October 1, 2006 through September 30, 2009; the letter of credit was not renewed. The Flexible PF Charge was not applied in 2010 or 2009.

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

BPA's Residential Exchange Program (REP) was established as a mechanism to distribute financial benefits of the Federal Columbia River Power System to residential customers of the region's investor owned utilities (IOUs). In May 2007 the Ninth Circuit Court rulings found the 2000 REP Settlement Agreements with IOUs inconsistent with the Northwest Power Act. The Utility received $6.0 million and $10.9 million in 2010 and 2009, respectively in 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. Block quantities, Slice percentage, and BPA rates are expected to be recalculated periodically during the contract. The Block quantities, Slice percentage, and BPA rates were not finalized as of the end of 2010. Accordingly, certain estimates and assumptions were used in the calculations in the estimated future payments table below.

Lucky Peak

In 1984 the Utility entered into a purchased-power agreement with four irrigation districts to acquire 100 percent of the net surplus output of a hydroelectric facility that began commercial operation in 1988 at the existing Army Corps of Engineers Lucky Peak Dam on the Boise River near Boise, Idaho. The irrigation districts are owners and license holders of the project, and the Federal Energy Regulatory Commission (FERC) license expires in 2030. The agreement, which expires in 2038, obligates the Utility to pay all ownership and operating costs, including debt service, over the term of the contract, whether or not the plant is operating or operable.

British Columbia-High Ross Agreement

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

In addition to the direct costs of energy under the agreement, the Utility incurred costs of approximately $8.0 million in prior years related to the proposed addition and was obligated to help fund the Skagit Environmental Endowment Commission through four annual $1.0 million payments. These other costs were included in the Utility plant-in-service as an intangible asset as defined in GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and are being amortized to purchase power expense over 35 years through 2035.

Energy Exchanges

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

Renewable Energy Purchase and/or Exchanges

The Energy Independence Act, Chapter 19.285 Revised Code of Washington, requires all qualifying utilities in Washington State to meet certain annual targets of eligible new renewable resources and/or equivalent renewable energy credits as a percentage of total energy delivered to retail customers. The annual targets are: at least 3 percent by 2012, at least 9 percent by 2016, and at least 15 percent by 2020. The Utility's resource portfolio for 2010 met the 3 percent 2012 target. Long-term renewable purchase or exchange agreements were executed with the Sacramento Municipal Utility District in 2007, Waste Management Renewable Energy, LLC in 2009, and the existing State Line Wind Project contract, assigned to JP Morgan in 2010.

Fair Value of Exchange Energy

Exchange energy receivable and the related deferred gains at December 31, 2010 and 2009, were based on a market valuation technique that utilized Platts M2M Power Curves, Dow Jones U.S. Daily Electricity Price Indexes for settled deliveries, and an income valuation technique that uses 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, JP Morgan (assigned from Iberdrola Renewables, Inc. in 2010) and PacifiCorp for wind energy and net integration and exchange services, and others, and for transmission with BPA, and others for the period from 2011 through 2065, undiscounted, are shown in the following table.

Table 14-2 **ESTIMATED FUTURE PAYMENTS UNDER PURCHASED POWER CONTRACTS AND TRANSMISSION CONTRACTS**

(In Thousands)

Year Ending December 31	Estimated Payments [a]
2011	$ 261,682
2012	254,385
2013	258,101
2014	262,753
2015	267,786
2016 - 2020	1,473,395
2021 - 2025 [b]	1,427,046
2026 - 2030 [c]	755,255
2031 - 2035	51,967
2036 - 2040 [d]	32,529
2041 - 2045	3,231
2046 - 2065	17,242
Total	$ 5,065,372

[a] 2011 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.

Payments under these long-term power contracts totaled $222.4 million and $200.7 million in 2010 and 2009, respectively. Payments under the transmission agreements amounted to $38.0 million and $37.9 million in 2010 and 2009, respectively.

Skagit and South Fork Tolt Licensing Mitigation and Compliance

In 1995 FERC issued a license for operation of the Skagit hydroelectric facilities through April 30, 2025. On July 20, 1989, the FERC license for operation of the South Fork Tolt hydroelectric facilities through July 19, 2029, became effective. As a condition for both of these licenses, the Utility has taken and will continue to take required mitigating and compliance measures. Total Skagit license mitigation costs from the effective date until expiration of the federal operating license were estimated at December 31, 2010, to be $116.1 million, of which $97.5 million had been expended. Total South Fork Tolt license mitigation costs were estimated at $1.3 million, of which $0.8 million was expended through 2010. In addition to the costs listed for South Fork Tolt mitigation, the license and associated settlement agreements required certain other actions related to wildlife studies and wetland mitigation for which no set dollar amount was listed. Requirements for these actions have been met, and no further expenditures need to be incurred for these items.

Capital improvement, other deferred costs, and operations and maintenance costs are included in the estimates related to the settlement agreements for both licenses. Amounts estimated are adjusted to 2010 dollars. Utility labor and other overhead costs associated with the activities required by the settlement agreements for the licenses are not included in the estimates.

Hydroelectric projects must satisfy the requirements of the Endangered Species Act (ESA) and the Clean Water Act in order to obtain a FERC license. ESA and related issues are discussed below.

Federal Energy Regulatory Commission Fees

Estimated federal land use and administrative fees related to hydroelectric licenses total $229.3 million through 2061; these estimates are subject to change. The estimated portion of fees attributed to the Skagit and South Fork Tolt licenses are excluded after 2025, at which time their current FERC licenses expire. The estimated portion of Boundary fees is included through 2061, although the new license has not yet been approved by FERC. Boundary FERC application process and related issues are discussed below.

