

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31,

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THE CITY OF KIRKLAND



City of Kirkland, Washington

Comprehensive Annual Financial Report



For the Fiscal Year Ended December 31, 2006

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Director of Finance and Administration

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Cover Design and Layout by



**City of Kirkland, Washington
Comprehensive Annual Financial Report
For the Year ended December 31, 2006**

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Introductory Section

Certificate of Achievement for Excellence in Financial Reporting

Presented to

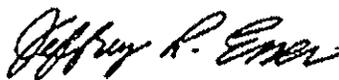
City of Kirkland
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President



Executive Director

CITY OF KIRKLAND

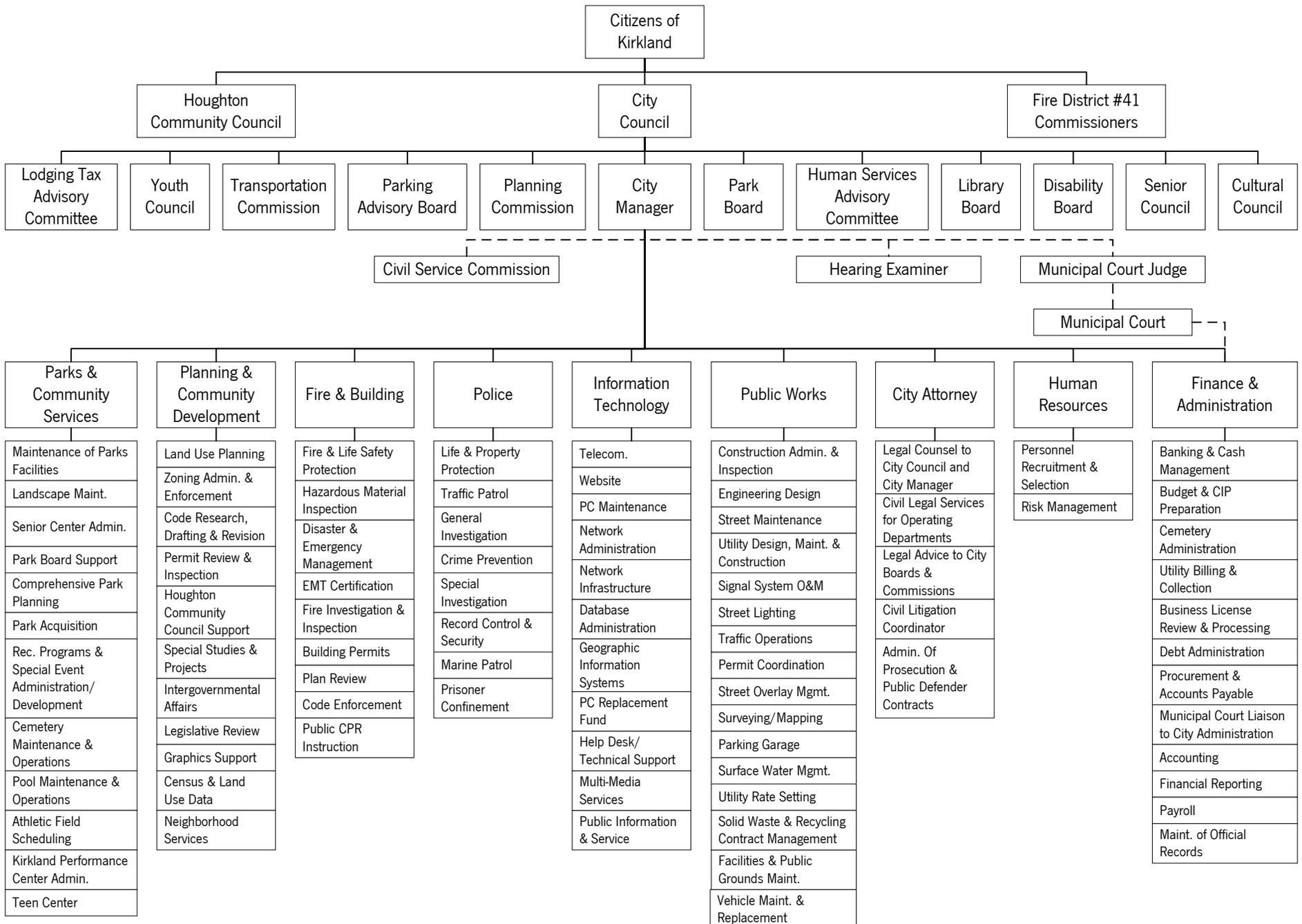
CITY COUNCIL

| | |
|----------------------|---|
| Mayor | James L. Lauinger |
| Deputy Mayor | Joan McBride |
| Council Members..... | David Asher Mary-Alyce Burleigh Jessica Greenway Tom Hodgson Bob Sternoff |

ADMINISTRATIVE STAFF

| | |
|--|-------------------|
| City Manager | David Ramsay |
| Assistant City Manager..... | Marilynne Beard |
| City Attorney | Robin Jenkinson |
| Director of Finance and Administration | Tracey Dunlap |
| Director of Fire and Building | Jeff Blake |
| Director of Human Resources..... | Bill Kenny |
| Chief Information Officer | Brenda Cooper |
| Director of Parks and Community Services | Jennifer Schroder |
| Director of Planning and Community Development | Eric Shields |
| Chief of Police..... | Stan Aston |
| Director of Public Works | Daryl Grisby |

CITY OF KIRKLAND



June 26, 2007



Citizens of Kirkland
Honorable Mayor
Members of the City Council

State law requires that every general purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended December 31, 2006.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The State Auditor's Office has issued an unqualified ("clean") opinion on the City of Kirkland's financial statements for the year ended December 31, 2006. The auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City of Kirkland is located on the eastern shore of Lake Washington. It is a suburban city, surrounded by other suburban cities and pockets of unincorporated King County. The City is near several major transportation routes including Interstate 405, State Route 520, and Interstate 5. These routes connect the City economically and socially to the greater Seattle area.

At the time of incorporation in 1905, the City of Kirkland's population was approximately 530. On April 1, 2006, the estimated population was 47,180. Kirkland is the nineteenth largest city in the State of Washington and the eighth largest in King County.

Since its incorporation, Kirkland has grown in geographic size to eleven square miles – approximately twelve times its original size. This growth occurred primarily through the consolidation of the cities of Houghton and Kirkland in 1968 and the annexations of Rose Hill and Juanita in 1988.

Kirkland operates under a Council-Manager form of government. The City Council is the policy-making branch of Kirkland's government and consists of seven members elected at large to staggered, four-year terms. The Mayor is elected from within the Council. The City Council is

supported by several advisory boards and commissions and the City Manager. The City Manager is appointed by the City Council and serves as the professional administrator of the organization, coordinating its day-to-day activities.

The City government offers a full range of municipal services which are provided by ten operating departments. The City boasts thirty-nine parks, including eleven that are located on the waterfront, as well as a community center, senior center, swimming pool, and teen center. The broad range of recreational facilities provides year-round services for citizens of all ages.

The City prepares a biennial budget which is adopted by the City Council by the end of each even numbered year, given that Washington State law requires that the first year of a biennial budget be an odd numbered year. This budget serves as the foundation for the City of Kirkland's financial planning and control and provides information, function (e.g., public safety), and department (e.g., police). Budget adjustments are brought forward for approval by the City Council at set intervals during the biennium.

Local Economy

Local job growth remains strong in the region, especially in the important aerospace and technology sectors. The Seattle-Tacoma metropolitan area added over 65,000 jobs since January 2005 and the unemployment rate in King County dropped to 4.3 percent as of March 2007, slightly below the national average of 4.5 percent. The City of Kirkland's major employers represent healthcare, education, retail, equipment, and a variety of technology enterprises. The Hebert Research-Business Journal Business Confidence Index rose to 62.7 for the first quarter of 2007, up from 60.8 in the fourth quarter of 2006 (Glen Pascall, Finding good news as economy throttles back, Puget Sound Business Journal, May 18, 2007). Local executives expressed confidence by overwhelming margins that the economy is likely to improve in 2007 in this recent survey (a score of more than 50 points signals an expanding economy).

In a regional and national economic outlook prepared by the Puget Sound Business Journal and enterpriseSeattle (Jeff Meisner, Executives bullish over the near-term economy, Puget Sound Business Journal, January 19, 2007), a mild global slowdown that's forecasted could help the local economy by reducing price pressures on energy and raw materials. This, along with the decline of the dollar relative to major trading partners, could provide positive growth for local exports.

Local development remains relatively strong, especially in the commercial sector. While single family activity in 2007 falls below 2006 levels, it still remains very strong compared to normal historical trends. In regard to housing prices and sales, the region seems to be escaping the major slow-down experienced elsewhere in the country. With warmer temperatures, the residential real estate market is heating up around Western Washington, according to the recent report from Northwest Multiple Listing Service. Eastside housing prices are up 9.6 percent and sales are up 1.5 percent comparing March 2007 to March 2006.

Long Term Financial Planning

The City continues to have numerous plans, such as the strategic plans developed for Police and Fire and master plans in Parks, which it is unable to fully implement because of the ongoing financial resources and staff time that are both in short supply. The fundamental challenge that we face is the ongoing ability for revenue growth to keep pace with the cost of doing business. Roughly seventy percent of the City's operating budget goes toward the wages and benefits of the employees that provide the City's basic output – services to the public. With wage and benefit costs increasing faster than inflation, the revenue base cannot keep pace with costs given tax limitation initiatives enacted in the state in past years. While progress had been made, the structural imbalance in the City's financial picture remains and will continue to be a primary topic of discussion and decision-making looking forward.

One of the issues that has featured prominently in the City's long term financial planning is the prospect of increasing the size of the City from a population of 47,180 to over 80,000 by annexing the areas that are not currently part of the City but are included in the City's Urban Growth Boundary. Such an annexation would be consistent with Washington State Growth Management policies, but would also significantly impact the City's operations. The City Council is giving this issue careful consideration, as described under "Major Initiatives" below.

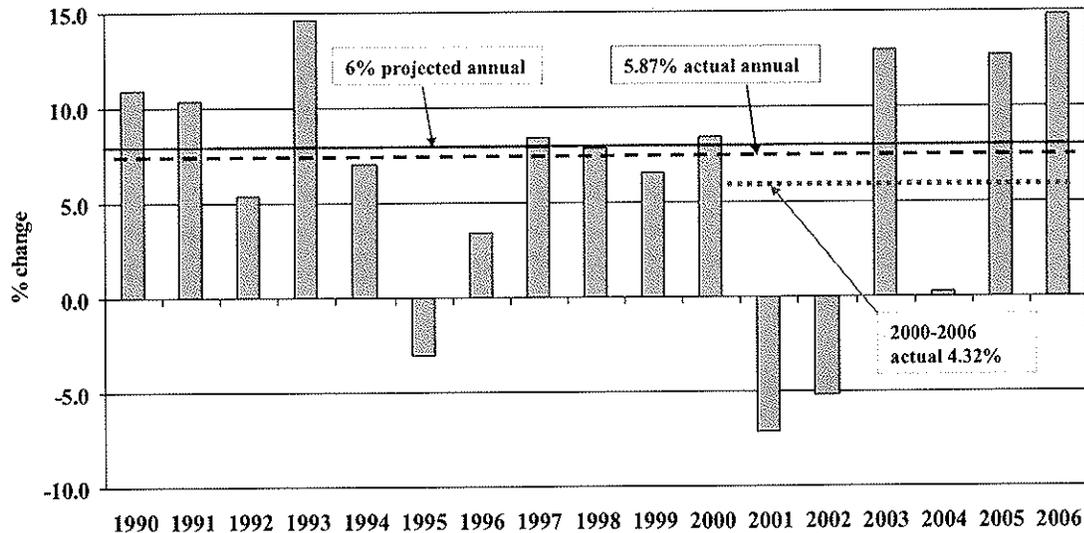
Relevant Financial Policies

The stewardship of public funds is one of the greatest responsibilities given to the officials and managers of the City of Kirkland. Therefore, the establishment and maintenance of wise fiscal policies enables city officials to protect public interests and ensure public trust. These policies have been established to provide general fiscal guidelines and are intended to provide sound direction in the management of the City's financial affairs. They address topics that include the operating and enterprise fund budgets, revenues and expenditures, cash management and investment, accounting, financial reporting, and auditing, reserve and fund balance, debt management, and capital improvements.

One of the key elements in revenue and expenditure planning is to identify revenues of a limited or indefinite term to ensure that no ongoing service program is lost when such revenues are reduced or discontinued. For example, sales tax comprises 28.6% of the City's General fund revenue sources and has proven to be volatile based on economic conditions as illustrated by the chart on the following page.

To address this variability, the City budgets sales tax revenues on a one-year lag, monitoring trends on a monthly basis, particularly in the sectors influenced by development activity. As part of the budget process, significant one-time receipts can be set aside as a funding source for non-recurring expenditures.

Sales Tax Trends 1990-2006 Percentage Change



Major Initiatives

There is reason to be optimistic looking forward to 2007-2008, while continuing to pursue a conservative fiscal strategy. Based on the stronger revenue results in 2006 and the prospect of higher interest earnings on City reserves in 2007-2008, the City can make significant progress in replenishing reserves to target levels. This action is consistent with the City's approach to prudent fiscal planning, where reserves provide a cushion in bad economic times (such as 2002-2003) and should be rebuilt when economic performance improves. In addition, the approved budget will make progress toward addressing the City Council's priorities of economic development, neighborhoods, housing, and environmental stewardship, while continuing to focus on the long-term challenges facing the City. Major initiatives include:

- Public Safety needs are a prominent element of the City's budget. The recent addition of five corrections officers will ensure more consistent coverage and monitoring at the City's jail. Continuing issues related to regional jail needs are being actively analyzed and options pursued with other impacted jurisdictions. In addition, the decision of whether to pursue a regional solution to public safety dispatch needs through creation of a new entity, NORCOM, the North King County Regional Public Safety Communications Center, will be evaluated during 2007. If the decision is made to proceed, NORCOM implementation will be an active part of the work plan in 2008.
- An in-depth study of the potential impacts of annexation of the City's Potential Annexation Area is underway. Public outreach and financial planning studies are in progress as part of a multi-phase process of arriving at a final decision on whether to pursue the annexation. In early 2007, the first "go/no-go" decision was made, with the decision to proceed further with additional studies and planning activities. These activities have been funded with one-time revenues set aside for this purpose. At the end of 2007, the City Council is expected to decide whether to put the annexation decision on the ballot in 2008.

- Another major initiative involves the City's large unfunded capital needs. One of these needs is additional space in City facilities. This discussion is complicated by the fact that the specific nature of the space needs changes depending on the City's decision regarding annexation. In addition to space needs, the Capital Improvement Program (CIP) identifies a number of major investments in infrastructure that cannot be funded from existing resources. Strategies for addressing the challenges posed in making progress on these capital needs remains, regardless of the annexation decision.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Kirkland for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2005. This was the second consecutive year that the government has applied for and received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the 2005-2006 biennium, for the tenth year. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document had to be judged proficient as a policy document, a financial plan, an operating guide, and a communications device.

An outside review of Kirkland's Investment Policy was conducted in 2006. Revisions were made so that the policy would be consistent with current investment practices and the City Council approved the revised policy in September. Certification from the Washington Municipal Treasurer's Association was received in November.

This report was prepared by the City's Finance Department. The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance and administration department. I wish to express my appreciation to the staff and other personnel from various departments who assisted in its preparation. Credit also must be given to the Mayor, City Council, and the City Manager for their continued interest and support in planning and conducting the financial operations of the City in a dedicated and responsible manner.

Respectfully submitted,



Tracey Dunlap
Director of Finance and Administration



Teresa Levine
Interim Financial Operations Manager

Financial Section



Washington State Auditor
Brian Sonntag

INDEPENDENT AUDITOR'S REPORT

June 27, 2007

Council
City of Kirkland
Kirkland, Washington

We have audited the accompanying financial statements of the the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kirkland, King County, Washington, as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, 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 remaining fund information of the City of Kirkland, King County, Washington, as of December 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund, Street Operating Special Revenue Fund, Parks and Municipal Reserve Special Revenue Fund, and Excise Tax Capital Improvement Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 11 through 28 is not a required part of the basic financial statements but is 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 information listed as combining and individual fund statements and schedules on pages 90 through 121 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to 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.