Application Process for New Boundary License

The Utility's FERC license for the Boundary Project expires on September 30, 2011. The Utility filed an application for a new license with FERC on September 29, 2009, and a proposed settlement agreement and revised exhibit addenda with FERC on March 28, 2010. The proposed settlement and revised exhibit addenda seek to preserve the Utility's operational flexibility at Boundary Dam while providing for natural resource protection, mitigation, and enhancement measures. While the Utility was preparing its initial license application, the Utility was also negotiating the proposed settlement with external parties, such as owners of other hydroelectric projects, Indian tribes, conservation groups, and other government agencies. When the Utility and the external parties agreed to the settlement, the Utility requested FERC to allow the settlement agreement and revised exhibit addenda to replace the initial September 2009 application as the Utility's application; FERC agreed to this request.

Implementation of the settlement will depend upon FERC's approval of the settlement terms as part of the new license. If the new FERC license is significantly different than the settlement terms, the settlement may be terminated. If FERC does not issue a new license before the expiration of the current license, FERC will issue a license annually that continues the conditions of the current license. If necessary, FERC will issue annual licenses until it issues the new long-term license.

Total application process costs are estimated at $40.1 million, of which $38.5 million had been expended and deferred as of December 31, 2010. A new license will require additional mitigation efforts for endangered species, including water quality standards. The cost projections for such mitigation, included in the Utility's license application, are estimated to be $415.8 million over the 50-year life of the license.

Endangered Species

Several fish species that inhabit waters where hydroelectric projects are owned by the Utility or where the Utility purchases power have been listed under the Endangered Species Act (ESA) as threatened or endangered. Although the species were listed after FERC licenses were issued for all of the Utility's hydroelectric projects, the ESA listings still affect operations of City Light's Boundary, Skagit, Tolt, and Cedar Falls hydroelectric projects.

Federal regulations in response to the listing of species affect flow in the entire Columbia River system. As a result of these regulations, the Utility's power generation at its Boundary Project is reduced in the fall and winter when the region experiences its highest sustained energy demand. The Boundary Project's firm capability is also reduced.

The Utility, with the support of City Council, elected to take a proactive approach to address issues identified within the ESA. The Utility is carrying out an ESA Early Action program in cooperation with agencies, tribes, local governments, and watershed groups for bull trout, Chinook salmon, and steelhead in the South Fork Tolt and Skagit Watersheds. The ESA Early Action program is authorized by City Council but is separate from any current FERC license requirements. The program includes habitat acquisition, management and restoration. The ESA Early Action has been successful in protecting listed species. Total costs for the Utility's share of the Early Action program from inception in 1999 through December 31, 2010 are estimated to be approximately $5.0 million, and approximately $0.8 million has been allocated for the program in the 2011 budget.

Project Impact Payments

Effective August 2010 the Utility committed to pay a total of $19.0 million over ten years ending in 2019 to Pend Oreille County for impacts on county governments from the operations of the Utility's hydroelectric projects. This updated agreement superseded an expired agreement with Pend Oreille County. Effective February 2009, the Utility renewed its contract with Whatcom County committing to pay a total of $15.8 million over fifteen years ending in

2023. The payments compensate the counties and certain school districts and towns located in these counties for loss of revenues and additional financial burdens associated with the projects. The Boundary Project located on the Pend Oreille River affects Pend Oreille County, and Skagit River hydroelectric projects affect Whatcom County. The combined impact compensation and retroactive payments totaled $1.4 million to Pend Oreille County and $0.9 million to Whatcom County in both 2010 and 2009.

SEATTLE PUBLIC UTILITIES (SPU)

Water Fund

Habitat Conservation Program Liability

SPU prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan (HCP) is to protect all species of concern that may be affected by the operation of 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 $101.8 million (in 2010 dollars) over a period of 50 years. Expenses are being funded from a combination of operating revenues and issuance of revenue bonds. The cost of HCP to SPU is $70.2 million thru 2010. The remaining cost of $31.6 million is comprised of a $4.3 million liability and an estimate of $27.3 million for construction and operating commitments. The construction activities will be capitalized and the operating activities will be expensed as incurred.

Distribution System Reservoirs

The Water Fund is required by the Washington State Department of Health (DOH) to complete a program to cover its open, above-ground distribution system reservoirs by the year 2020. The total cost of burying five reservoirs is expected to be approximately $136.9 million through the year 2015, and the cost beyond 2015 is not estimable. The total cost incurred in 2010 and 2009 were $111.5 million and $94.3 million, respectively.

Untreated Water Supply Contract

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

Drainage and Wastewater Fund

Wastewater Disposal Agreement

SPU has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division (the Division) expiring in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division's budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by SPU and other component agencies. The 2010 and 2009 payments to the Division were $110.8 million and $109.9 million, respectively.

Solid Waste Fund

Contractual Obligations

The City contracts with private companies for the collection of residential and commercial garbage, yard waste, and recycling. The residential and commercial collection contracts commenced in April 2000. The contracts were scheduled to end on March 31, 2007. In 2007 the City extended the contracts until March 29, 2009. Effective March 30, 2009, the City entered into new contracts with Waste Management and Cleanscapes for residential and commercial collection. The contracts are scheduled to end on March 31, 2019. Total payments under these contracts for residential collection during 2010 and 2009 were $42.0 million and $38.9 million, respectively. Commercial services paid under these contracts during 2010 and 2009 were $34.1 million and $24.2 million, respectively.

In 1990 the City signed a 38-year contract with Washington Waste Systems (WWS) for the disposal of nonrecyclable City waste. WWS agreed to reduce the contract price in exchange for extending the contract to March 29, 2009. Effective March 30, 2009, a new contract was negotiated with WWS resulting in a reduced rate of $39.65 per ton. SPU paid WWS $13.5 million in 2010 and $14.7 million in 2009 under this contract.

The City also negotiated a long-term yard waste processing contract with Cedar Grove Composting, Inc. (CGC). The first opt-out date on the disposal contract was extended to March 29, 2009, in exchange for price reductions every two years beginning in 2003. The City renegotiated a new long-term yard waste processing contract with CGC in 2008 which became effective March 30, 2009. The new tonnage rate is $26.37 per ton and the first opt-out date is in 2013. Total payments to CGC in 2010 and 2009 were $2.4 million and $2.3 million, respectively.

Effective April 1, 2009, the City commenced a new contract for recycling processing with Rabanco, LTD. The company is responsible for processing recyclables, including food waste for both commercial and residential customers. The new contract includes the collection of compostable materials, which is a service not originally provided by the City. The contract is scheduled to end on March 31, 2013, with an option to extend the contract for a three-year period at that time. Total payment for recycling processing under this contract in 2010 and 2009 were $2.5 million and $2.0 million, respectively.

Landfill Closure and Postclosure Care

At December 31, 2010, 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. Landfill closure costs were fully amortized in 2009 and landfill postclosure costs will continue to amortize until 2024.

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

(15) CONTINGENCIES

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

Since January 1, 1999, the City obtained excess general liability insurance coverage for occurrences on or after said date which covers losses over $2.5 million per occurrence self-insured retention, with a $25.0 million limit per occurrence and in the aggregate. Starting February 1, 2002 through 2006, the City's excess general liability insurance covers losses over $5.0 million per occurrence self-insured retention, with a $25.0 million limit per occurrence and in the aggregate. In June 2007 the limit was increased to $30.0 million over a $5.0 million self-insured retention. Beginning June 2009 the self-insured retention was increased to $6.5 million with a $30.0 million excess insurance limit.

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

The City did not purchase any annuity contracts in 2010 to resolve litigation. No structured settlements were entered into by the City in 2010. No large liability settlements were received in 2010. No settlements made in 2010, 2009, or 2008 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 2010 on data as of year-end 2009 and for health care as of year-end 2010. IBNR undiscounted totaled $48.1 million and $48.6 million at December 31, 2010 and 2009, respectively. The $0.5 million decrease in the IBNR amount in 2010 compared to 2009 was mainly due to the higher estimates of liabilities by $1.5 million while the liability reserves also increased by $8.6 million. This decrease of IBNR was offset by an increase of $6.6 million in workers' compensation claims, which experienced higher liability estimates and lower liability reserves in 2010.

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 2010 and $0.3 million in 2009. All workers' compensation recoveries are deposited into the General Fund. Lawsuit and other claim recoveries of payments reimbursed for the utilities are deposited into the paying utility fund and do not affect the utility reserves.

Claim liabilities recorded in the financial statements are discounted at 1.027 percent for 2010 and 1.650 percent for 2009, the City's average annual rates of return on investments. The total discounted liability at December 31, 2010, was $121.4 million consisting of $82.8 million for general liability, $3.7 million for health care, and $34.9 million for workers' compensation.

Table 15-1 **RECONCILIATION OF CHANGES IN AGGREGATE LIABILITIES FOR CLAIMS**

(In Thousands)

	General Liability		Health Care		Workers' Compensation		Total City	
	2010	2009	2010	2009	2010	2009	2010	2009
UNDISCOUNTED								
Balance - Beginning of Fiscal Year	$ 83,959	$ 98,220	$ 3,707	$ 3,281	$ 32,604	$ 30,811	$ 120,270	$ 132,312
Less Payments and Expenses During the Year	(11,089)	(22,298)	(88,489)	(82,006)	(14,428)	(14,158)	(114,006)	(118,462)
Plus Claims and Changes in Estimates	12,606	8,037	88,503	82,432	18,062	15,951	119,171	106,420
Balance - End of Fiscal Year	$ 85,476	$ 83,959	$ 3,721	$ 3,707	$ 36,238	$ 32,604	$ 125,435	$ 120,270
UNDISCOUNTED BALANCE AT END OF FISCAL YEAR CONSISTS OF								
Governmental Activities	$ 62,924	$ 61,893	$ 3,721	$ 3,707	$ 26,212	$ 23,530	$ 92,857	$ 89,130
Business-Type Activities	22,551	22,065	-	-	10,026	9,074	32,577	31,139
Fiduciary Activities	1	1	-	-	-	-	1	1
Balance - End of Fiscal Year	$ 85,476	$ 83,959	$ 3,721	$ 3,707	$ 36,238	$ 32,604	$ 125,435	$ 120,270
DISCOUNTED/RECORDED BALANCE AT END OF FISCAL YEAR CONSISTS OF								
Governmental Activities	$ 60,964	$ 59,053	$ 3,684	$ 3,648	$ 25,279	$ 22,274	$ 89,927	$ 84,975
Business-Type Activities	21,849	21,052	-	-	9,669	8,590	31,518	29,642
Fiduciary Activities	1	1	-	-	1	-	2	1
Balance - End of Fiscal Year	$ 82,814	$ 80,106	$ 3,684	$ 3,648	$ 34,949	$ 30,864	$ 121,447	$ 114,618

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

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

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

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

  California Refund Case, Appeals, and Related Litigation. In the proceeding before the Federal Energy Regulatory Commission (FERC) various public and private California entities sought refunds in markets that had been created by the State of California. City Light had sold energy in one of these markets. The City faced potential liability of approximately $6.5 million, plus interest, 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 appealed the dismissal and also filed a lawsuit in state court in California against the same governmental entities and on the same theory as in the federal action. In April 2007 the three major California investor-owned utilities refiled their claims in state court. In December 2007 the trial court denied a request to dismiss the case. The defendants, including the City, later moved for summary judgment. In April 2010 the trial court issued a tentative ruling deferring ruling on the summary judgment motion and staying all proceedings pending a ruling from the Ninth Circuit Court of Appeals in a related case (to which the City is not a party). Ultimately, the trial court did not stay the case, but continued the trial date, which was set in the fall of 2010. In February 2011 the City agreed to a proposed settlement, pending final approval by the trial court and FERC. Under the proposed settlement, the City would resolve this matter for $9.0 million, none of which would need to be immediately paid by City Light. If the settlement is approved by the trial court and FERC, City Light would assign its current accounts receivable from the California Independent System Operator to the California Parties, which is currently valued at approximately $1.4 million. The remaining balance of over $7.0 million would be contingent upon City Light recovering monies in the Pacific Northwest Refund Case, discussed below. It is impossible to predict whether a material adverse outcome will result.