The information identified in the table of contents as the Introductory Section, Capital Assets, and Statistical Section is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

Management Discussion And Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Kirkland, we offer readers of the City of Kirkland's financial statements this narrative overview and analysis of the financial activities of the City of Kirkland for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with the additional information provided in the preceding letter of transmittal.

Financial Highlights

- The city's net assets, the amount by which total assets exceed total liabilities, equaled \$344.3 million at the end of 2006. Of this amount, \$246.1 million is invested in capital assets such as streets, land, and buildings. The remainder, of which is primarily cash and investments consists of \$37.7 million that is restricted for capital projects, debt service, and other purposes and \$60.5 million that is unrestricted and therefore available to meet the government's ongoing obligations to citizens and creditors.
- The city's total net assets increased by \$20.8 million in 2006. Business-type activities accounted for \$9.1 million of the increase with the remaining \$11.7 million coming from governmental activities. Across both types of activities, \$8.7 million, or 44 percent, of the increase was related to the addition of capital assets net of any related debt.
- At the end of the most recent fiscal year, the city's governmental funds reported combined ending fund balances of \$65.8 million, an increase of \$10.5 million compared to the prior year. Of this total amount, \$46.7 million, or 71 percent, is unreserved reported in general fund, special revenue funds, and capital projects funds.
- Unreserved, undesignated fund balance in the general fund was \$7 million at the end of 2006, which represents about 16 percent of total general fund expenditures. An additional fund balance of \$4.2 million is available in the park and municipal reserve fund (in the general operating reserve and the revenue stabilization reserve combined) to cover unforeseen revenue losses during an economic downturn or to provide funding for unforeseen expenditure needs for general city programs.
- Total outstanding debt, including Public Works Trust Fund loans, at year-end was \$31.4 million, which represents a decrease of \$2.8 million from the prior year.

Overview of the Financial Statements

This section of the management's discussion and analysis is intended to introduce and explain the City's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to the basic financial statements, other supplementary information is also contained in this report.

Government-wide Financial Statements

The *government-wide financial statements* are designed to give the reader a picture of the financial condition and activities of the city as a whole. This broad overview is similar to the financial reporting of private-sector businesses. The government-wide financial statements have separate columns for *governmental activities* and *business-type activities*. Governmental activities of the city include general government (legislative, executive, finance, legal services, information technology, facilities maintenance, fleet services, city clerk, and human resources), public safety (police and fire), judicial, physical environment, economic environment, transportation, human services, and culture and recreation. The city's business-type activities are limited to water/sewer, surface water, and solid waste utilities. Governmental activities are primarily supported by taxes, charges for services, and grants while business-type activities are self-supporting through user fees and charges.

The ***statement of net assets*** presents information on all of the City of Kirkland's assets and liabilities, highlighting the difference between the two as *net assets*. This statement is similar to the balance sheet of a private sector business. Over time, increases or decreases in net assets may serve as a useful indicator of whether the city's overall financial health is improving or deteriorating.

The ***statement of activities*** presents information showing how the city's net assets changed during the most recent fiscal year. This statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. The revenue generated by the specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show how much each function either supports itself or relies on taxes and other general funding sources for support. All activities on this statement are reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed. Items such as uncollected taxes, unpaid vendor invoices for goods or services received during the year, and earned but unused vacation leave are included in the statement of activities as revenue and expenses even though no cash has changed hands.

The government-wide financial statements can be found immediately following this section (i.e. Management's Discussion and Analysis) of the annual financial report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are often set up in accordance with special regulations, restrictions, or limitations. The City of Kirkland, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The annual financial report includes individual fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the city's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type. All of the City of Kirkland's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for those functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the city's near-term financing requirements and immediate fiscal health.

Comparing the governmental fund financial statements with similar information presented for *governmental activities* in the government-wide financial statements can help the reader better understand the long-term impact of the city's near-term financing decisions. To assist in this comparison, reconciliations between the governmental fund financial statements and the government-wide financial statements are included with the governmental fund *balance sheet* and the governmental fund *statement of revenues, expenditures, and changes in fund balances*.

The City of Kirkland maintains twenty-one individual governmental funds. The city's six major governmental funds—the general fund, the street operating fund, the park and municipal reserve fund, the excise tax capital improvement fund, the general capital projects fund, and the grant capital projects fund—are presented separately in the governmental fund *balance sheet* and the governmental fund *statement of revenues, expenditures, and changes in fund balances* in the Basic Financial Statements section of this report. The remaining governmental funds are combined into a single column labeled other governmental funds. Individual fund data for each of the other governmental funds can be found in the *combining statements*, which are presented in the Fund Financial Statements and Schedules section of this report.

The city maintains budgetary control over its operating funds through the adoption of a biennial budget. Budgets are adopted at the fund level and according to state law. Budgetary comparison statements are presented for the general, street operating, park and municipal reserve and excise capital fund in the Basic Financial Statements section of this report. Budgetary comparison statements for each of the other funds are included in the Fund Financial Statements and Schedules section of this report.

Two types of **proprietary funds** are used by the city: *enterprise funds* and *internal service funds*. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The city uses enterprise funds to account for its water/sewer utility, surface water utility, and solid waste utility. Internal service funds are an accounting device used to accumulate and allocate costs internally among the city's various functions. The city uses internal service funds to account for its fleet of vehicles and management information systems. Internal service funds benefit both governmental and business-type activities and are allocated accordingly in the government-wide statement of activities. Internal service fund assets and liabilities are predominantly governmental and have been included in the *governmental activities* column of the government-wide statement of net assets.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The city's water/sewer utility, surface water utility, and solid waste utility are presented in separate columns in the proprietary fund financial statements; whereas both internal service funds are combined into a single column. The proprietary fund financial statements are included in the Basic Financial Statements section of this report. Individual fund data for the internal service funds can be found in the *combining statements*, which are presented in the Fund Financial Statements and Schedules section of this report.

Fiduciary funds are used to account for resources held by the city in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds are not reflected in the government-wide financial statements, because the resources of those funds are not available to support the city's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The city has only one fiduciary fund, which is the firefighter's pension fund. It is presented in the Basic Financial Statements section of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data in the government-wide and fund financial statements. The notes are located in the Basic Financial Statements section of this report immediately following the fiduciary fund financial statements.

Other Information

The combining statements for other governmental funds and internal service funds are presented immediately following the notes to the financial statements.

Government-wide Financial Analysis

Statement of Net Assets

The statement of net assets can serve as a useful indicator of the city's financial position. The City of Kirkland's net assets at December 31, 2006 total over \$344.3 million. Following is a condensed version of the government-wide statement of net assets (expressed in millions of dollars) comparing fiscal year 2006 to 2005.

City of Kirkland's Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|-----------|--------------------------|-----------|-----------|-----------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Current and other assets | \$ 79.81 | \$ 69.89 | \$ 27.07 | \$ 21.37 | \$ 106.88 | \$ 91.26 |
| Capital assets, net of accumulated depreciation | 171.08 | 171.30 | 106.44 | 103.52 | 277.52 | 274.82 |
| Total assets | 250.89 | 241.19 | 133.51 | 124.89 | 384.40 | 366.08 |
| Long-term liabilities | 17.78 | 24.52 | 8.96 | 10.55 | 26.74 | 35.07 |
| Other liabilities | 9.13 | 4.38 | 4.20 | 3.08 | 13.33 | 7.46 |
| Total liabilities | 26.91 | 28.90 | 13.16 | 13.63 | 40.07 | 42.53 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 149.84 | 144.89 | 96.22 | 92.42 | 246.06 | 237.31 |
| Restricted | 37.58 | 31.53 | 0.18 | .20 | 37.76 | 31.73 |
| Unrestricted | 36.56 | 35.87 | 23.95 | 18.64 | 60.51 | 54.51 |
| Total net assets | \$ 223.98 | \$ 212.29 | \$ 120.35 | \$ 111.26 | \$ 344.33 | \$ 323.55 |

As of the end of 2006, the largest component of the city's total net assets at \$246.06 million, or 72 percent, is its investment in capital assets (e.g., land, buildings, streets, parks, water/sewer infrastructure, and machinery and equipment) less any related outstanding debt issued to acquire those assets. These capital assets are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. Although the city's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A little more than \$37.5 million, or 16.7 percent, of the city's total net assets is subject to legal restrictions for general governmental capital projects (\$18.4 million), debt service payments (\$.5 million), and other special purposes (\$18.5 million). General government capital projects for which the \$18.4 million in net assets is earmarked include a variety of public works projects, park improvements, internal technology system upgrades, and facility maintenance projects. The city attempts to fund a majority of its capital construction projects on a pay as you go basis, aggressively pursuing transportation grant funding and cost sharing with developers wishing to construct large projects in the city that impact the transportation system. The other special purposes for which the \$18.4 million in net assets is restricted primarily relate to other capital improvements, park maintenance and operation (funded by a levy lid lift approved by voters in November 2002), and tourism activities.

The remaining \$60.51 million balance of total net assets is unrestricted and may be used to meet the city's ongoing obligations to citizens and creditors. Of this amount, almost \$24 million pertains to the city's business-type activities, which only may be spent on water/sewer, surface water, and solid waste utility activities. Examples of such activities include maintenance of utility delivery systems (water lines, pump stations, and wells), storm drain flushing, water meter reading, and utility capital construction projects. The \$36.5 million balance in unrestricted net assets relates to governmental activities much of which is reserved by city policy for vehicle and computer replacement, facilities improvements, and funding a wide variety of contingencies, such as unforeseen expenditures and revenue shortfalls.

At the end of the fiscal year, the City of Kirkland reported positive balances in all three categories of net assets for the government as a whole as well as for the separate governmental and business-type activities.

Changes in Net Assets

The changes in net assets table on the following page illustrates the increases or decreases in net assets of the city resulting from its operating activities. Overall, the City of Kirkland's net assets increased about \$20.8 million in 2006. A breakdown of this increase by governmental and business-type activities follows along with graphs that illustrate revenues by source and compare program expenses to program revenues.

City of Kirkland's Changes in Net Assets

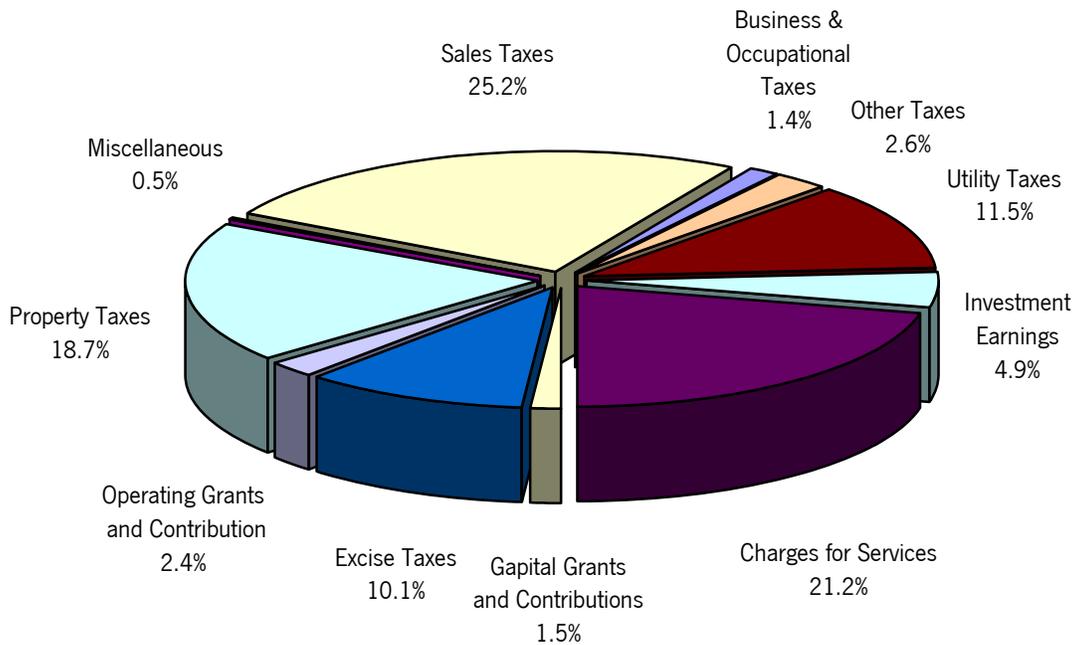
| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|-----------|--------------------------|-----------|-----------|-----------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 14.75 | \$ 15.53 | \$ 28.78 | \$ 24.89 | \$ 43.53 | \$ 40.42 |
| Operating grants and contributions | 1.69 | 2.08 | 0.10 | - | 1.79 | 2.08 |
| Capital grants and contributions | 1.03 | 1.23 | 3.69 | 7.14 | 4.72 | 8.37 |
| General revenues: | | | | | | |
| Sales taxes | 17.47 | 16.01 | - | - | 17.47 | 16.01 |
| Property taxes | 13.02 | 11.59 | - | - | 13.02 | 11.59 |
| Utility taxes | 8.00 | 6.98 | - | - | 8.00 | 6.98 |
| Excise taxes | 7.04 | 6.26 | - | - | 7.04 | 6.26 |
| Regulatory license fee | 0.98 | 0.93 | - | - | 0.98 | 0.93 |
| Other taxes | 1.78 | 1.43 | - | - | 1.78 | 1.43 |
| Unrestricted grants and contributions | 0 | 0.32 | - | - | 0 | 0.32 |
| Investment earnings | 3.39 | 1.42 | 0.96 | 0.44 | 4.35 | 1.86 |
| Miscellaneous | 0.32 | 0.27 | - | - | 0.32 | 0.27 |
| Total revenues | 69.47 | 64.05 | 33.53 | 32.47 | 103.00 | 96.52 |
| Expenses: | | | | | | |
| General government | 4.40 | 4.03 | - | - | 4.40 | 4.03 |
| Judicial | 1.35 | 1.23 | - | - | 1.35 | 1.23 |
| Public safety | 25.21 | 24.50 | - | - | 25.21 | 24.50 |
| Physical environment | 2.35 | 2.16 | - | - | 2.35 | 2.16 |
| Transportation | 11.22 | 9.86 | - | - | 11.22 | 9.86 |
| Human services | 1.05 | 1.01 | - | - | 1.05 | 1.01 |
| Economic environment | 4.96 | 5.06 | - | - | 4.96 | 5.06 |
| Culture and recreation | 6.24 | 5.88 | - | - | 6.24 | 5.88 |
| Interest on long-term debt | 1.15 | 1.25 | - | - | 1.15 | 1.25 |
| Water/sewer | - | - | 14.29 | 13.40 | 14.29 | 13.40 |
| Surface water | - | - | 2.70 | 2.69 | 2.70 | 2.69 |
| Solid waste | - | - | 7.31 | 7.06 | 7.31 | 7.06 |
| Total expenses | 57.93 | 54.98 | 24.30 | 23.15 | 82.23 | 78.13 |
| Increase in net assets before transfers and special items | 11.55 | 9.08 | 9.23 | 9.31 | 20.78 | 18.39 |
| Transfers | .14 | .39 | (.14) | (.39) | - | - |
| Increase in net assets | 11.69 | 9.47 | 9.09 | 8.92 | 20.78 | 18.39 |
| Net assets at beginning of year | 212.29 | 202.82 | 111.26 | 102.35 | 323.55 | 305.17 |
| Net assets at end of year | \$ 223.98 | \$ 212.29 | \$ 120.35 | \$ 111.27 | \$ 344.33 | \$ 323.55 |

* Miscellaneous includes gain on sale of capital assets.