  Pacific Northwest Refund Case and Appeal. In the proceeding before FERC various sellers of energy, including the City, sought refunds on energy sales in the Pacific Northwest between May 2000 and June 2001. City Light's refund claims currently are in excess of $100.0 million. In 2003 FERC declined to grant refunds on the grounds that there was no equitable way to do so. The City and other parties appealed to the Ninth Circuit. In August 2007 on appeal from an adverse decision by FERC, the Ninth Circuit held that FERC had abused its discretion in denying all refund relief in the Pacific Northwest and remanded the consideration of refunds to FERC. In December 2007 various sellers of energy filed petitions for rehearing in the Ninth Circuit. On April 9, 2009, the Ninth Circuit denied those petitions for rehearing and on April 16, 2009, the Ninth Circuit remanded the case to FERC. In September 2009 the sellers filed a Petition for a Writ of Certiorari in the United States Supreme Court. That petition was denied on January 11, 2010, FERC has yet to take any action on remand.

- Business Tax Refunds. Two cases involving potential tax refunds were filed as follows. (1) A telecommunications company challenged approximately $5.0 million, plus interest and penalties, in assessed utility and business and occupation taxes it paid into escrow, covering the period from January 1997 through March 2005. The Washington Supreme Court decided several issues affecting the claims in the case prior to the hearing date. The City settled with the company for approximately $2.5 million in 2010. The City recovered $2.5 million from the escrowed amount and the rest was refunded to the company. (2) A Seattle-based company appealed its business and occupation (B&O) tax assessment of $1.5 million in 2008. The issue on appeal is whether the company is allowed to allocate the income earned from its 450 Seattle-based employees to a California Limited Liability Company. The California company has no employees and no property. The company performs services in Seattle and, pursuant to a contract with the California company, sends out invoices in the California company's name. The Regulatory Services and Operations Division assessed the Seattle company for the income. If the Seattle company prevails, it is possible that other companies will attempt to use similar structures to avoid taxes and the Seattle company would be able to avoid paying the B&O tax it would otherwise owe for 2009. The City prevailed in a hearing before the City of Seattle Hearing Examiner in June 2009. The company then appealed to the King County Superior Court and the City prevailed on February 23, 2010. The company appealed to the Court of Appeals. Oral argument in the court of appeals was heard on March 2, 2011. The court's decision is expected in three to five months. The losing party will likely seek review by the state supreme court.

- Costs Charges to Ratepayers. The class action plaintiffs alleged that fire hydrant costs were improperly paid by the City's water utility ratepayers in Seattle and certain suburban cities. 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 its water utility 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 the City's water utility 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 its water utility. 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 Seattle Public Utilities (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 utility 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. All outstanding payments in this matter were made in 2010.

- Cedar River Sockeye Hatchery. A lawsuit was filed alleging that the National Marine Fisheries Service erred in issuing an incidental take permit to the City for SPU's planned construction and operation of a sockeye hatchery based on the Cedar River Habitat Conservation Plan. The City intervened as a defendant. The case was resolved in 2009 when the Ninth Circuit Court of Appeals upheld the trial court's decision in the City's favor.

- Cedar River Watershed. A final settlement of claims by the Muckelshoot Tribe was approved by the United States District Court in 2006. The City paid the Tribe $14.0 million required by the settlement. The City would have been obligated to pay up to another $14.5 million to the Tribe, if the City had been unable to construct and/or operate a sockeye hatchery on the Cedar River. The hatchery is now under construction with a target completion date of August 15, 2011. There is no longer any likelihood that the City would have to pay the Tribe in lieu of constructing the hatchery.

- Underground Reservoirs Construction. The City is seeking a recovery of money expended. During the course of construction of the new covered underground reservoirs, the City discovered leaking in the roofs of the reservoirs. The roof leaks have been repaired and the City sought to recover the costs of repairs from both the design company and the general contractor. Both the City and the general contractor filed claims with the City's builder's risk insurer; those claims were settled, with the City receiving $962,500 from the insurers. The City then agreed to a settlement with the general contractor in the amount of $1.0 million and to a separate settlement with the design company in the amount of $1.0 million. Final settlement documents are being circulated for signature at the date of this note.

- Leaks and Cracks in Reservoirs. The City discovered leaks in various reservoirs and cracks in a not-yet completed reservoir. Discussions with the designer and contractor have commenced to determine the cause of the leaks and cracks. Costs of repairs and/or damages are expected to exceed the material amount. The amount is indeterminable as of the date of this note.

- Other Miscellaneous Lawsuit and Claim. A lawsuit was filed by a former executive-level employee of the City's Personnel Department alleging discrimination based upon gender, national origin, sexual orientation, and retaliation. In early 2010 the plaintiff's employment was terminated for poor performance. The plaintiff amended her complaint to challenge the termination. The City settled this matter for an immaterial amount in 2011.

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, 2010, ten accounts remained outstanding with a combined total amount of $25.5 million. BEDI grant funds amounting to $3.75 million are being held as loan loss reserves for the ten accounts.

GUARANTEES OF THE INDEBTEDNESS OF OTHERS

The City has contingent liability for the following bonds issued by public development authorities chartered by the City which are not component units of the City:

Museum Development Authority

Special obligation bonds issued on November 16, 2005, in the amount of $60,720,000, of which $56,420,000 was outstanding at December 31, 2010. 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 $151,058 was outstanding at December 31, 2010. The bonds will be fully retired by November 1, 2011.

Special obligation refunding bonds issued on March 28, 2002, in the amount of $5,925,000 of which $4,585,000 was outstanding on December 31, 2010. 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, 2010, was $2,700,000. 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, 2010, was $2,440,000. The bonds will be fully retired by October 1, 2032.

Special obligation refunding bonds issued on September 26, 2007, in the amount of $7,355,000. The outstanding amount at December 31, 2010, was $6,775,000. The bonds will be fully retired by August 1, 2026.

Seattle Indian Services Commission

Special obligation refunding bonds issued on March 28, 2002, in the amount of $3,710,000. The amount outstanding at December 31, 2010, was $2,185,000. The bonds will be fully retired on November 1, 2017.

Special obligation revenue refunding bonds issued on November 1, 2004, in the amount of $5,210,000, of which $4,585,000 was outstanding as of December 31, 2010. The bonds will be fully retired on November 1, 2024.

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

In 2007, 2008, and 2009, the City, in its Planning and Development Fund, incorrectly capitalized costs associated with preliminary project-study work that should had been reported as expenses. Therefore, restatements to the 2009 government-wide financial statements for business-type activities and the corresponding proprietary fund financial statements were required. The result of this was a prior-year adjustment of $643 thousand and a restatement of the 2009 financial statements in the amount of $312 thousand, for a total impact of $955 thousand. The prior-period adjustment and the restatement represent a decrease in noncurrent assets - construction in progress, an increase in expenses, and an offsetting reduction to the 2009 net assets.

In 2009, Department of Transportation incorrectly recorded approximately $743 thousand of infrastructure and expenses. Restatements to the 2009 government-wide financial statements for governmental activities were made.

In 2010, the City recognized its interpretation of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, relating to financial statement presentation for internal service funds was incorrect. Therefore, restatements to the 2009 internal service fund statements, General Bond Interest and Redemption Fund and, respectively, the corresponding proprietary fund statements, and nonmajor governmental fund statements were required. The result was a prior-period adjustment of $256 million on the Fleets and Facilities Fund financial statements incorporating the capital assets, net of the long-term debt associated with the fund's support services provided to other City departments for office space. There was no impact to the government-wide financial statements for governmental activities.

Effective January 1, 2010, the City adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, as discussed in Note 1. All intangible assets covered under GASB Statement No. 51 must be reported as capital assets. Certain assets approximating $157.6 million, net of accumulated amortization, were previously reported in noncurrent assets as capitalized licensing costs or other deferred charges and met the criteria as defined by GASB Statement No. 51. Therefore, reclassification to the 2009 government-wide financial statements for business-type activities and the corresponding proprietary fund Statement of Net Assets was made to be comparative with 2010 presentation.

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

(17) SUBSEQUENT EVENTS

Bond Issues. On March 16, 2011, pursuant to City Ordinance 123480, the City issued $79.2 million Limited Tax General Obligation (LTGO) Improvement Bonds with an average coupon rate of 4.43 percent and maturing on March 1, 2031. Included in this issue is a $1.5 million Qualified Energy Conservation Bonds which the City elected to avail under Section 54D of the Internal Revenue Code. The proceeds of the bonds are used to pay for the costs of various capital projects, including some facility energy retrofits.

On February 8, 2011, pursuant to City Ordinance 123483, the City issued $296.3 million Municipal Light and Power Improvement and Refunding Revenue Bonds, Series 2011A (tax-exempt), and $10.0 million Municipal Light and Power Improvement Revenue Bonds, Series 2011B (taxable Clean Renewable Energy Bonds). The proceeds of the Series 2011A bonds are used to advance refund $101.3 million of prior lien bonds, Series 2001, and to finance certain capital improvements and conservation programs. The proceeds of the Series 2011B bonds are used for capacity and efficiency improvements at the Boundary Hydroelectric Project.

On June 22, 2011, pursuant to City Ordinance 123576, the City issued $47.5 million Solid Waste Revenue Bonds with an average coupon rate of 4.78 percent and maturing on August 1, 2036. The proceeds of the bonds are used to finance certain capital improvement projects of the City's solid waste system.

In August 2011, Moody's Investors Service (Moody's) placed the City, along with approximately 161 other AAA-rated local government entities, on a "negative watch" list. This is the result of the City's credit ratings being indirectly linked to the U.S. federal government. The City has been notified that Moody's will be conducting a review of the City's overall credit rating in September 2011.

C-1

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended December 31, 2010
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance
REVENUES				
Taxes				
General Property Taxes	$ 250,157	$ 250,157	$ 250,430	$ 273
Retail Sales and Use Taxes	150,608	150,608	146,970	(3,638)
Business Taxes	233,043	233,043	223,482	(9,561)
Excise Taxes	26,308	26,308	28,998	2,690
Other Taxes	-	-	3,202	3,202
Interfund Business Taxes	112,073	112,073	108,088	(3,985)
Total Taxes	772,189	772,189	761,170	(11,019)
Licenses and Permits	19,874	19,914	20,401	487
Grants, Shared Revenues, and Contributions	41,365	72,880	31,412	(41,468)
Charges for Services	70,636	72,929	66,863	(6,066)
Fines and Forfeits	30,382	30,382	30,936	554
Parking Fees and Space Rent	28,902	28,902	26,868	(2,034)
Program Income, Interest, and Miscellaneous Revenues	24,041	24,169	16,374	(7,795)
Total Revenues	987,389	1,021,365	954,024	(67,341)
EXPENDITURES AND ENCUMBRANCES				
Current				
General Government	200,173	201,414	173,004	28,410
Judicial	26,736	26,736	26,300	436
Public Safety	456,103	466,498	437,827	28,671
Physical Environment	9,384	27,608	8,704	18,904
Transportation	12,627	12,967	10,823	2,144
Economic Environment	25,979	29,485	21,319	8,166
Culture and Recreation	6,722	47,397	26,820	20,577
Capital Outlay				
General Government	27,583	26,884	9,001	17,883
Public Safety	-	-	2,658	(2,658)
Transportation	4,258	4,075	-	4,075
Culture and Recreation	37,226	37,962	22,222	15,740
Total Expenditures and Encumbrances	806,791	881,026	738,678	142,348
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	180,598	140,339	215,346	75,007
OTHER FINANCING SOURCES (USES)				
Sales of Capital Assets	1,835	41,835	21,309	(20,526)
Transfers In	11,334	11,835	10,068	(1,767)
Transfers Out	(282,397)	(282,595)	(278,109)	4,486
Total Other Financing Sources (Uses)	(269,228)	(228,925)	(246,732)	(17,807)
Net Change in Fund Balance	$ (88,630)	$ (88,586)	(31,386)	$ 57,200
Fund Balance - Beginning of Year			193,099	
Encumbrances Continued from Last Year			3,110	
Changes in Unappropriable Reserves			426	
Fund Balance (Budgetary) - End of Year			165,249	
Adjustments to Conform to Generally Accepted Accounting Principles				
Reserves Not Available for Appropriation			811	
Encumbrances			976	
Reimbursements				
Budgeted as Revenues			(147,911)	
Budgeted as Expenditures			147,911	
Pass-Through Receipts				
Budgeted as Revenues			(17)	
Budgeted as Expenditures			17	
Fund Balance (GAAP) - End of Year			$ 167,036	