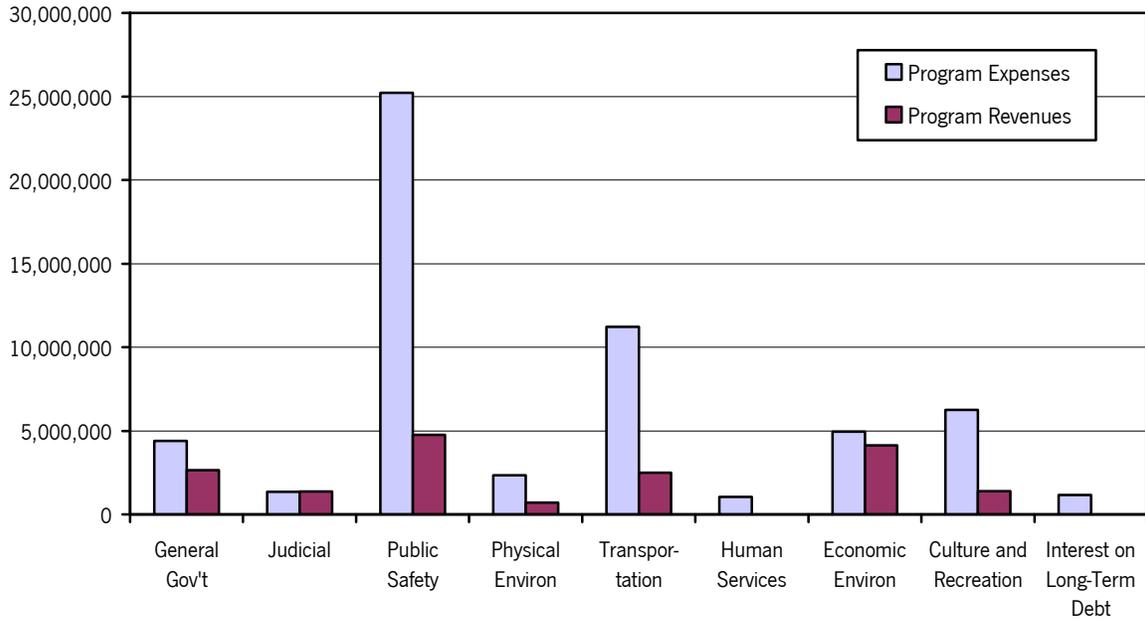
Governmental activities accounted for \$11.7 million of the \$20.78 million total increase in net assets. Key elements of this increase are as follows:

- Sales tax revenue was up almost \$1.46 million, or 9.2 percent, compared to 2005 largely due to construction related activity.
- Real estate excise tax revenue was up about \$0.7 million compared to 2005 due to the continuing strong residential real estate market in the City.
- Utility taxes were 15 percent ahead of 2005 primarily as a result of higher rates and weather conditions.
- Investment interest was \$3.3 million in 2006, compared to \$1.4 million in 2005.
- Public Safety costs rose by \$0.7 million over 2005 as a result of 8 new firefighter positions and the addition of the police ProAct unit.

Revenues by Source—Governmental Activities



Program Expenses vs. Program Revenues—Governmental Activities



Business-type activities, which relate to the city’s utilities, were responsible for \$9.1 million, or 43.7 percent, of the total increase in the city’s net assets. Key elements of this increase are as follows:

Water/sewer charges for services increased by 14% compared to the prior year. The increase reflects utility rate increases implemented in 2006 for water (up 7.6%) and sewer (up 6.3%) which were required to cover increased wholesale costs for purchases of water and sewer service charges. It is anticipated that similar rate increases may be required in future years as wholesale costs for water and sewer service continue to increase.

The surface water utility charges for services in 2006 increased by approximately \$0.9 million over 2005. Residential and commercial storm drainage fees in 2006 were increased from \$10.90 equivalent residential unit to \$14.15 equivalent residential unit to address pressing capital construction projects, surface water elements of transportation projects, GIS technology upgrades and increased environmental impacts.

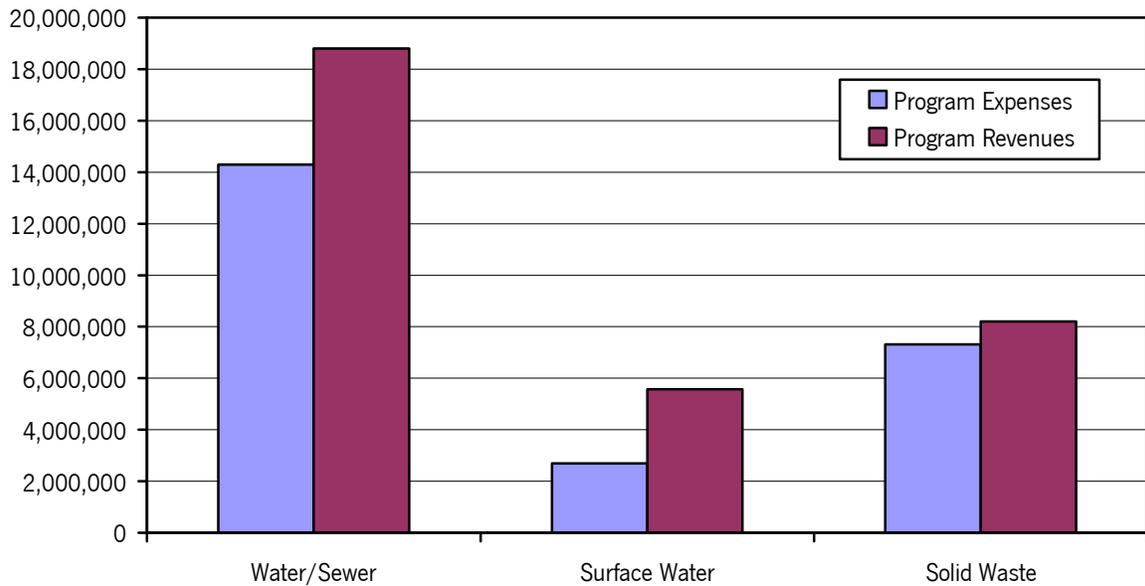
Capital contributions comprised of utility connection charges and developer infrastructure contributions totaled \$3.7 million for 2006. Details for these amounts are shown below:

| | Water | Sewer | Surfacewater | Total |
|---|------------|-----------|--------------|--------------|
| 2006 Connection charges collected: | \$ 429,000 | 1,137,000 | 24,000 | 1,590,000 |
| 2006 Developer infrastructure contributions: | \$ 644,000 | 1,067,000 | 262,000 | 1,973,000 |
| 2006 Governmental infrastructure contributions: | | | 129,000 | 129,000 |
| | | | | \$ 3,692,000 |

The infrastructure contributions detailed above represent 28% of the excess in revenues over expenditures. These increases are actually reflected as additions to capital assets for the utility functions and are presented in more detail in Note 5 of this report.

Investment earnings for the business type activities increased by over 54% compared to 2005, bringing in nearly \$1 million.

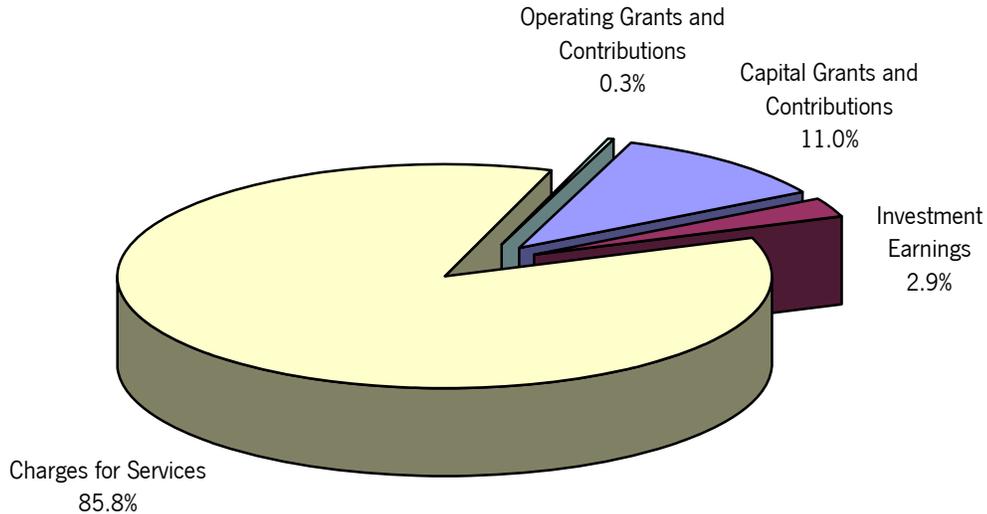
Program Expenses vs. Program Revenues—Business-type Activities



The City of Kirkland’s utility 2006 net income (before capital contributions and transfers) was about \$5.5 million. The components are as follows:

| | |
|---------------|---------------|
| Water/Sewer | \$1.9 million |
| Surface water | \$2.6 million |
| Solid Waste | \$0.9 million |

Revenues by Source—Business-type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

The purpose of the city's governmental funds is to report on near-term revenues/financial resources and expenditures. This information helps determine the city's financial requirements in the near future. In particular, fund balance is a good indicator of the city's resources available at the end of the year.

At the end of the current year the city's combined ending governmental fund balance was \$65.8 million, which represents an increase of \$10.5 million, or 18.9 percent, over the prior year. Of the total ending fund balance, almost \$0.6 million is reserved for debt service. The remaining balance of \$65.2 million is technically unreserved, which means it is available for spending at the city's discretion. In reality, most of it is earmarked for approved capital construction projects that are currently underway (\$18.4 million) or otherwise designated for some special purpose (\$46 million). Examples of such designated balances include funding for capital improvement projects (e.g., \$15.7 million in the excise tax capital improvement fund, \$2.0 million in the impact fee fund, and \$1.6 million in the street improvement fund) and funding for various contingencies (e.g., \$12 million in the park and municipal reserve fund and \$2.8 million in the contingency fund).

What follows is a brief analysis of each of the city's major governmental funds.

The general fund is the primary operating fund of the city through which all receipts and payments of ordinary city operations are processed, unless they are required to be accounted for in another fund. Taxes are the

major revenue source. At the end of 2006, the fund balance of the general fund was \$7.1 million, which represents an increase of approximately \$1.6 million over the prior year. As a measure of the fund's liquidity, the ending fund balance was 15.5 percent of the fund's 2006 expenditures.

Compared to 2005, revenues increased by \$4.1 million, or 8.7 percent, and expenditures increased by \$2.0 million, or 4.6 percent. Much of the revenue increase can be attributed to sales and property tax increases by roughly parallel amounts and substantial increases in investment interest. Revenues exceeded expenditures in the general fund by over \$5.6 million in 2006, excluding other financing sources and uses. At the end of each year it is the city's practice to transfer out uncommitted, excess resources from the general fund to build up or replenish the city's various reserves. At the end of 2006 the general fund transferred \$2.9 million to several reserves including revenue stabilization, contingency, facilities expansion, development services and the property reserve.

The street operating fund accounts for the administration, maintenance, and minor construction of the city's transportation infrastructure. The fund balance at the end of 2006 was \$1.4 million which was a slight increase over 2005.

The park and municipal reserve fund includes the city's general operating reserve (i.e. "Rainy Day" reserve), revenue stabilization reserve, building and property reserve, council special projects reserve, public safety building reserve, LEOFF 1 police reserve, development reserve and a number of other smaller reserves dedicated for various municipal purposes. The 2006 ending fund balance of almost \$12 million represents an increase of \$2.2 million from the prior year. The majority of this increase is due to the replenishment of reserve funds toward target levels. Significant progress in returning reserves to target levels was made possible in 2006 due to higher than expected interest earnings and sales tax related to new construction.

The excise tax capital improvement fund accounts for revenue from the first and second quarter percent real estate excise tax, which is legally restricted for the funding of capital projects related to streets, sidewalks, traffic improvements, parks, fire protection facilities, and other public facilities. The fund balance at the end of 2006 was \$15.7 million, which is up by almost \$3.7 million from 2005 due to the strong residential real estate market over the last several years.

The general capital projects fund accounts for the acquisition and/or construction of general governmental infrastructure, facilities, and equipment that are approved in the city's capital improvement program (CIP) and that are funded from general revenue sources excluding grants. The ending fund balance increased by \$1.2 million from the prior year to a total of \$13.5 million.

The grant capital projects fund accounts for projects approved in the CIP that are funded partially or wholly by grants from other governments. The fund balance at the end of 2006 was \$4.8 million, which is up from 2005. Balances in both capital project funds vary slightly from year to year dependent upon CIP activity and the size of projects in process.

Proprietary Funds

The City of Kirkland's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of the city's proprietary funds have already been addressed in the discussion of the city's business-type activities.

General Fund Budgetary Highlights

During the biennium there was a \$9.1 million increase in appropriations between the original adopted biennial budget and the final amended budget. These additions directly correspond to actual revenues and actual expenditures within the general fund. Following are the major components of the increases:

- Fund balance was increased by \$4.7 million to recognize actual fund balance compared to the original budget as a result of strong revenue performance and unspent expenditures from the previous budget period.
- Sales tax expectations were increased by about \$1.7 million due to strong contracting and retail revenues.
- Property tax was increased by about \$1.0 million to fund additional public safety staffing. Six police positions allowed the addition of a Police Proactive Unit and eight fire positions to the Totem Lake Medic Unit.
- Building permits and planning and development fees were increased by about \$0.5 million due to strong performance and were used to fund additional development-related staffing.
- Utility tax revenue was increased by about \$353,100 to recognize actual revenue due to a rate change which helped fund the public safety staffing mentioned previously.
- Intergovernmental revenue was increased by about \$344,300 to acknowledge various grants that were received for emergency preparedness, traffic safety, tree inventory, and tobacco prevention and to recognize reimbursement for fire department personnel sent to Louisiana for hurricane relief.
- The fire protection services contract with Fire District #41 was increased by about \$222,300 to recognize their share of the increased fire protection staffing.

Capital Asset and Debt Administration

Capital Assets

The City of Kirkland's investment in capital assets for its governmental and business-type activities as of December 31, 2006 amounts to \$277.5 million (net of accumulated depreciation), which represents almost a \$3 million increase over the prior year. This investment in and capitalization of capital assets includes land, buildings, improvements, machinery and equipment, art, construction in progress, utility transmission/distribution systems, roads, and bridges. Actual expenditures for capital items are generally larger than what the City is capitalizing in any given year. Some projects that only maintain infrastructure or are smaller in scope and don't meet the threshold for capitalization will be included in the amounts for capital expenditures but will ultimately not result in an increase to capital assets on the balance sheet. Amounts below represent capital expenditures in 2006 that may or may not become part of capital assets but were nonetheless expenditures during the year:

- \$2.8 million was expended to replace existing fleet vehicles. A new fire operations vehicle, as well as several "hybrid" vehicles were part of the replacement purchases in the equipment rental fund.

- \$3.8 million was spent on transportation improvements (i.e. roadways, intersections, sidewalks, crosswalks, and signals), most of which are still in progress.
- \$1 million spent on various park projects including Waverly Park, Juanita Beach Park and several play field improvements in conjunction with the Lake Washington School District.
- \$0.8 million spent for information system projects including adding wireless to the City parks, ongoing progress within Geographic Information Systems, timekeeping systems and various internal system improvements.
- \$3.9 million spent on water and sewer utility improvement projects, most of which are still in progress.
- \$0.8 million spent on surface water utility improvement projects, most of which are still in progress.

Following is a condensed version of the city's capital assets (expressed in millions of dollars), net of depreciation, related to governmental and business-type activities for fiscal years 2005 and 2006:

City of Kirkland's Capital Assets (Net of Depreciation)

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------------------------------|-------------------------|-----------|--------------------------|-----------|-----------|-----------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Land | \$ 73.77 | \$ 73.90 | \$.05 | \$.05 | \$ 73.82 | \$ 73.95 |
| Buildings | 21.28 | 21.91 | .02 | .19 | 21.30 | 22.10 |
| Improvements other than buildings | 8.32 | 5.21 | 100.19 | 93.49 | 108.51 | 98.70 |
| Machinery and equipment | 6.77 | 4.79 | 0 | 0 | 6.77 | 4.79 |
| Infrastructure | 38.39 | 40.19 | 0 | 0 | 38.39 | 40.19 |
| Construction in progress | 20.95 | 23.71 | 6.17 | 9.79 | 27.12 | 33.50 |
| Art | 1.59 | 1.59 | 0 | 0 | 1.59 | 1.59 |
| Total | \$ 171.07 | \$ 171.30 | \$ 106.43 | \$ 103.52 | \$ 277.50 | \$ 274.82 |

Additional information on the City of Kirkland's capital assets can be found in Note 5 of this report.

Long-term Debt

At the end of the current fiscal year, the City of Kirkland had total bonded debt outstanding of \$21.2 million and other long-term debt of \$10.1 million. The total outstanding debt (expressed in millions of dollars) at the end of 2005 and 2006 is broken down between governmental and business-type activities as follows:

City of Kirkland's Outstanding Debt

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|----------|--------------------------|----------|----------|----------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| General obligation bonds | \$ 21.23 | \$ 23.15 | \$ 0 | \$ 0 | \$ 21.23 | \$ 23.15 |
| Special assessment debt without governmental commitment | .01 | .01 | 0 | 0 | .01 | .01 |
| Revenue bonds | 0 | 0 | 5.04 | 5.64 | 5.04 | 5.64 |
| Public Works trust fund loans | 0 | 0 | 5.13 | 5.42 | 5.13 | 5.42 |
| Total | \$ 21.24 | \$ 23.16 | \$ 10.17 | \$ 11.06 | \$ 31.41 | \$ 34.22 |

The City of Kirkland maintains a AA rating from Standard & Poors and a Aa2 rating from Moody's on its general obligation bonds. In addition, the city's revenue bonds for its water/sewer utility are rated A+ and A1 by Standard & Poor's and Moody's respectively. Special assessment bonds are unrated.

Washington State statutes limit the amount of general obligation debt a governmental entity may issue to 7.5 percent of its total assessed valuation, subject to a 60 percent majority vote of qualified electors. Of the 7.5 percent limit, 2.5 percent is for general purposes, 2.5 percent for open space/park/capital facilities, and 2.5 percent for utilities. Non-voted (i.e. limited tax) general obligation debt is limited to 1.5 percent of assessed valuation. The combination of voted and non-voted general obligation debt for all purposes cannot exceed 7.5 percent of assessed valuation.

The City's assessed valuation for 2006 was \$8.76 billion, and the total amount of unlimited tax and limited tax general obligation debt the city may issue is \$639 million. The remaining debt capacity can be broken down as follows:

| | |
|---------------------------------------|-----------------------|
| General | \$ 209,414,097 |
| Open Space, Park & Capital Facilities | 210,710,250 |
| Utilities | <u>219,011,436</u> |
| Total | <u>\$ 639,135,783</u> |

Additional information on the City of Kirkland's long-term debt can be found in Note 8 of this report and in the Statistical Section of the report.

Economic Factors and Next Year's Budgets and Rates

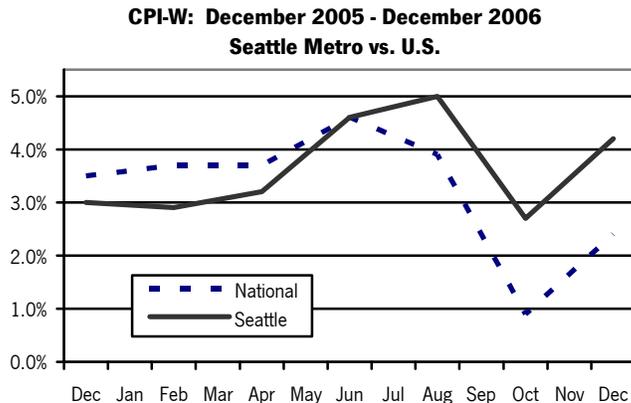
The Puget Sound region experienced strong economic growth in 2006. The revenue forecast report from the Washington State Economic and Revenue Forecast Council predicts continued employment growth due to improvements in the aerospace and software industries.¹ Global economic conditions are expected to create positive growth in Washington exports and therefore contribute to Puget Sound area's growth rate. Additionally, the recent local economic growth created the largest workforce gain in eight years, adding

¹ Washington Economic and Revenue Forecast Council, December 2006

24,000 households in the region last year.² Local economist Dick Conway notes that by their very presence, these new arrivals boost demand for goods and services and their demand for housing is expected to help sustain the real estate market in contrast with the slump in much of the rest of the country. Two local economic confidence indices reflect increased confidence in the economic health of the region as well. Local executives' confidence levels measured by the Hebert Research-Business Journal Business Confidence Index improved to 64 for the third quarter of 2006, compared to 58.5 for the same period in 2005 and almost 10 points above the historical mean of 55.5.³ Another local economic index that uses information from a survey by local purchasing managers (Western Washington Chapter of the National Purchasing Managers) also increased to 70.9 in December, up 9.2 points from the previous month.⁴ Washington is performing better than the national index, which was 51.4 in December. (It should be noted that a score of more than 50 points signals an expanding economy, while a score of less than 50 points indicates a shrinking economy.)

Selected economic indicators are reviewed below. They include inflation, unemployment, office vacancies, residential housing prices, development activity, sales tax revenue, and lodging tax revenue.

As measured by the Consumer Price Index for Wage Earners and Clerical Workers (CPI-W), the following chart and table track inflation for the U.S. and the Seattle metropolitan area from December 2005 through December 2006 on a bi-monthly basis. For each month, the annual change in inflation with respect to the same month of the prior year is noted. What stands out is that inflation in the Seattle metropolitan area was considerably lower than the national average through May 2006, passed the national average in June, and spiked above it as of August.



| Month | U.S. | Seattle Metro |
|----------|------|---------------|
| Dec 2005 | 3.5% | 3.0% |
| Feb 2006 | 3.7% | 2.9% |
| Apr 2006 | 3.7% | 3.2% |
| Jun 2006 | 4.5% | 4.6% |
| Aug 2006 | 3.9% | 5.0% |
| Oct 2006 | 0.9% | 2.7% |
| Dec 2006 | 2.4% | 4.2% |

All of the City's labor contracts are tied to the CPI-W for the Seattle metropolitan area. As of December 2006, one contract was in negotiation. For all contracts, "cost of living allowances" (or COLAs) were set at a percentage of either the prior year's June CPI-W or the prior year's average for the first six months, many with varying "floors" (i.e. minimums) established. Given a June 2005 CPI-W (Seattle) of 2.3 percent and a first half 2005 CPI-W (Seattle) of 2.9 percent, the 2006 COLA for closed contracts ranged from 2.08 percent to 2.58 percent depending on the bargaining unit. Several contracts are open next year; 2007 COLAs for the closed contracts range from 4.16 percent to 4.62 percent (based on 90 to 100 percent of the June 2005 to June 2006 CPI-W of 4.62 percent).

² Glenn R. Pascall, *Finding good news as economy throttles back*, Puget Sound Business Journal, January 19, 2007

³ Peter Neurath, *Execs feel more confident about the economy*, Puget Sound Business Journal, November 6, 2006

⁴ *Purchasing managers' index jumped in December*, Puget Sound Business Journal, January 8, 2007

Unemployment rates for King County, Washington State, and the U.S. from December 2005 through December 2006 are noted in the table below:

| Month | King County | Washington | U.S. |
|---------------------|--------------------|-------------------|-------------|
| December 2005 | 4.4% | 5.2% | 4.6% |
| January 2006 | 4.2% | 5.3% | 5.1% |
| February 2006 | 4.5% | 5.6% | 5.1% |
| March 2006 | 4.2% | 5.0% | 4.8% |
| April 2006 | 3.8% | 4.7% | 4.5% |
| May 2006 | 4.4% | 4.9% | 4.4% |
| June 2006 | 4.3% | 5.0% | 4.8% |
| July 2006 | 4.0% | 4.9% | 5.0% |
| August 2006 | 3.9% | 4.9% | 4.6% |
| September 2006 | 4.4% | 4.8% | 4.4% |
| October 2006 | 3.8% | 4.2% | 4.1% |
| November 2006 | 4.5% | 5.0% | 4.3% |
| December 2006 | 4.1% | 5.0% | 4.3% |
| 2006 Average | 4.2% | 5.1% | 4.6% |
| 2005 Average | 4.8% | 5.5% | 5.1% |

Source: Washington Department of Employment Security

In 2003, the average statewide unemployment rate was significantly higher than the average U.S. unemployment rate. Since then, the rate has declined significantly both locally and nationally and the gap has also narrowed over the last three years, with the Washington State annual 2006 average rate of 5.1 percent compared to the national annual average 2006 rate of 4.6 percent. Employment levels in King County have also improved considerably, with the local average annual 2006 unemployment rate of 4.2 percent less than the national average annual 2006 rate. The Seattle-Tacoma metropolitan area added over 75,000 jobs between January 2005 and December 2006.⁵

Eastside office vacancy rates remain low at 9.3 percent as of the end of the fourth quarter of 2006 compared to a high of 24 percent in the first quarter of 2003. Kirkland's vacancy rate is lower than the Eastside average at 6.6 percent and the vacancy rate in downtown Bellevue is below 6 percent. These rates have not changed much compared to the fourth quarter 2005. The Eastside market currently has over 2.7 million square feet of office space under construction. Despite the economic slowdown in the nation, the Puget Sound region has maintained a health economy and stable employment growth and the office market is responding accordingly. As a result, the Puget Sound office investment market also had a record-breaking year in 2006 with over \$3 billion in transactions. Recently PriceWaterhouseCooper named Seattle the number one investment market in the country. While 2006 was an active year for the Eastside market, 2007 is expected to be more exceptional as many companies have scheduled move-in dates during the first part of the new year and Microsoft and Eddie Bauer will move to downtown Bellevue with the completion of Lincoln Square in mid-2007.⁶

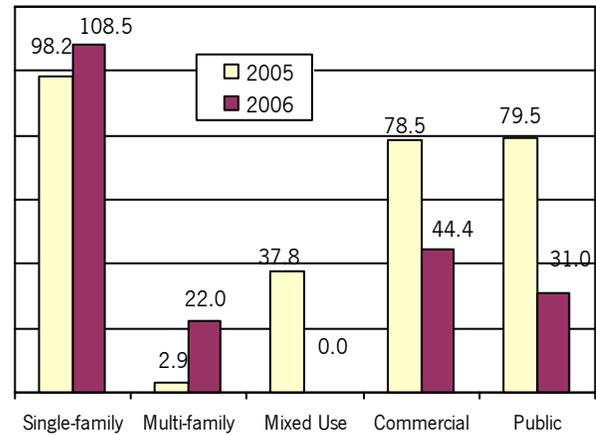
⁵ Washington State Department of Employment Security Labor Market Information

⁶ CB Richard Ellis Real Estate Services, Market View Puget Sound Office, Fourth Quarter 2006

In contrast to the concerns at the national level regarding the housing “bubble bursting,” local housing prices are expected to grow, but at a lower pace than in the recent past.⁷ The primary reason is the Puget Sound region’s growing employment market combined with growth management restrictions, which will continue to apply upward pressure to local home prices. According to the Northwest Multiple Listing Services, the median residential housing price for closed sales of single-family homes and condominiums on the Eastside rose to \$513,495 in December, up 15.4 percent compared to December 2005 even though the number of closed sales were down over 20 percent (possibly due to unusually adverse weather conditions).⁸

Development activity through December 2005 and 2006, as measured by the valuation of new construction, alterations, and additions, is illustrated in the chart on the right. While overall building permit valuation of \$206 million for 2006 is down compared to 2005 building permit valuation of \$297 million, this reflects the record-breaking performance of development-related activity in 2005, rather than weakness in 2006. However, activity in the single and multi-family sectors in 2006 is ahead of 2005. Public activity is down dramatically in 2006 reflecting the major construction projects at Evergreen Hospital that were permitted in 2005. Commercial activity has also slowed compared to 2005, but remains relatively strong.

**Valuation of Building Permits
YTD Through December 2005 and 2006
(\$ Million)**



The upward trend in sales tax revenue continued in 2006, up 14.8 percent compared to the same period in 2005. Most of this gain relates to strong performance in construction-related areas.

Lodging tax revenue through December 2006 is up 13.5 percent compared to the same period in 2005. The 150-room Marriott in Totem Lake opened in August 2006 and the 91-room Heathman Kirkland under construction in downtown is expected to open in the spring of 2007. The additional hotels should increase lodging tax revenue in the future.

Requests for Information

This financial report is designed to provide a general overview of the City of Kirkland’s finances for readers with an interest in the government’s finances. Questions concerning any of the information provided in this report, or requests for additional information, may be addressed to Tracey Dunlap, Director of Finance & Administration, City of Kirkland, 123 Fifth Avenue, Kirkland, WA 98033-6189.

⁷ Elizabeth Rhodes, *Looking ahead: The Sky isn’t falling for the Puget Sound market*, The Seattle Times, December 30, 2006

⁸ NWREporter, Market Update December 2006



Basic Financial Statements



City of Kirkland
Statement of Net Assets
December 31, 2006

Page 1 of 2

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|--------------------|
| Assets | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | 18,864,912 | 4,818,381 | 23,683,293 |
| Investments (Note 3) | 54,990,394 | 16,340,060 | 71,330,454 |
| Receivables | | | |
| Accounts | 5,355,966 | 4,443,400 | 9,799,366 |
| Inventories | 46,945 | 344,456 | 391,401 |
| Restricted Assets | | | |
| Customer Deposits | 200,519 | 0 | 200,519 |
| Revenue Bond Reserves | 0 | 822,275 | 822,275 |
| Sub-total Current Assets | 79,458,736 | 26,768,572 | 106,227,308 |
| Non-Current Assets and Deferred Charges | | | |
| Deferred Charges | 0 | 306,177 | 306,177 |
| Non-current Receivables | 359,486 | 0 | 359,486 |
| Capital Assets: (Note 5) | | | |
| Land & Artwork | 75,363,935 | 47,784 | 75,411,719 |
| Depreciable Capital Assets (net) | 36,367,655 | 100,224,049 | 136,591,704 |
| Depreciable Infrastructure (net) | 38,393,587 | 0 | 38,393,587 |
| Construction in Progress | 20,952,821 | 6,166,022 | 27,118,843 |
| Total Capital Assets | 171,077,998 | 106,437,855 | 277,515,853 |
| Total Non-Current Assets | 171,437,484 | 106,744,032 | 278,181,516 |
| Total Assets | 250,896,220 | 133,512,604 | 384,408,824 |

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Statement of Net Assets
December 31, 2006

Page 2 of 2

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|--------------------|
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts Payable | 2,803,903 | 762,972 | 3,566,875 |
| Other Current Liabilities | 2,084,943 | 789,272 | 2,874,215 |
| Accrued Interest Payable | 103,012 | 19,184 | 122,196 |
| Unearned Revenue | 339,630 | 1,960,361 | 2,299,991 |
| Total Current Liabilities | 5,331,488 | 3,531,789 | 8,863,277 |
| Current Liabilities Payable from Restricted Assets | | | |
| Accrued Interest Payable | 0 | 17,912 | 17,912 |
| Current Bond Principal Payable | 3,800,000 | 615,000 | 4,415,000 |
| Deposits Payable | 0 | 31,818 | 31,818 |
| Special assessment debt with governmental commitment | 5,000 | 0 | 5,000 |
| Total Current Liabilities Payable from Restricted Assets | 3,805,000 | 664,730 | 4,469,730 |
| Total Current Liabilities | 9,136,488 | 4,196,519 | 13,333,007 |
| Noncurrent Liabilities | | | |
| Due in more than one year | 17,776,845 | 8,962,810 | 26,739,655 |
| Total Noncurrent Liabilities | 17,776,845 | 8,962,810 | 26,739,655 |
| Total Liabilities | 26,913,333 | 13,159,329 | 40,072,662 |
| Net Assets | | | |
| Invested in capital assets net of related debt | 149,842,998 | 96,222,908 | 246,065,906 |
| Restricted for: | | | |
| Capital Projects | 18,484,240 | 0 | 18,484,240 |
| Debt Service | 558,526 | 181,440 | 739,966 |
| Special Revenue Funds | 18,540,027 | 0 | 18,540,027 |
| Unrestricted | 36,557,096 | 23,948,928 | 60,506,024 |
| Total Net Assets | 223,982,887 | 120,353,276 | 344,336,163 |