C-2

TRANSPORTATION FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended December 31, 2010
(In Thousands)

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance
REVENUES				
Taxes				
General Property Taxes	$ 40,910	$ 40,910	$ 39,612	$ (1,298)
Business Taxes	20,216	20,216	24,117	3,901
Other Taxes	4,038	4,038	852	(3,186)
Total Taxes	65,164	65,164	64,581	(583)
Licenses and Permits	1,978	1,978	6,113	4,135
Grants, Shared Revenues, and Contributions	45,662	52,973	50,115	(2,858)
Charges for Services	48,613	49,377	60,215	10,838
Fines and Forfeits	-	-	9	9
Parking Fees and Space Rent	-	-	99	99
Program Income, Interest, and Miscellaneous Revenues	-	-	243	243
Total Revenues	161,417	169,492	181,375	11,883
EXPENDITURES AND ENCUMBRANCES				
Current				
Transportation	94,873	96,348	85,221	11,127
Capital Outlay				
Transportation	380,106	383,429	169,636	213,793
Debt Service				
Principal	-	-	2,272	(2,272)
Interest	18,360	18,360	279	18,081
Total Expenditures and Encumbrances	493,339	498,137	257,408	240,729
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	(331,922)	(328,645)	(76,033)	252,612
OTHER FINANCING SOURCES (USES)				
Transfers In	45,471	45,196	88,952	43,756
Transfers Out	-	-	(13,867)	(13,867)
Total Other Financing Sources (Uses)	45,471	45,196	75,085	29,889
Net Change in Fund Balance	$ (286,451)	$ (283,449)	(948)	$ 282,501
Fund Balance - Beginning of Year			34,070	
Encumbrance Continued from Last Year			84	
Fund Balance (Budgetary) - End of Year			33,206	
Adjustments to Conform to Generally Accepted Accounting Principles				
Reserves Not Available for Appropriation			2	
Pass-Through Receipts				
Budgeted as Revenues			(3,300)	
Budgeted as Expenditures			3,300	
Fund Balance (GAAP) - End of Year			$ 33,208	

C-3

LOW-INCOME HOUSING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended December 31, 2010
(In Thousands)

	Budgeted Amounts			
	Original	Final	Actual	Variance
REVENUES				
Taxes				
General Property Taxes	$ 18,820	$ 18,820	$ 18,621	$ (199)
Grants, Shared Revenues, and Contributions	28,598	29,205	14,853	(14,352)
Charges for Services	1,491	1,491	107	(1,384)
Program Income, Interest, and Miscellaneous Revenues	10,138	11,349	4,423	(6,926)
Total Revenues	59,047	60,865	38,004	(22,861)
EXPENDITURES AND ENCUMBRANCES				
Current				
Economic Environment	40,227	53,551	41,701	11,850
Capital Outlay				
Economic Environment	84,384	72,878	5	72,873
Total Expenditures and Encumbrances	124,611	126,429	41,706	84,723
Excess (Deficiency) of Revenues over (under) Expenditures and Encumbrances	(65,564)	(65,564)	(3,702)	61,862
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	3,568	3,568
Net Change in Fund Balance	$ (65,564)	$ (65,564)	(134)	$ 65,430
Fund Balance - Beginning of Year			75,159	
Encumbrances			125	
Fund Balance (Budgetary and GAAP) - End of Year			$ 75,150	

C-4

PENSION PLAN INFORMATION
SCHEDULE OF FUNDING PROGRESS
December 31, 2010
(In Thousands)

Retirement System	Actuarial Valuation Date January 1	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	2,119,400	2,294,600	175,200	92.4	501,900	34.9
	2010	1,645,300	2,653,800	1,008,500	62.0	580,900	173.6
	2011	2,013,700	2,709,000	695,400	74.3 [e]	563,200	123.5
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
	2010	13,273	143,499	130,226	9.0	N/A	N/A
	2011	11,430	126,794	115,364	9.0	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	132,118 [f]	131,695 [f]	0.0	N/A	N/A
	2010	280	129,393	129,113	0.0	N/A	N/A
	2011	1,105	137,497	136,392	1.0	N/A	N/A

[a] Actuarial present value of benefits less actuarial present value of future normal costs based on Entry Age Actuarial Cost Method for SCERS, 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] The funding ratio had been 62.0%, based on previous, January 1, 2010 actuarial valuation. The increase in the funding ratio is due mainly to the adoption of the asset smoothing method.

[f] Reflects a $514,000 actuarial adjustment for the 2009 AAL and UAAL.

C-5

PENSION PLAN INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
December 31, 2010
(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	570,530	45,814	8.03	8.03	100
	2009	580,948	46,650	8.03	8.03	100
	2010 [d]	563,198	45,225	8.03	17.00	47
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
	2009	N/A	11,422	N/A	8,266	138
	2010	N/A	7,255	N/A	7,975	91
Police Relief and Pension Fund	2003	N/A	7,403	N/A	$ 7,403	100
	2004	N/A	8,244	N/A	8,244	100
	2005	N/A	7,187	N/A	7,187	100
	2006	N/A	6,056	N/A	6,056	100
	2007 [e]	N/A	5,885	N/A	7,783	76
	2008	N/A	9,723	N/A	9,248	105
	2009	N/A	7,939	N/A	8,635	95
	2010	N/A	9,843	N/A	7,907	124

[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 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] The latest actuarial valuation for SCERS was completed as of January 1, 2011.