City of Kirkland
Statement of Activities
For the fiscal year ended December 31, 2006

| Functions/Programs | Program Revenues | | | | Net (Expense/Revenue and Changes in Net Assets) | | |
|---|-------------------|----------------------|--|--|---|-----------------------------|---------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities | | | | | | | |
| General Government | 4,399,307 | 2,400,660 | 240,369 | 0 | (1,758,278) | 0 | (1,758,278) |
| Judicial | 1,346,720 | 1,365,820 | 2,330 | 0 | 21,430 | 0 | 21,430 |
| Public Safety | 25,210,510 | 4,601,906 | 158,467 | 0 | (20,450,137) | 0 | (20,450,137) |
| Physical Environment | 2,345,553 | 697,593 | 0 | 0 | (1,647,960) | 0 | (1,647,960) |
| Transportation | 11,225,929 | 580,475 | 1,063,290 | 845,574 | (8,736,590) | 0 | (8,736,590) |
| Human Services | 1,049,579 | 0 | 0 | 0 | (1,049,579) | 0 | (1,049,579) |
| Economic Environment | 4,956,792 | 4,047,288 | 80,829 | 0 | (828,675) | 0 | (828,675) |
| Culture and Recreation | 6,244,431 | 1,053,975 | 143,342 | 186,260 | (4,860,854) | 0 | (4,860,854) |
| Interest on Long Term Debt | 1,157,676 | 0 | 0 | 0 | (1,157,676) | 0 | (1,157,676) |
| Total Governmental Activities | 57,936,497 | 14,747,717 | 1,688,627 | 1,031,834 | (40,468,319) | 0 | (40,468,319) |
| Business Type Activities | | | | | | | |
| Water/Sewer | 14,293,499 | 15,523,178 | 0 | 3,277,123 | 0 | 4,506,802 | 4,506,802 |
| Surface Water | 2,698,022 | 5,049,525 | 105,073 | 414,924 | 0 | 2,871,500 | 2,871,500 |
| Solid Waste | 7,313,435 | 8,206,347 | 0 | 0 | 0 | 892,912 | 892,912 |
| Total Business Type Activities | 24,304,956 | 28,779,050 | 105,073 | 3,692,047 | 0 | 8,271,214 | 8,271,214 |
| Total Government | 82,241,453 | 43,526,767 | 1,793,700 | 4,723,881 | (40,468,319) | 8,271,214 | (32,197,105) |
| General Revenues | | | | | | | |
| Sales Taxes | | | | | 17,473,327 | 0 | 17,473,327 |
| Property Taxes | | | | | 13,023,578 | 0 | 13,023,578 |
| Utility Taxes | | | | | 8,004,268 | 0 | 8,004,268 |
| Excise Taxes | | | | | 7,044,850 | 0 | 7,044,850 |
| Business Taxes | | | | | 978,746 | 0 | 978,746 |
| Other Taxes | | | | | 1,782,141 | 0 | 1,782,141 |
| Investment Earnings | | | | | 3,391,684 | 959,944 | 4,351,628 |
| Gain on sale of capital assets | | | | | 318,182 | 0 | 318,182 |
| Transfers, internal activities | | | | | 142,755 | (142,755) | 0 |
| Total General Revenues & Transfers | | | | | 52,159,531 | 817,189 | 52,976,720 |
| Change in Net Assets | | | | | 11,691,212 | 9,088,403 | 20,779,615 |
| Net assets at beginning of year | | | | | 212,291,675 | 111,264,873 | 323,556,548 |
| Net assets at end of year | | | | | 223,982,887 | 120,353,276 | 344,336,163 |

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Balance Sheet
 Governmental Funds
 December 31, 2006

Page 1 of 2

| | General Fund | Street Operating | Park and Municipal Reserve | Excise Capital Improvement |
|---|------------------|---------------------|----------------------------------|----------------------------------|
| Assets | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | 1,477,339 | 524,569 | 3,074,190 | 3,939,051 |
| Investments | 4,611,887 | 1,523,614 | 8,929,008 | 11,410,981 |
| Receivables | | | | |
| Taxes | 3,137,940 | 58,584 | 0 | 410,720 |
| Accounts | 6,335 | 0 | 0 | 0 |
| Assessments | | | | |
| Deferred | 0 | 0 | 0 | 0 |
| Due From Other Sources | 197,676 | 0 | 0 | 0 |
| Restricted Assets | | | | |
| Deposits | 200,519 | 0 | 0 | 0 |
| Total Assets | 9,631,696 | 2,106,766 | 12,003,198 | 15,760,752 |
| Liabilities and Fund Balance | | | | |
| Liabilities | | | | |
| Accounts Payable | 380,822 | 45,438 | 3,048 | 0 |
| Wages Payable | 1,456,716 | 62,638 | 0 | 0 |
| Due to Other Sources | 118,031 | 2,922 | 654 | 0 |
| Payable from Restricted Assets | | | | |
| Deposits Payable | 319,424 | 457,001 | 0 | 0 |
| Deferred Revenue | 204,919 | 58,585 | 0 | 0 |
| Total Liabilities | 2,479,912 | 626,584 | 3,702 | 0 |
| Fund Balances | | | | |
| Reserved For | | | | |
| Special Revenue Funds | 0 | 0 | 0 | 15,760,752 |
| Debt Service | 0 | 0 | 0 | 0 |
| Unreserved, reported in | | | | |
| General Fund | 7,151,784 | 0 | 0 | 0 |
| Special Revenue Funds | 0 | 1,480,182 | 11,999,496 | 0 |
| Capital Projects Funds | 0 | 0 | 0 | 0 |
| Total Fund Balances | 7,151,784 | 1,480,182 | 11,999,496 | 15,760,752 |
| Total Liabilities and Fund Balance | 9,631,696 | 2,106,766 | 12,003,198 | 15,760,752 |

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds

Other long-term assets are not available to pay for current period expenditures and therefore deferred in the funds

Long term liabilities are not due and payable in the current period and are not reported in the funds

.

The assets and liabilities are included in governmental activities in the statement of net assets

Net Assets of governmental activities

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Balance Sheet
 Governmental Funds
 December 31, 2006

Page 2 of 2

| General Capital Projects | Grant Capital Projects | Other Governmental Funds | Governmental Funds Total |
|--------------------------------|------------------------------|--------------------------------|--------------------------------|
| 3,568,204 | 1,290,317 | 2,863,363 | 16,737,033 |
| 10,309,069 | 3,747,736 | 8,277,658 | 48,809,953 |
| 0 | 0 | 47,917 | 3,655,161 |
| 0 | 0 | 4,544 | 10,879 |
| 0 | 0 | 0 | 0 |
| 38,260 | 0 | 5,500 | 241,436 |
| 0 | 0 | 0 | 200,519 |
| 13,915,532 | 5,038,053 | 11,198,982 | 69,654,981 |
| 276,126 | 146,504 | 92,716 | 944,654 |
| 0 | 0 | 50,502 | 1,569,856 |
| 46,715 | 0 | 10,696 | 179,018 |
| 0 | 0 | 105 | 776,530 |
| 0 | 0 | 76,126 | 339,630 |
| 322,841 | 146,504 | 230,145 | 3,809,688 |
| 0 | 0 | 2,779,275 | 18,540,027 |
| 0 | 0 | 558,526 | 558,526 |
| 0 | 0 | 0 | 7,151,784 |
| 0 | 0 | 7,631,036 | 21,110,714 |
| 13,592,691 | 4,891,549 | 0 | 18,484,240 |
| 13,592,691 | 4,891,549 | 10,968,837 | 65,845,291 |
| 13,915,532 | 5,038,053 | 11,198,982 | 69,654,981 |
| | | | 164,616,445 |
| | | | 1,786,641 |
| | | | (22,903,135) |
| | | | 14,637,645 |
| | | | 223,982,887 |

City of Kirkland
Statement of Revenues, Expenditures and Changes in Fund Balance
 Governmental Funds
 For the fiscal year ended December 31, 2006

Page 1 of 2

| | General | Fund | Street Operating | Park and Municipal Reserve |
|---|--------------------|------|---------------------|----------------------------------|
| Revenues | | | | |
| Taxes and Assessments | 34,091,343 | | 2,712,757 | 0 |
| Licenses and Permits | 3,708,339 | | 0 | 0 |
| Intergovernmental | 4,851,340 | | 727,638 | 0 |
| Charges for Services | 6,539,097 | | 18,596 | 9,007 |
| Fines and Forfeitures | 1,133,421 | | 0 | 32,500 |
| Investment Interest | 541,053 | | 0 | 0 |
| Miscellaneous Revenues | 411,182 | | 125,223 | 306,944 |
| Total Revenues | 51,275,775 | | 3,584,214 | 348,451 |
| Expenditures | | | | |
| Current | | | | |
| General Government | 7,131,434 | | 0 | 103,531 |
| Security of Persons and Property | 27,344,213 | | 0 | 4,418 |
| Physical Environment | 3,243,524 | | 0 | 0 |
| Transportation | 0 | | 3,594,234 | 0 |
| Economic Environment | 3,813,111 | | 0 | 132 |
| Culture and Recreation | 4,041,026 | | 0 | 13,429 |
| Debt Service | | | | |
| Principal | 0 | | 0 | 0 |
| Interest | 0 | | 0 | 0 |
| Capital Outlay | 66,321 | | 0 | 242,886 |
| Total Expenditures | 45,639,629 | | 3,594,234 | 364,396 |
| Excess (Deficiency) of revenues | | | | |
| Over (under) expenditures | 5,636,146 | | (10,020) | (15,945) |
| Other Financing Sources (Uses) | | | | |
| Sale of Capital Assets | 15,300 | | 0 | 313,202 |
| Transfers In | 466,686 | | 145,751 | 2,073,438 |
| Transfers Out | (4,494,903) | | 0 | (112,541) |
| Total Other Financing Sources (Uses) | (4,012,917) | | 145,751 | 2,274,099 |
| Net Change in Fund Balance | 1,623,229 | | 135,731 | 2,258,154 |
| Fund Balances Beginning of Year | 5,528,555 | | 1,344,451 | 9,741,342 |
| Fund Balances End of Year | 7,151,784 | | 1,480,182 | 11,999,496 |

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Statement of Revenues, Expenditures and Changes in Fund Balance
 Governmental Funds
 For the fiscal year ended December 31, 2006

Page 2 of 2

| Excise Capital Improvement | General Capital Projects | Grant Capital Projects | Other Governmental Funds | Governmental Funds Total |
|----------------------------------|--------------------------------|------------------------------|--------------------------------|--------------------------------|
| 7,044,850 | 625,000 | 0 | 3,336,638 | 47,810,588 |
| 0 | 0 | 0 | 0 | 3,708,339 |
| 0 | 256,690 | 32,500 | 372,784 | 6,240,952 |
| 0 | 0 | 107,730 | 3,190,819 | 9,865,249 |
| 0 | 0 | 0 | 0 | 1,165,921 |
| 542,550 | 990,375 | 0 | 704,673 | 2,778,651 |
| 71,747 | 258,742 | 1,625 | 355,864 | 1,531,327 |
| 7,659,147 | 2,130,807 | 141,855 | 7,960,778 | 73,101,027 |
| 0 | 252,777 | 0 | 1,257,244 | 8,744,986 |
| 0 | 0 | 0 | 194,571 | 27,543,202 |
| 0 | 0 | 0 | 303,510 | 3,547,034 |
| 0 | 1,405,699 | 0 | 40 | 4,999,973 |
| 0 | 18,624 | 0 | 283,144 | 4,115,011 |
| 0 | 189,408 | 0 | 1,675,648 | 5,919,511 |
| 0 | 0 | 0 | 1,920,000 | 1,920,000 |
| 0 | 0 | 0 | 1,054,664 | 1,054,664 |
| 0 | 3,186,181 | 918,061 | 35,343 | 4,448,792 |
| 0 | 5,052,689 | 918,061 | 6,724,164 | 62,293,173 |
| 7,659,147 | (2,921,882) | (776,206) | 1,236,614 | 10,807,854 |
| 0 | 0 | 0 | 236,286 | 564,788 |
| 0 | 4,225,586 | 2,285,200 | 2,322,262 | 11,518,923 |
| (3,916,208) | (100,000) | 0 | (3,771,196) | (12,394,848) |
| (3,916,208) | 4,125,586 | 2,285,200 | (1,212,648) | (311,137) |
| 3,742,939 | 1,203,704 | 1,508,994 | 23,966 | 10,496,717 |
| 12,017,813 | 12,388,987 | 3,382,555 | 10,944,871 | 55,348,574 |
| 15,760,752 | 13,592,691 | 4,891,549 | 10,968,837 | 65,845,291 |

City of Kirkland
**Reconciliation of the Statement of Revenues
Expenditures, and Changes in Fund Balance of Governmental Funds
To the Statement of Activities**

For the fiscal year ended December 31, 2006

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

Net change in fund balances for governmental funds 10,496,717

Governmental funds report capital outlays as expenditures. In the statement of activities the cost of assets is depreciated over their estimated useful lives.

| | | |
|-------------------|----------------|-------------|
| Capital outlays | 4,448,792 | |
| Depreciation | (5,120,275) | |
| CIP Closures | (2,071,908) | |
| Cost of Goods | (427,064) | |
| Capital Donations | <u>961,074</u> | |
| | (2,209,381) | (2,209,381) |

The issuance of long term debt is a resource and the repayment of bond principal is an expenditure in governmental funds. These transactions effect liabilities in the statement of net assets.

| | | |
|--------------|-----------|-----------|
| Debt Retired | 1,920,000 | 1,920,000 |
|--------------|-----------|-----------|

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 92,139

Expenses in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds.

| | | |
|--------------------------------|-----------|---|
| Change in Compensated Absences | 103,012 | |
| Accrued Interest | (103,012) | 0 |

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of most of these activities is reported with governmental activities. 1,391,737

Change in nets assets of governmental activities 11,691,212

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
 General Fund
 For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Taxes and Assessments | 56,505,388 | 59,610,665 | 29,785,830 | 34,164,604 | 63,950,434 | 4,339,769 |
| Licenses and Permits | 6,244,098 | 6,551,733 | 3,979,969 | 3,708,732 | 7,688,701 | 1,136,968 |
| Intergovernmental | 9,011,421 | 9,834,588 | 4,739,173 | 4,887,765 | 9,626,938 | (207,650) |
| Charges for Services | 12,955,649 | 13,055,907 | 6,298,338 | 6,538,873 | 12,837,211 | (218,696) |
| Fines and Forfeitures | 2,284,300 | 2,249,700 | 1,117,030 | 1,133,701 | 2,250,731 | 1,031 |
| Investment Interest | 568,298 | 568,298 | 292,869 | 541,053 | 833,922 | 265,624 |
| Miscellaneous Revenues | 409,730 | 414,907 | 247,997 | 335,156 | 583,153 | 168,246 |
| Total Revenues | 87,978,884 | 92,285,798 | 46,461,206 | 51,309,884 | 97,771,090 | 5,485,292 |
| Expenditures | | | | | | |
| Current | | | | | | |
| General Government | 13,235,891 | 13,847,419 | 6,464,074 | 6,550,920 | 13,014,994 | 832,425 |
| Security of Persons and Property | 52,312,526 | 55,970,703 | 26,380,675 | 28,359,365 | 54,740,040 | 1,230,663 |
| Physical Environment | 4,806,586 | 4,965,186 | 2,218,933 | 2,344,543 | 4,563,476 | 401,710 |
| Transportation | 969,618 | 973,001 | 471,441 | 468,258 | 939,699 | 33,302 |
| Economic Environment | 6,336,605 | 6,463,558 | 3,021,112 | 2,886,620 | 5,907,732 | 555,826 |
| Human Services | 1,010,140 | 1,130,000 | 564,041 | 508,562 | 1,072,603 | 57,397 |
| Culture and Recreation | 8,990,179 | 9,144,182 | 4,232,429 | 4,436,918 | 8,669,347 | 474,835 |
| Capital Outlay | 102,300 | 111,586 | 11,390 | 66,321 | 77,711 | 33,875 |
| Total Expenditures | 87,763,845 | 92,605,635 | 43,364,095 | 45,621,507 | 88,985,602 | 3,620,033 |
| Excess of revenues over expenditures | 215,039 | (319,837) | 3,097,111 | 5,688,377 | 8,785,488 | 9,105,325 |
| Other Financing Sources (Uses) | | | | | | |
| Sale of capital assets | 0 | 0 | 0 | 15,300 | 15,300 | 15,300 |
| Transfers In | 498,117 | 596,229 | 190,243 | 466,686 | 656,929 | 60,700 |
| Transfers Out | (1,192,290) | (4,448,180) | (3,838,680) | (4,494,903) | (8,333,583) | (3,885,403) |
| Total Other Financing Sources (Uses) | (694,173) | (3,851,951) | (3,648,437) | (4,012,917) | (7,661,354) | (3,809,403) |
| Net Change in Fund Balance | (479,134) | (4,171,788) | (551,326) | 1,675,460 | 1,124,134 | 5,295,922 |
| Fund Balances Beginning of Year | 3,984,591 | 8,700,272 | 4,741,650 | | 4,741,650 | (3,958,622) |
| Fund Balances End of Year | 3,505,457 | 4,528,484 | 4,190,324 | 1,675,460 | 5,865,784 | 1,337,300 |

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

Street Operating Special Revenue Fund
For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Taxes and Assessments | 5,271,494 | 5,271,494 | 2,529,998 | 2,713,217 | 5,243,215 | (28,279) |
| Intergovernmental | 1,301,066 | 1,301,066 | 673,311 | 727,639 | 1,400,950 | 99,884 |
| Charges for Services | 28,003 | 28,003 | 16,891 | 18,598 | 35,489 | 7,486 |
| Miscellaneous Revenues | 222,500 | 222,500 | 101,833 | 126,564 | 228,397 | 5,897 |
| Total Revenues | 6,823,063 | 6,823,063 | 3,322,033 | 3,586,018 | 6,908,051 | 84,988 |
| Expenditures | | | | | | |
| Current | | | | | | |
| Transportation | 7,988,192 | 8,375,015 | 3,348,791 | 3,580,225 | 6,929,016 | 1,445,999 |
| Capital Outlay | 0 | 0 | 14,481 | 43,633 | 58,114 | (58,114) |
| Total Expenditures | 7,988,192 | 8,375,015 | 3,363,272 | 3,623,858 | 6,987,130 | 1,387,885 |
| Excess of revenues over expenditures | (1,165,129) | (1,551,952) | (41,239) | (37,840) | (79,079) | 1,472,873 |
| Other Financing Sources (Uses) | | | | | | |
| Transfers In | 15,000 | 192,265 | 140,281 | 145,751 | 286,032 | 93,767 |
| Operating Transfers Out | 0 | (20,000) | (22,724) | 0 | (22,724) | (2,724) |
| Total Other Financing Sources (Uses) | 15,000 | 172,265 | 117,557 | 145,751 | 263,308 | 91,043 |
| Net Change in Fund Balance | (1,150,129) | (1,379,687) | 76,318 | 107,911 | 184,229 | 1,563,916 |
| Fund Balances Beginning of Year | 1,150,129 | 1,466,355 | 1,403,100 | | 1,403,100 | (63,255) |
| Fund Balances End of Year | 0 | 86,668 | 1,479,418 | 107,911 | 1,587,329 | 1,500,661 |

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

Parks and Municipal Reserve Special Revenue Fund
For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Intergovernmental | 0 | 502,233 | 516,961 | 0 | 516,961 | 14,728 |
| Charges for Services | 0 | 0 | 3,846 | 9,007 | 12,853 | 12,853 |
| Fines and Forfeitures | 0 | 0 | 0 | 32,500 | 32,500 | 32,500 |
| Miscellaneous Revenues | 71,400 | 248,560 | 266,976 | 307,178 | 574,154 | 325,594 |
| Total Revenues | 71,400 | 750,793 | 787,783 | 348,685 | 1,136,468 | 385,675 |
| Expenditures | | | | | | |
| Current | | | | | | |
| General Government | 128,292 | 150,292 | 58,658 | 106,870 | 165,528 | (15,236) |
| Security of Persons and Property | 13,703 | 515,936 | 541,395 | 4,198 | 545,593 | (29,657) |
| Economic Environment | 0 | 0 | 90 | (90) | 0 | 0 |
| Human Services | 0 | 0 | 0 | 222 | 222 | (222) |
| Culture and Recreation | 30,000 | 30,000 | 15,970 | 13,717 | 29,687 | 313 |
| Capital Outlay | 7,160 | 263,945 | 261,620 | 242,886 | 504,506 | (240,561) |
| Total Expenditures | 179,155 | 960,173 | 877,733 | 367,803 | 1,245,536 | (285,363) |
| Excess of revenues over expenditures | (107,755) | (209,380) | (89,950) | (19,118) | (109,068) | 100,312 |
| Other Financing Sources (Uses) | | | | | | |
| Sale of capital assets | 0 | 0 | 73,140 | 313,202 | 386,342 | 386,342 |
| Transfers In | 100,000 | 1,055,000 | 1,096,440 | 2,073,438 | 3,169,878 | 2,114,878 |
| Transfers Out | (503,051) | (426,855) | (388,380) | (112,540) | (500,920) | (74,065) |
| Total Other Financing Sources (Uses) | (403,051) | 628,145 | 781,200 | 2,274,100 | 3,055,300 | 2,427,155 |
| Net Change in Fund Balance | (510,806) | 418,765 | 691,250 | 2,254,982 | 2,946,232 | 2,527,467 |
| Fund Balances Beginning of Year | 8,909,718 | 9,056,966 | 9,056,966 | | 9,056,966 | 0 |
| Fund Balances End of Year | 8,398,912 | 9,475,731 | 9,748,216 | 2,254,982 | 12,003,198 | 2,527,467 |

The notes to the financial statements are an integral part of this statement.

City of Kirkland
**Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual**

Excise Tax Capital Improvement Special Revenue Fund
 For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Taxes and Assessments | 5,600,000 | 5,600,000 | 6,021,036 | 7,049,372 | 13,070,408 | 7,470,408 |
| Investment Interest | 0 | 0 | 281,194 | 542,550 | 823,744 | 823,744 |
| Total Revenues | 5,600,000 | 5,600,000 | 6,302,230 | 7,591,922 | 13,894,152 | 8,294,152 |
| Expenditures | | | | | | |
| Capital Outlay | 0 | 0 | 245,668 | | 245,668 | (245,668) |
| Total Expenditures | 0 | 0 | 245,668 | 0 | 245,668 | (245,668) |
| Excess of revenues over expenditures | 5,600,000 | 5,600,000 | 6,056,562 | 7,591,922 | 13,648,484 | 8,048,484 |
| Other Financing Sources (Uses) | | | | | | |
| Transfers Out | (7,485,377) | (7,582,977) | (2,770,655) | (3,916,208) | (6,686,863) | 896,114 |
| Total Other Financing Sources (Uses) | (7,485,377) | (7,582,977) | (2,770,655) | (3,916,208) | (6,686,863) | 896,114 |
| Net Change in Fund Balance | (1,885,377) | (1,982,977) | 3,285,907 | 3,675,714 | 6,961,621 | 8,944,598 |
| Fund Balances Beginning of Year | 7,908,785 | 8,418,435 | 8,418,435 | | 8,418,435 | 0 |
| Fund Balances End of Year | 6,023,408 | 6,435,458 | 11,704,342 | 3,675,714 | 15,380,056 | 8,944,598 |

The notes to the financial statements are an integral part of this statement.



City of Kirkland
Statement of Net Assets
Proprietary Funds
December 31, 2006

Page 1 of 2

| | Business-type Activities Enterprise Funds | | | | Governmental Activities Internal Service Funds |
|--|---|-------------------|------------------|--------------------|--|
| | Water/Sewer | Surface Water | Solid Waste | Total | |
| Assets | | | | | |
| Current Assets: | | | | | |
| Cash and Cash Equivalents | 3,133,105 | 1,439,718 | 245,558 | 4,818,381 | 2,127,879 |
| Investments (Note 3) | 11,457,159 | 4,172,564 | 710,337 | 16,340,060 | 6,180,441 |
| Receivables | | | | | |
| Interest | 89,596 | 0 | 0 | 89,596 | 0 |
| Contracts | 1,804,542 | 0 | 0 | 1,804,542 | 0 |
| Accounts | 1,004,866 | 155,819 | 1,296,940 | 2,457,625 | 20,341 |
| Loans | 0 | 0 | 0 | 0 | 46,398 |
| Assessments | | | | | |
| Deferred | 6,075 | 0 | 0 | 6,075 | 0 |
| Due From Other Governments | | 50,923 | 34,639 | 85,562 | 996 |
| Inventories | 289,706 | 54,750 | 0 | 344,456 | 46,945 |
| Total Current Assets | 17,785,049 | 5,873,774 | 2,287,474 | 25,946,297 | 8,423,000 |
| Noncurrent Assets | | | | | |
| Restricted Assets | | | | | |
| Revenue Bond Reserves | 822,275 | 0 | 0 | 822,275 | 0 |
| Total Restricted Assets | 822,275 | 0 | 0 | 822,275 | 0 |
| Deferred Charges and Other Assets | | | | | |
| Deferred Charges | 205,709 | 100,468 | 0 | 306,177 | 0 |
| Total Deferred Charges and Other Assets | 205,709 | 100,468 | 0 | 306,177 | 0 |
| Capital Assets (Note 5) | | | | | |
| Land | 47,784 | 0 | 0 | 47,784 | 0 |
| Depreciable Capital Assets (Net) | 70,750,270 | 29,473,779 | 0 | 100,224,049 | 6,461,553 |
| Construction in Progress | 5,380,194 | 785,828 | 0 | 6,166,022 | 0 |
| Total Capital Assets | 76,178,248 | 30,259,607 | 0 | 106,437,855 | 6,461,553 |
| Total Noncurrent Assets | 77,206,232 | 30,360,075 | 0 | 107,566,307 | 6,461,553 |
| Total Assets | 94,991,281 | 36,233,849 | 2,287,474 | 133,512,604 | 14,884,553 |

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Statement of Net Assets
 Proprietary Funds
 December 31, 2006

Page 2 of 2

| | Business-type Activities Enterprise Funds | | | | Governmental Activities Internal Service Funds |
|--|---|-------------------|------------------|--------------------|--|
| | Water/Sewer | Surface Water | Solid Waste | Total | |
| Liabilities | | | | | |
| Current Liabilities | | | | | |
| Accounts Payable | 186,368 | 58,435 | 40,386 | 285,189 | 54,221 |
| Wages Payable | 69,616 | 42,850 | 3,648 | 116,114 | 102,287 |
| Compensated Absence Payable | 41,632 | 16,032 | 829 | 58,493 | 72,108 |
| Due to Other Governments | 395,757 | 24,704 | 57,322 | 477,783 | 265 |
| Accrued Interest Payable | 19,184 | 0 | 0 | 19,184 | 0 |
| Deferred Revenue | 1,804,542 | 155,819 | 0 | 1,960,361 | 0 |
| Loans and Contracts Payable (current portion) | 614,665 | 0 | 0 | 614,665 | 0 |
| Sub-total Current Liabilities | 3,131,764 | 297,840 | 102,185 | 3,531,789 | 228,881 |
| Current Liabilities Payable From Restricted Assets | | | | | |
| Deposits Payable | 7,924 | 23,894 | 0 | 31,818 | 0 |
| Accrued Interest Payable | 17,912 | 0 | 0 | 17,912 | 0 |
| Current Bond Principle Payable | 615,000 | 0 | 0 | 615,000 | 0 |
| Sub-total Current Liabilities Payable From Restricted Assets | 640,836 | 23,894 | 0 | 664,730 | 0 |
| Total Current Liabilities | 3,772,600 | 321,734 | 102,185 | 4,196,519 | 228,881 |
| Noncurrent Liabilities | | | | | |
| Compensated Absence Payable | 10,408 | 4,008 | 207 | 14,623 | 18,027 |
| Loans and Contracts Payable | 4,523,187 | 0 | 0 | 4,523,187 | 0 |
| Bonds Payable | 4,425,000 | 0 | 0 | 4,425,000 | 0 |
| Total Noncurrent Liabilities | 8,958,595 | 4,008 | 207 | 8,962,810 | 18,027 |
| Total Liabilities | 12,731,195 | 325,742 | 102,392 | 13,159,329 | 246,908 |
| Net Assets | | | | | |
| Invested in capital assets net of related debt | 65,963,301 | 30,259,607 | 0 | 96,222,908 | 6,461,554 |
| Restricted for: | | | | | |
| Debt Service | 181,440 | 0 | 0 | 181,440 | 0 |
| Unrestricted | 16,115,346 | 5,648,501 | 2,185,082 | 23,948,929 | 8,176,091 |
| Total Net Assets | 82,260,087 | 35,908,108 | 2,185,082 | 120,353,277 | 14,637,645 |

City of Kirkland
Statement of Revenues, Expenditures and Changes in Fund Net Assets
 Proprietary Funds
 For the fiscal year ended December 31, 2006

| | Business-type Activities Enterprise Funds | | | Total | Governmental Activities Internal Service Funds |
|--|---|-------------------|------------------|--------------------|--|
| | Water/Sewer | Surface Water | Solid Waste | | |
| Operating Revenues | | | | | |
| Charges for Services | 15,346,381 | 4,904,757 | 8,206,346 | 28,457,484 | 5,597,078 |
| Miscellaneous Revenues | 176,797 | 144,768 | 0 | 321,565 | 35,476 |
| Total Operating Revenues | 15,523,178 | 5,049,525 | 8,206,346 | 28,779,049 | 5,632,554 |
| Operating Expenses | | | | | |
| Administrative and General | 2,140,286 | 1,196,147 | 471,073 | 3,807,506 | 1,231,388 |
| Supplies | 0 | 0 | 0 | 0 | 249,940 |
| Maintenance and Operations | 9,566,941 | 671,456 | 6,470,925 | 16,709,322 | 3,243,473 |
| Taxes | 461,687 | 73,542 | 365,704 | 900,933 | 0 |
| Depreciation | 1,834,281 | 716,465 | 0 | 2,550,746 | 786,242 |
| Total Operating Expenses | 14,003,195 | 2,657,610 | 7,307,702 | 23,968,507 | 5,511,043 |
| Operating Income (Loss) | 1,519,983 | 2,391,915 | 898,644 | 4,810,542 | 121,511 |
| Nonoperating Revenues (Expenses) | | | | | |
| Interest and Investment Revenue | 723,542 | 176,348 | 60,054 | 959,944 | 0 |
| Grant Income | 0 | 105,073 | 79,444 | 184,517 | 0 |
| Interest Expense | (261,840) | 0 | 0 | (261,840) | 0 |
| Amortization of Debt Issue Costs | (28,465) | (40,410) | 0 | (68,875) | 0 |
| Gain (Loss) on Disposal of Capital Assets | 0 | 0 | 0 | 0 | 180,458 |
| Miscellaneous | 0 | 0 | (85,177) | (85,177) | 63,413 |
| Total Nonoperating Revenues (Expenses) | 433,237 | 241,011 | 54,321 | 728,569 | 243,871 |
| Income Before Contributions and Transfers | 1,953,220 | 2,632,926 | 952,965 | 5,539,111 | 365,382 |
| Capital Contributions | | | | | |
| Contributions | 3,277,123 | 414,924 | 0 | 3,692,047 | 0 |
| Transfers In | 4,530 | 2,715 | 0 | 7,245 | 1,087,055 |
| Transfers Out | (100,000) | (50,000) | 0 | (150,000) | (60,700) |
| Change in Net Assets | 5,134,873 | 3,000,565 | 952,965 | 9,088,403 | 1,391,737 |
| Total Net Assets - Beginning | 77,125,213 | 32,907,543 | 1,232,117 | 111,264,873 | 13,245,908 |
| Total Net Assets - Ending | 82,260,086 | 35,908,108 | 2,185,082 | 120,353,276 | 14,637,645 |

The notes to the financial statements are an integral part of this statement.