[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, 2010

	Grantor Agency/Program	Passthru Agency	J/F	CFDA#	Grant Total
DEPARTMENT OF AGRICULTURE					
	Wetlands Reserve Program		F	10.072	102,929.03
	Child and Adult Care Food Program	Department of Agriculture	J	10.558	1,190,965.34
	Summer Food Service Program for Children	Department of Social and Health Services	J	10.559	400,295.93
	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Other Agencies	J	10.561	143.00
	Senior Farmers Market Nutrition Program	Department of Agriculture	J	10.576	24,736.24
	Sub Total				**1,719,069.54**
DEPARTMENT OF COMMERCE					
	Economic Development_Support for Planning Organizations		F	11.302	43,750.51
	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	Washington State Recreation and Conservation Office (formerly the Office of the Interagency Committee)	J	11.438	102,664.25
	Public Safety Interoperable Communications Grant Program	Military Department	J	11.555	1,677,771.92
	Sub Total				**1,824,186.68**
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
	Community Development Block Grants/Entitlement Grants		F	14.218	11,953,103.48
	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Department of Commerce	J	14.228	253,088.00
	Emergency Shelter Grants Program		F	14.231	588,202.35
	Supportive Housing Program		F	14.235	8,923,250.17
	Supportive Housing Program	King County	J	14.235	447,755.24
	Home Investment Partnerships Program		F	14.239	10,876,510.50
	Housing Opportunities for Persons with AIDS		F	14.241	1,661,005.21
	CDBG/Brownfileds Economic Development Initiative		F	14.246	24,700.00
	CDBG_Section 108 Loan Guarantees		F	14.248	-
	ARRA - CDBG ARRA Entitlement Grants		F	14.253	1,959,889.54
	ARRA - Homelessness Prevention and Rapid Re-Housing Program		F	14.257	1,876,844.99
	Fair Housing Assistance Program_State and Local		F	14.401	194,551.82
	Public and Indian Housing	Seattle Housing Authority	J	14.850	823,637.77
	Sub Total				**39,582,539.07**
DEPARTMENT OF THE INTERIOR					
	Fish and Wildlife Management Assistance	National Fish and Wildlife Foundation	J	15.608	16,883.20
	Sub Total				**16,883.20**
DEPARTMENT OF JUSTICE					
	Services for Trafficking Victims		F	16.320	271,255.30
	Juvenile Accountability Block Grants	King County	J	16.523	57,376.44
	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus		F	16.525	285,074.66
	Part E - Developing, Testing and Demonstrating Promising New Programs		F	16.541	49,775.00
	Missing Children's Assistance		F	16.543	395,442.65
	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program		F	16.580	464,205.64
	Grants to Encourage Arrest Policies and Enforcement of Protection Orders		F	16.590	207,280.46
	Community Capacity Development Office		F	16.595	1,234.21
	Bulletproof Vest Partnership Program		F	16.607	38,322.41
	Public Safety Partnership and Community Policing Grants		F	16.710	371,108.70
	Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault		F	16.736	106,264.66
	Edward Byrne Memorial Justice Assistance Grant Program		F	16.738	61,515.57
	ARRA - Recovery Act - Internet Crimes against Children Task Force Program		F	16.800	392,112.17
	ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	Washington State Department of Community, Trade and Economic Development (DCTED)	J	16.803	682,455.28
	ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government		F	16.804	2,063,611.00

City of Seattle
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2010

Grantor Agency/Program		Passthru Agency	J/F	CFDA#	Grant Total
	ARRA - Recovery Act - Edward Byrne Memorial Competitive Grant		F	16.808	41,103.62
	Sub Total				**5,488,137.77**
DEPARTMENT OF LABOR					
	Senior Community Service Employment Program	Department of Social and Health Services	J	17.235	486,042.32
	ARRA - Senior Community Service Employment Program	Department of Social and Health Services	J	17.235	50,410.19
	WIA Youth Activities	Workforce Development Council	J	17.259	913,881.34
	ARRA - WIA Youth Activities	Workforce Development Council	J	17.259	99,893.00
	Sub Total				**1,550,226.85**
DEPARTMENT OF TRANSPORTATION					
	Highway Planning and Construction	Department of Transportation	J	20.205	10,543,926.55
	ARRA - Highway Planning and Construction	Department of Transportation	J	20.205	16,040,534.76
	Federal Transit_Formula Grants		F	20.507	3,554,977.40
	ARRA - Federal Transit_Formula Grants		F	20.507	478,758.59
	Alcohol Impaired Driving Countermeasures Incentive Grants I	Traffic Safety Commission	J	20.601	12,518.84
	Sub Total				**30,630,716.14**
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION					
	Employment Discrimination_State and Local Fair Employment Practices Agency Contracts		F	30.002	47,920.00
	Sub Total				**47,920.00**
NATIONAL ENDOWMENT FOR THE ARTS					
	ARRA - Promotion of the Arts_Grants to Organizations and Individuals		F	45.024	145,417.40
	Sub Total				**145,417.40**
INSTITUTE OF MUSEUM AND LIBRARY SERVICES					
	Grants to States	Library Commission	J	45.310	25,000.00
	National Leadership Grants	Other Educational Agencies	J	45.312	5,361.36
	Sub Total				**30,361.36**
ENVIRONMENTAL PROTECTION AGENCY					
	Puget Sound Watershed Management Assistance		F	66.120	108,284.61
	Congressionally Mandated Projects		F	66.202	24,942.59
	ARRA - Capitalization Grants for Clean Water State Revolving Funds	Washington State Department of Ecology	J	66.458	879,038.50
	ARRA - Capitalization Grants for Drinking Water State Revolving Funds	Washington State Department of Community, Trade and Economic Development (DCTED)	J	66.468	5,855,859.46
	Sub Total				**6,868,125.16**
DEPARTMENT OF ENERGY					
	Weatherization Assistance for Low-Income Persons	DCTED	J	81.042	153,700.69
	ARRA - Weatherization Assistance for Low-Income Persons	DCTED	J	81.042	2,433,313.96
	ARRA - Energy Efficiency and Conservation Block Grant Program		F	81.128	4,610,576.59
	ARRA - Energy Efficiency and Conservation Block Grant Program	Washington State Department of Commerce	J	81.128	35,555.68
	ARRA - Energy Efficiency and Renewable Energy Technology Deployment, Demonstration and Commercialization	Puget Sound Clean Air Agency	J	81.129	341,650.93
	Sub Total				**7,574,797.85**
DEPARTMENT OF EDUCATION					
	TRIO_Upward Bound		F	84.047	407,460.54
	Early Reading First		F	84.359	1,108,521.73
	Sub Total				**1,515,982.27**
NATIONAL ARCHIVES AND RECORDS ADMINISTRATION					
	National Historical Publications and Records Grants		F	89.003	60,783.61
	Sub Total				**60,783.61**
DEPARTMENT OF HEALTH AND HUMAN SERVICES					