City of Kirkland
Statement of Cash Flows
Proprietary Funds
For the fiscal year ended December 31, 2006
Increase in Cash and Cash Equivalents

Page 1 of 2

| | Business-type Activities Enterprise Funds | | | 2006 | Governmental Activities- Internal Service Funds |
|---|---|--------------------|-----------------|--------------------|--|
| | Water/Sewer | Surfacewater | Solid Waste | | |
| Cash Flows From Operating Activities | | | | | |
| Cash Received From Customers | 15,193,558 | 4,879,432 | 7,122,507 | 27,195,497 | 5,558,918 |
| Cash From Other Sources | 202,902 | 144,768 | 217,474 | 565,144 | 33,170 |
| Cash Paid to Suppliers for Goods and Services | (9,392,373) | (620,591) | (6,445,807) | (16,458,771) | (2,240,653) |
| Cash Paid to Employees for Services | (1,497,884) | (913,742) | (83,673) | (2,495,299) | (2,363,483) |
| Cash Paid in Lieu of Taxes | (461,511) | (73,545) | (367,555) | (902,611) | 0 |
| Cash Paid for Central Business Functions | (827,483) | (308,418) | (367,366) | (1,503,267) | (171,864) |
| Net Cash Provided by Operating Activities | 3,217,209 | 3,107,904 | 75,580 | 6,400,693 | 816,088 |
| Cash Flows From Noncapital Financing Activities | | | | | |
| Proceeds From State and Local Grants | 0 | 0 | 75,469 | 75,469 | 0 |
| Grant Administration Expenditures | 0 | 0 | (86,033) | (86,033) | 0 |
| Transfers In | 4,530 | 2,715 | 0 | 7,245 | 1,087,055 |
| Transfers Out | (100,000) | (50,000) | 0 | (150,000) | (60,700) |
| Net Cash Provided by (Used for) Noncapital Financing Activities | (95,470) | (47,285) | (10,564) | (153,319) | 1,026,355 |
| Cash Flows From Capital and Related Financing Activities | | | | | |
| Proceeds From Public Works Trust Fund Loans | 325,890 | 0 | 0 | 325,890 | 0 |
| Capital Contributed by Developers | 1,565,789 | 23,569 | 0 | 1,589,358 | 0 |
| Proceeds From Sale of Assets and Insurance Recoveries | 0 | 0 | 0 | 0 | 239,467 |
| Proceeds From State/Local Grants | 0 | 56,106 | 0 | 56,106 | 0 |
| Proceeds From Bond Refunding | 0 | 0 | 0 | 0 | 0 |
| Principal Payments on Notes, Capital Leases and Bonds | (1,206,648) | 0 | 0 | (1,206,648) | 0 |
| Interest Paid on Notes, Capital Leases and Bonds | (267,517) | 0 | 0 | (267,517) | 0 |
| Interest Received on Program Loans | 33,921 | 0 | 0 | 33,921 | 0 |
| Acquisition and Construction of Capital Assets | (3,217,511) | (814,344) | 0 | (4,031,855) | (2,881,784) |
| Net Cash Provided by (Used for) Capital and Related Financing Activities | (2,766,076) | (734,669) | 0 | (3,500,745) | (2,642,317) |
| Cash Flows From Investing Activities | | | | | |
| Net (Increase) Decrease in Investments | (232,110) | (1,758,963) | (61,738) | (2,052,811) | 955,571 |
| Interest Revenue | 687,180 | 176,348 | 60,054 | 923,582 | 0 |
| Net Cash Provided by Investing Activities | 455,070 | (1,582,615) | (1,684) | (1,129,229) | 955,571 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 810,732 | 743,335 | 63,332 | 1,617,400 | 155,697 |
| Cash and Cash Equivalents, January 1 | 3,144,647 | 672,814 | 182,227 | 3,999,688 | 1,972,182 |
| Cash and Cash Equivalents, December 31 | 3,955,379 | 1,416,149 | 245,559 | 5,617,088 | 2,127,879 |

City of Kirkland
Statement of Cash Flows
 Proprietary Funds
 For the fiscal year ended December 31, 2006
 Increase in Cash and Cash Equivalents

Page 2 of 2

| | Business-type Activities Enterprise Funds | | | 2006 | Governmental Activities- Internal Service Funds |
|---|---|------------------|---------------|------------------|--|
| | Water/Sewer | Surfacewater | Solid Waste | | |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities | | | | | |
| Operating Income (Loss) | 1,519,983 | 2,391,915 | 898,644 | 4,810,542 | 121,512 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities | | | | | |
| Depreciation | 1,834,281 | 716,465 | 0 | 2,550,746 | 786,242 |
| <u>Changes in Assets and Liabilities</u> | | | | | |
| (Increase) Decrease in Accounts Receivable | (102,763) | (45,213) | (866,365) | (1,014,341) | 333 |
| (Increase) Decrease in Operating Due From Other Governments | 176 | 0 | 0 | 176 | 0 |
| (Increase) Decrease in Other Accounts Receivable | (15,904) | 0 | 0 | (15,904) | 0 |
| (Increase) Decrease in Operating Inventories | (39,242) | (2,004) | 0 | (41,246) | (496) |
| (Increase) Decrease in Loan Receivable | 0 | 0 | 0 | 0 | (46,398) |
| (Increase) Decrease in Deferred Assessments | (939,263) | (10,178) | 0 | (949,441) | 0 |
| (Increase) Decrease in Due From Other Funds | 0 | 0 | 0 | 0 | 6,527 |
| Increase (Decrease) in Operating Accounts Payable | (10,086) | (4,655) | 30,701 | 15,960 | (12,808) |
| Increase (Decrease) in Interest Payable | 0 | 0 | 0 | 0 | 0 |
| Increase (Decrease) in Operating Due to Other Funds | 2,348 | 0 | 0 | 2,348 | 0 |
| Increase (Decrease) in Operating Due to Other Governments | 158,225 | 15,917 | 11,381 | 185,523 | (63,202) |
| Increase (Decrease) in Wages/Benefits Payable | 8,491 | 598 | 1,219 | 10,308 | 24,378 |
| Increase (Decrease) in Deposits Payable | | (154) | 0 | (154) | 0 |
| Increase (Decrease) in Deferred Revenue | 800,963 | 45,213 | 0 | 846,176 | 0 |
| Net Cash Provided by Operating Activities | 3,217,209 | 3,107,904 | 75,580 | 6,400,693 | 816,088 |
| <u>Noncash Investing, Capital and Finance Activities</u> | | | | | |
| Capital Contributions | 1,711,334 | 391,355 | 0 | 2,102,689 | 0 |

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Statement of Fiduciary Net Assets
Trust and Agency Funds
December 31, 2006

| | Firefighter's Pension | Agency Funds |
|------------------------------------|--------------------------|-----------------|
| Assets | | |
| Cash and Cash Equivalents | 301,030 | 5,533 |
| Investments, at fair value: | | |
| U.S. Government Securities | 871,846 | 0 |
| Deposits | 0 | 894,341 |
| Total Assets | 1,172,876 | 899,874 |
| Liabilities | | |
| Current Liabilities | | |
| Due to Other Governments | 0 | 5,533 |
| Deposits | 0 | 894,341 |
| Total Liabilities | 0 | 899,874 |
| Net Assets | | |
| Held in Trust for Pension Benefits | 1,172,876 | 0 |
| Total Net Assets | 1,172,876 | 0 |

The notes to the financial statements are an integral part of this statement.

City of Kirkland
Statement of Changes in Net Plan Assets
 Firefighter's Pension Fund
 December 31, 2006

| | 2006 |
|---|-----------|
| Additions | |
| Fire Insurance Premium Contributions | 55,586 |
| Investment Income: | 42,653 |
| Total Additions | 98,239 |
| Deductions | |
| Benefit Payments | 7,907 |
| Transfer Out | 7,675 |
| Total Deductions | 15,582 |
| Net Increase (Decrease) | 82,657 |
| Net Assets Held in Trust for Pension Benefits | |
| Beginning of Year | 1,090,219 |
| End of Year | 1,172,876 |

The notes to the financial statements are an integral part of this statement.



City of Kirkland
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year ended December 31, 2006

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City of Kirkland

Notes to the Basic Financial Statements

For Year Ended December 31, 2006

NOTE 1:
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kirkland was incorporated on October 9, 1905, under the provisions of the Washington State Legislature and operates under a Council/City Manager form of government. The Council consists of seven nonpartisan members elected at large every two years to staggered four-year terms. The Mayor is elected from within the Council to serve a two-year term. The City Manager serves as the professional administrator of the City, and is responsible for coordinating all day-to-day operations and administration.

The accounting and reporting policies of the City of Kirkland, which conform to generally accepted accounting principles for governments, are regulated by the Washington State Auditor's Office, Division of Audit. The City's significant accounting policies are summarized in the following notes.

Reporting Entity

Governmental Accounting Standards Board (GASB) Statement No. 14 establishes standards for defining and reporting on the financial reporting entity and for reporting participation in joint ventures. The City's Comprehensive Annual Financial Report includes all funds and organizations that are controlled by or dependent on the City. Control by the City was determined on the basis of budget adoption, taxing authority, and resource allocation criteria. Dependence on the City was determined by the City's obligation to redeem the organization's debts, to finance the organization's deficits, and the extent to which subsidies from the City constitute a major portion of the organization's total resources. Applying these criteria, as outlined in GASB Statement 14, the City has no relationships that qualify as component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City of Kirkland considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City of Kirkland.

The City of Kirkland reports the following major Governmental funds:

| | |
|---------------------------------|---|
| General Fund | is the general operating fund of the City. It accounts for all financial resources and transactions of the City not required to be accounted for in another fund. In some documents this fund is referred to as the Current Expense Fund. |
| Street Operating Fund | accounts for the administration of street maintenance and minor construction. |
| Park and Municipal Reserve Fund | is a cumulative reserve fund which accounts for resources set aside for specific projects. |
| Excise Capital Improvement Fund | accounts for the administration of real estate excise taxes set aside for municipal capital improvements. |
| General Capital Projects Fund | accounts for the acquisition and construction of capital projects funded from general revenue sources. |
| Grant Capital Projects Fund | accounts for the acquisition and construction of capital projects in which all or a portion of the costs are financed through grants. |

The City of Kirkland reports the following major Proprietary Funds:

| | |
|----------------------------|---|
| Water/Sewer Operating Fund | accounts for the maintenance, operation, and minor construction of water and sewer systems activity of the Water/Sewer Utility. |
|----------------------------|---|

- Surface Water Management Fund accounts for the maintenance, operation, and minor appurtenances, including drainage and public retention/detention systems, and related infrastructure activity of the Surface Water Management Utility.
- Solid Waste Fund accounts for all monies collected for solid waste and recycling services.

Additionally, the City of Kirkland reports the following fund types:

- Internal Service Funds account for equipment rental and information technology services provided to other departments of the City on a cost reimbursement basis.
- Firefighter’s Pension Trust accounts for a single-employer defined benefit system established under State law to provide retirement and disability benefits for eligible firefighters.
- Agency Funds account for assets held by the city as an agent for private individuals or other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations.

The City applies all applicable GASB pronouncements. The City also complies with all applicable pronouncements of the Financial Accounting Standards Board (FASB), opinions of the Accounting Principles Board (APB), and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements. Exceptions to this general rule are payments in-lieu of taxes and other charges between the government’s utility functions and various other functions of the government.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

The proprietary fund statements 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 ongoing operations. The principal operating revenues of the City’s utility funds and internal service funds are charges to customers for sales and services and vehicle replacement. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as needed.

Budgetary Data

The City of Kirkland budgets its funds on a cash basis in accordance with the Revised Code of Washington 35A.33. In compliance with the code, budgets for all funds are established. Budgets established for the proprietary funds are considered "management budgets," and as such, are not required to be reported in the Comprehensive Annual Financial Report.

The budget, as adopted, constitutes the legal authority for expenditures. Appropriations are authorized for two years, but must be reviewed by the City Council at the midpoint of the biennial period. The City's budget is adopted at the fund level, so that expenditures may not legally exceed appropriations at that level of detail. Transfers or revisions within funds are allowed, but supplemental or additional appropriations must be approved by the legislative authority. The City's budget is generally amended four times during the biennial period. The financial statements present the amended budgetary information as approved. All appropriations, except for capital projects, lapse at the end of the biennial period. Unexpended resources must be re-appropriated in the subsequent period.

Procedures for Adopting the Original Budget

The budget process and the time limits under which a budget must be developed are established by State law. The City follows the procedures outlined below in the year preceding the first year of the two-year budget to establish its biennial budget:

1. By late June, the City Manager requests budget priority input from the City Council.
2. By July, the official "budget call," as required by State law, is made to all department directors or fund managers by the City Manager and Director of Finance and Administration. Computerized budget worksheets, instructions, and materials are provided to the departments at that time.
3. Department/fund budget requests, on a line item basis, are submitted to the Director of Finance and Administration by late August.
4. Revenue estimates are developed and updated by the Finance and Administration Department throughout the budget process. Initial revenue estimates are prepared by late August.
5. During September, the Director of Finance and Administration meets with the City Manager to formulate budget strategy, goals, objectives, and ultimately recommendations. These recommendations are discussed with department management. By late October, a final budget proposal is agreed upon by the City Manager and all department directors.
6. A Preliminary Budget is prepared, printed, and filed with the City Clerk by November 1. It is presented to the City Council. Copies are made available to the public.
7. At least two public budget hearings are held; one in September and one in November. Public comment is received on revenue sources at the September hearing and on recommended programs and/or ideas for new programs at the November hearing.
8. The City Council meets in November for a series of budget discussion/review sessions to determine if there are any alterations that they wish to make to the City Manager's recommended budget.
9. Prior to the beginning of the next calendar year, the City Council, by simple majority of members present, adopts the final budget by ordinance.
10. The final budget is published during the first quarter of the following year, distributed to staff, and made available to the public.

Amending the Budget

The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of a fund, the City, or that affect the number of authorized employee positions must be approved by the City Council.

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by a simple majority.

The budget amounts shown in the financial statements are the authorized amounts as revised as of the date of the financial statements.

The financial statements contain the original budget and budget information as of the financial statement report date. The original budget is the first complete appropriated budget. The final budget reflects any adjustments to the original budget, such as uses of or additions to reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal period.

Assets, Liabilities and Equities

Cash and Investments

It is the City's policy to invest all temporary cash surpluses. Amounts are reported on the Combined Balance Sheet as either Cash and Cash Equivalents or Investments. Cash and Cash Equivalents include currency on hand, demand deposits, and investments in the State Treasurer's Investment Pool. By City Ordinance 5.24.010, the City has established an investment committee consisting of the City Manager and the Director of Finance. The City's investment committee is limited, by State law, to purchasing investments in U.S. Treasury and Agency Securities, Certificates of Deposit with Washington State depositories that participate in the State Insurance Pool, bankers acceptances, and the State Investment Pool. City policy requires that all investments be purchased DVP (delivery vs. payment). Securities are held in safekeeping by a third-party custodian.

In most cases, the City places available cash in a common investment fund; exceptions are investments purchased directly from the available cash of a single fund, most notably construction funds that have a definite liquidity need. On an annual basis, interest earned on the City's common investment fund, less earmarked expenditures and all costs incurred in the administration of the common investment fund, are credited to the participating funds by determining annual average investment balance by the participating fund. Interest earned on investments directly purchased by a single fund is credited, less all costs incurred, to that fund.

In accordance with GASB 31, investments are stated at fair value.

Receivables

The City of Kirkland recognizes receivables in its various funds based on the accounting basis required for that fund. These receivables include the following:

- Property Taxes Uncollected property taxes levied for the current year are reported as receivables at year-end. When property taxes become three years delinquent, the County is required by State statute to foreclose on the property. Historically, all taxes have been collected; therefore, no allowance for uncollectible taxes is recorded.

- Sales Tax Sales Tax collected for November and December but not remitted by the state until the following year are reported as receivables at year-end.

- Special Assessments Special Assessments are levied against certain property owners and become liens against the property benefited by the improvement. Special assessments

receivable consist of current assessments which are due within one year, delinquent assessments remaining unpaid after the due date, and deferred, uncollected assessments which have been levied but are not due within one year.

Accounts Receivable

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services provided, including amounts owed for which billings have not yet been prepared. Uncollected amounts are considered immaterial and the direct write-off method is used.

Amounts Due to and from Other Governmental Units

These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services.

Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund loans receivable/payable. All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Inventories

Purchases of materials and supplies are recorded as expenditures at the time of purchase in governmental funds; therefore, ending inventories are not reported on governmental fund balance sheets. These amounts are not considered material.

In proprietary funds a periodic inventory is maintained, in which the cost is capitalized when the inventory item is purchased and expensed when the item is consumed. The first in, first out valuation method which approximates market is used to value the inventory. A physical inventory is taken at year-end.

Restricted Assets and Liabilities

These accounts contain resources reserved for customer deposits and revenue bond debt service.

Deferred Charges

Deferred charges consist of deferred expense on a maintenance management information system, alternative water source study and regulatory costs associated with the Endangered Species Act (ESA). These costs are being amortized and expensed in future periods as permitted by FASB 71.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business type columns in the government-wide financial statements. Capital assets are defined by the city as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of 2 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed.

Land, construction in progress, and works of art are not depreciated. Infrastructure acquired prior to fiscal years ended after June 30, 1980 is reported. Property, plant, and equipment of the city is depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|----------------|--------------|
| Buildings | 25 – 50 |
| Improvements | 5 – 50 |
| Equipment | 5 - 20 |
| Infrastructure | 7 - 100 |
| Water Lines | 20 - 60 |

Compensated Absences

The City records a liability for accumulated unused vacation leave and salary related payments associated with the payment of vacation leave. All vacation leave is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

Vacation leave is accumulated monthly at annual rates ranging from 88 hours to 192 hours depending on number of years of employment and union agreement. Earned vacation leave not used within the year following its accrual will be forfeited without any severance pay or additional compensation. All outstanding vacation leave is payable upon resignation, retirement, or death, to all employees having completed one year of service except under special conditions listed in the Kirkland Municipal Code.