	Grantor Agency/Program	Passthru Agency	J/F	CFDA#	Grant Total
	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	Department of Social and Health Services	J	93.041	22,435.00
	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	Department of Social and Health Services	J	93.043	111,788.92
	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	Department of Social and Health Services	J	93.044	2,538,816.86
	Special Programs for the Aging_Title III, Part C_Nutrition Services	Department of Social and Health Services	J	93.045	2,439,386.28
	Special Programs for the Aging_Title IV_and Title II_ Discretionary Projects	Department of Social and Health Services	J	93.048	422,486.12
	Alzheimer's Disease Demonstration Grants to States	Department of Social and Health Services	J	93.051	133,339.11
	National Family Caregiver Support, Title III, Part E	Department of Social and Health Services	J	93.052	773,431.00
	Nutrition Services Incentive Program	Department of Social and Health Services	J	93.053	441,458.00
	Medicare Enrollment Assistance Program	Department of Social and Health Services	J	93.071	12,166.93
	Centers For Disease Control and Prevention_Investigations and Technical Assistance	Department of Health	J	93.283	39,649.70
	Low-Income Home Energy Assistance	DCTED	J	93.568	1,573,932.59
	ARRA - Community Services Block Grant	DCTED	J	93.569	191,622.58
	Child Care and Development Block Grant	Department of Agriculture	J	93.575	94,981.70
	ARRA - Aging Home-Delivered Nutrition Services for States	Department of Social and Health Services	J	93.705	117,703.00
	ARRA - Aging Congregate Nutrition Services for States	Department of Social and Health Services	J	93.707	208,350.00
	ARRA - Strengthening Communities Fund		F	93.711	4,421.20
	ARRA - Prevention and Wellness Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	King County	J	93.724	137,025.84
	Medical Assistance Program	Department of Social and Health Services	J	93.778	18,562,007.46
	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	Department of Social and Health Services	J	93.779	3,912.96
	Sub Total				**27,828,915.25**
DEPARTMENT OF HOMELAND SECURITY					
	State and Local Homeland Security Exercise Support	Military Department	J	97.006	69,097.80
	Boating Safety Financial Assistance	Department of Parks and Recreation	J	97.012	88,733.57
	National Urban Search and Rescue (US&R) Response System	King County	J	97.025	42,268.40
	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Military Department	J	97.036	762,991.87
	Hazard Mitigation Grant	Military Department	J	97.039	6,032.78
	Emergency Management Performance Grants	Military Department	J	97.042	345,554.79
	Assistance to Firefighters Grant	Military Department	J	97.044	54,364.61
	Port Security Grant Program (B)	Port of Seattle	J	97.056	217,494.11
	Homeland Security Grant Program	Military Department	J	97.067	4,599,974.45
	Metropolitan Medical Response System	Military Department	J	97.071	375,246.58
	Law Enforcement Terrorism Prevention Program	King County Office of Emergency Management	J	97.074	(3,148.43)
	Regional Catastrophic Preparedness Grant Program (RCPGP)	Military Department	J	97.111	1,124,576.83
	Sub Total				**7,683,187.36**
	Federal Grants				**132,567,249.51**

CITY OF SEATTLE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2010

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

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 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 were fully disbursed in 2008.

The City also established a $10.0 million Section 108 loan fund with a companion $2.0 million BEDI grant to finance four projects, known as 17th and Jackson, the Bush Hotel, Alpha Cine and Claremont Apartments. Proceeds from this Section 108/BEDI loan fund were fully disbursed in 2009.

The City did not establish a Section 108 loan fund in 2010.

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

NOTE 5 - GRANTS FROM ENVIRONMENTAL PROTECTON AGENCY, ARRA - CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUND, CFDA # 66.458

City of Seattle, Seattle Public Utilities Department was approved as a subrecipient by Washington State Department of Ecology for a loan in the amount of $1,394,618. Half of this amount, $697,309, is forgivable and the remaining amount of $697,039 is a loan.

The forgivable principal is recorded in Schedule of Expenditures of Federal Awards (SEFA) as a grant. The amount reported in SEFA for the loan portion is based on the amount of loan proceeds received.

NOTE 6 - GRANTS FROM ENVIRONMENTAL PROTECTON AGENCY, ARRA - CAPITALIZATION GRANTS FOR DRINKING WATER STATE REVOLVING FUNDS, CFDA # 66.468

City of Seattle, Seattle Public Utilities Department was approved as a subrecipient by Washington State Department of Community, Trade and Economic Development for a loan in the amount of $6,513,747.52. The loan amount reported in SEFA is based on the amount of loan proceeds received.

NOTE 7 - GRANTS DEPARTMENT OF EDUCATION, EARLY READING FIRST, CFDA # 84.359

Grants received from Department of Education in 2007 and 2008 for Seattle Public Library were under reported in the 2007 and 2008 SEFA in the amounts of $117.64 and $70,412.29 respectively. They are included in the 2010 SEFA.

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 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 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 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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