Sick leave is accrued at a rate of 8 hours for each month of the employee's service, or the equivalent of a 24 hour shift for fire employees. Unused sick leave may be accumulated from year to year to a maximum of 120 days. Fire and police employees who entered the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) prior to October 1, 1977, do not accumulate sick leave, because they have unlimited disability coverage under state retirement law. Any outstanding sick leave is lost at termination of employment.

In January of 1985 the City Council passed Ordinance 2844 wherein Section 10F eliminated an employee's ability to cash out any unused sick leave upon resignation or retirement. At this time, certain bargaining units were given the option to freeze their unused sick leave to be paid at 1984 wage rates upon resignation or retirement. There is 1 employee currently employed by the City who chose to freeze the unused sick leave for a total of \$914 benefits payable.

In 2005, contracts with public safety bargaining units under the LEOFF II Retirement System agreed to allow conversion of accrued sick leave to a retiree medical account upon retirement from the City. Upon normal or disability retirement the City is responsible to contribute an amount equal to fifty percent of the cash value of the employee's sick leave balance, not to exceed \$9,000 into a trust fund to be used for the retiree's health related expenses.

Outstanding sick leave at year end for all other employees is not accrued, because payment cannot be deemed probable nor can the amount be reasonably estimated.

Long-Term Debt

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, along with issuance costs are, deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Revenues

Deferred revenues are receivables that are measurable but not yet available in the governmental funds financial statements. Accordingly, they are not recorded as revenue. The balance sheet records the receivable but includes a deferred revenue as the offset. The deferred revenues include uncollected property taxes levied, unbilled special assessments which have not yet been earned and business license fees collected in 2006 for 2007.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

NOTE 2:
RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of aggregated differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets.

The Governmental Funds Balance Sheet includes a reconciliation between total fund balance and total net assets as reported in the Government-Wide Statement of Net Assets. The details of the aggregated differences are presented below.

Other long-term assets are not available to pay for current period expenditures and therefore deferred in the funds:

| | |
|------------------------|---------------------|
| Municipal Court | 1,427,155 |
| Net Pension Obligation | 359,486 |
| Net Adjustment | \$ <u>1,786,641</u> |

Some liabilities are not due and payable in the current period and are not reported in the funds:

| | |
|--------------------------|----------------------|
| Bonds Payable | 21,235,000 |
| Compensated Absences | 1,560,123 |
| Accrued Interest Payable | 103,012 |
| LID Payable | 5,000 |
| Net Adjustment | \$ <u>22,903,135</u> |

Capital assets are not financial resources in governmental funds, but are reported in the Statement of Net Assets at their net depreciable value:

| | |
|-------------------------------|-----------------------|
| Capital Assets | 275,207,668 |
| Depreciation | (104,129,670) |
| Net Capital Assets Adjustment | \$ <u>171,077,998</u> |

Explanation of aggregated differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities.

The Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net changes in fund balances for governmental funds and changes in net assets of governmental activities as reported in the Government-Wide Statement of Activities. The details of the aggregated differences are presented below.

Governmental funds report capital outlays as expenditures. The Statement of Activities allocates the cost of capital outlay over their estimated useful lives as depreciation.

| | |
|----------------------|-----------------------|
| Capital Outlays | 4,448,792 |
| Depreciation Expense | (5,120,275) |
| CIP Closures | (2,071,908) |
| Cost of Goods Sold | (427,064) |
| Capital Donations | 961,074 |
| Net Adjustment | \$ <u>(2,209,381)</u> |

The proceeds from the issuance of long-term debt provide current financial resources to governmental funds and are reported as revenues. Repayments of long-term debt use current financial resources and are reported as

expenditures in governmental funds. However, neither the receipt of debt proceeds nor the payment of debt principal affect the Statement of Activities, but are reported as increases and decreases in noncurrent liabilities in the Statement of Net Assets.

| | |
|---------------------------------|----------------------------|
| General Obligation Debt Payment | 1,915,000 |
| LID Assessment Debt Payment | <u>5,000</u> |
| Net Adjustment | \$ <u><u>1,920,000</u></u> |

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

| | |
|-----------------------------|-----------------------|
| Municipal Court Receivable | 92,139 |
| Negative Pension Obligation | \$ <u>359,486</u> |
| Net Adjustment | <u><u>451,625</u></u> |

Expenditures in the Statement of Activities that do not require the use of current financial resources are not reported as expenditures in governmental funds:

| | |
|-----------------------------|--------------------|
| Compensated Absence Payable | 103,012 |
| Accrued Interest Payable | <u>(103,012)</u> |
| Net Adjustment | \$ <u><u>0</u></u> |

NOTE 3:
CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposits

The City of Kirkland's bank deposits are covered by the Federal Deposit Insurance Corporation ("FDIC") or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission ("PDPC"). All deposits not covered by the FDIC are covered by the PDPC. Cash held in the Local Government Investment Pool is managed by the Washington State Treasurer's Office. This pool represents an interest in a group of securities and has no specific security subject to custodial risk.

Investments

All surplus cash is invested in accordance with an investment policy approved by Kirkland City Council. State law defines eligible investments to only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.250, and 43.84.080) Eligible investments which the City held at year end include obligations of the United States government, Treasury securities, Government Sponsored Enterprises (GSE's) securities, Washington State Local Government Investment Pool, obligations of state and local government agencies and FDIC and PDPC Insured Bank Deposits.

Credit Risk

Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. The City's investment policy applies the prudent person standard: Investments will be made with judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes. The City's investments in the bonds of U.S. agencies and GSE's were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. The taxable state bonds were rated AA/Aa3. The Port of Seattle securities are rated Aaa. The Washington State Local Government Investment Pool is a 2a7-like pool and is unrated.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City of Kirkland would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City's policy requires that all security transactions entered into by the City of Kirkland will be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in safekeeping by a third party custodian designated by a member of the Investment Committee. All of the City's securities at year end were held in safekeeping by a third party custodian.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issues. It is the City's policy to diversify its investments by security type and institution. The City's policy is to assure that no single institution or security is invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the entity's total investment portfolio will be invested in a single security type, issuer or financial institution.

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's policy limits investments in securities to those maturing no more than five years from the date of purchase and limits the average weighted maturity for the portfolio to 3 years. The portfolio weighted maturity at year end was .99 years.

City of Kirkland Cash, Cash Equivalents and Investments
Segmented Time Distribution
At December 31, 2006

| Investment Type | Fair Value | 6 Months or Less | 7 - 12 Months | 13 to 24 Months | 25 to 36 Months | 37 to 48 Months |
|---|---------------------|---------------------|-------------------|--------------------|--------------------|--------------------|
| Federal Agricultural Mortgage Corporation | 1,883,039 | - | - | - | 1,883,039 | - |
| Federal Farm Credit Bank | 8,961,250 | 3,975,625 | - | 2,974,375 | 2,011,250 | - |
| Federal Farm Credit Bank callable | 7,941,250 | 1,987,500 | - | 3,975,625 | 994,062 | 984,063 |
| Federal Home Loan Bank | 5,076,500 | - | 2,961,500 | - | - | 2,115,000 |
| Federal Home Loan Bank callable | 9,896,250 | - | 5,946,875 | 3,949,375 | - | - |
| Federal Home Loan Mortgage Corp | 8,688,164 | 1,995,754 | 1,989,434 | 3,730,530 | - | 972,446 |
| Federal Home Loan Mortgage Corp callable | 7,924,338 | - | 5,956,310 | 1,968,028 | - | - |
| Federal National Mortgage Association | 15,887,500 | 3,986,250 | 5,921,875 | - | 1,998,125 | 3,981,250 |
| Federal National Mortgage Assoc Callable | 1,971,875 | - | 1,971,875 | - | - | - |
| Illinois State Taxable Pension Bonds | 1,630,968 | - | - | 1,630,968 | - | - |
| Port of Seattle Gen Obligation Rev Bonds | 985,630 | - | - | - | 985,630 | - |
| U.S. Treasury Note | 1,995,000 | 1,995,000 | - | - | - | - |
| FDIC or PDPC Insured Bank Deposits | 1,468,451 | 1,468,451 | - | - | - | - |
| | <u>\$74,310,215</u> | <u>15,408,580</u> | <u>24,747,869</u> | <u>18,228,901</u> | <u>7,872,106</u> | <u>8,052,759</u> |

Uncategorized Cash and Cash Equivalents

| | |
|--|---------------------|
| Wash State Local Government Investment Pool | 23,775,918 |
| Cash on Hand | 23,160 |
| | <u>\$23,779,078</u> |
| Total Cash, Cash Equivalents and Investments | \$98,109,293 |

The callable bonds have low coupons and we assume that none of them will be called.

NOTE 4:
PROPERTY TAXES

The King County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed on a daily basis.

Property Tax Calendar:

| | |
|-------------|---|
| January 1 | Taxes are levied and become an enforceable lien against properties. |
| February 14 | Tax bills are mailed. |
| April 30 | First of two equal installments tax payment is due. |
| May 31 | Assessed value of property established for next year's levy. |
| October 31 | Second installment is due. |

Assessed values are established by the County Assessor at 100 percent of fair market value. At a minimum, real property must be revalued every four years. King County began an annual revaluation program in 1995.

Property taxes are recorded as a receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The City is permitted by law to levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services. Kirkland's maximum property tax levy rate has been reduced from \$3.60 to \$3.10 due to annexation to the King County Library District. The City's levy rate is also subject to the following limitations:

1. The Washington State Constitution limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.
2. Washington State law in RCW 84.55.010 limits property tax growth to the lesser of one percent or the implicit price deflator following the passage of Initiative 747 in November of 2001. However, unused levy capacity from prior years that was "banked" for future specified purposes can be utilized regardless of the limits established by Initiative 747.

The City's regular tax levy in 2006 was \$1.322 per \$1,000 on an assessed valuation of \$8,747,002,501 for a total regular levy of \$11,559,174. The excess tax levy was \$0.166 per \$1,000 for an excess levy of \$1,449,146. Excess tax levies approved by the voters are not subject to the above limitations.

NOTE 5:
CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2006 was as follows:

| | Balance Jan. 1, 2006 | Additions | Deletions | Balance Dec. 31, 2006 |
|--|-------------------------|-----------|-----------|--------------------------|
| Governmental Activities | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | 73,896,291 | 210,208 | 334,798 | 73,771,701 |
| Construction in Progress | 23,709,180 | 4,143,192 | 6,899,551 | 20,952,821 |
| Artwork | 1,592,234 | 0 | 0 | 1,592,234 |
| Total Capital Assets, Not Being Depreciated: | \$99,197,705 | 4,353,400 | 7,234,349 | \$96,316,756 |
| Capital Assets, Being Depreciated: | | | | |
| Buildings | 29,065,505 | 0 | 0 | 29,065,505 |
| Improvements | 10,274,778 | 3,677,051 | 0 | 13,951,829 |
| Machinery and Equipment | 10,004,170 | 2,892,129 | 801,037 | 12,095,262 |
| Infrastructure | 121,783,619 | 1,994,697 | 0 | 123,778,316 |
| Total Capital Assets, Being Depreciated: | \$171,128,072 | 8,563,877 | 801,037 | \$178,890,912 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 7,156,138 | 632,447 | 0 | 7,788,585 |
| Improvements | 5,060,161 | 572,222 | 0 | 5,632,383 |
| Machinery and Equipment | 5,210,346 | 900,521 | 786,895 | 5,323,972 |
| Infrastructure | 81,594,220 | 3,801,328 | 10,819 | 85,384,729 |
| Total Accumulated Depreciation | \$99,020,865 | 5,906,518 | 797,714 | \$104,129,669 |
| Total Capital Assets, Being Depreciated, Net | \$72,107,207 | 2,657,359 | 3,323 | \$74,761,243 |
| Governmental Activities Capital Assets, Net | \$171,304,912 | 7,010,759 | 7,237,672 | \$171,077,998 |
| Business-type Activities | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | 47,784 | 0 | 0 | 47,784 |
| Construction In Progress | 9,786,246 | 3,367,326 | 6,987,550 | 6,166,022 |
| Total Capital Assets, Not Being Depreciated | \$9,834,030 | 3,367,326 | 6,987,550 | \$6,213,806 |
| Capital Assets, Being Depreciated: | | | | |
| Buildings | 198,381 | 0 | 0 | 198,381 |
| Improvements | 122,696,485 | 9,090,240 | 0 | 131,786,725 |
| Total Capital Assets, Being Depreciated | \$122,894,866 | 9,090,240 | 0 | \$131,985,106 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 168,359 | 4,759 | 0 | 173,118 |
| Improvements | 29,041,951 | 2,545,987 | 0 | 31,587,938 |
| Total Accumulated Depreciation | \$29,210,310 | 2,550,746 | 0 | \$31,761,056 |
| Total Capital Assets, Being Depreciated, Net | \$93,684,556 | 6,539,494 | 0 | \$100,224,050 |
| Business-Type Activities Capital Assets, Net | \$103,518,586 | 9,906,820 | 6,987,550 | \$106,437,856 |

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

| | |
|---|--------------------|
| General Government | 404,010 |
| Judicial | 0 |
| Security of Persons and Property | 620,848 |
| Human Services | 5,905 |
| Physical Environment | 407,441 |
| Transportation (includes depreciation of general infrastructure assets) | 3,804,963 |
| Economic Environment | 20,294 |
| Culture and Recreation | 643,057 |
| Total Depreciation Expense – Governmental Activities | <u>\$5,906,518</u> |

Capital assets held by the government’s internal service funds are charged to the various functions based on their usage of the assets as allocated above.

Business-type Activities:

| | |
|---|--------------------|
| Water/Sewer Utility | 1,834,281 |
| Surface Water Utility | 716,465 |
| Solid Waste Utility | 0 |
| Total Depreciation Expense – Business-type Activities | <u>\$2,550,746</u> |

Construction Obligations

The City of Kirkland has active construction projects as of December 31, 2006. The projects include:

| <u>Project Function</u> | <u>Expenditures to Date</u> | <u>Remaining Commitment</u> |
|-------------------------|-----------------------------|-----------------------------|
| Parks & Recreation | 780,344 | 37,589 |
| Transportation | 1,760,850 | 269,819 |
| Water Utility | 1,084,646 | 1,525,723 |
| Sewer Utility | 750,810 | 224,975 |
| Surfacewater Utility | 48,519 | 6,871 |
| General Government | 13,970 | 190,809 |
| Total | <u>\$4,439,139</u> | <u>\$2,255,786</u> |

NOTE 6:
PENSION PLANS

State Systems

Substantially, all city full-time employees and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, PO Box 48380, Olympia, WA 98504.

The following disclosures are made pursuant to GASB Statement 27, Accounting for Pensions by State and Local Government Employers.

Public Employees' Retirement System (PERS) Plans I, II and III

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes. Plans I and II are defined benefit plans and Plan III is a combination defined benefit/defined contribution plan. Membership in the system includes elected officials, state employees, employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system), employees of legislative committees, community and technical colleges, college and university employees (not in national higher education retirement programs), judges of district and municipal courts, and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan I members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan II members unless they exercise an option to transfer their membership to Plan III. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan II or PERS Plan III. The option must be exercised within 90 days of employment. An employee is reported in Plan II until a choice is made. Employees who fail to choose within 90 days default to PERS Plan III. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan I retirement benefits are vested after an employee completes five years of eligible service. Plan I members are eligible for retirement at any age after 30 years of service, at the age of 60 with 5 years of service, or at the age of 55 with 25 years of service. The annual pension is two percent of the final average salary per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching age 66, a cost-of-living allowance is granted based on years of service credit and is capped at three percent annually.

Plan II retirement benefits are vested after an employee completes five years of eligible service. Plan II members may retire at the age of 65 with 5 years of service, or at 55 with 20 years of service, with an allowance of 2 percent per year of service of the average final compensation. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan II retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies, otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost of living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan III has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60 month period. Plan III members become eligible for retirement if they have at least ten years of service or five years including twelve months that were earned after age 54 or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan III retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies, otherwise an actuarial reduction will apply. There is no cap on years of service credit and Plan III provides the same cost of living allowance as Plan II. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other authorized options authorized by the Employee Retirement Benefits Board.

There are 1,181 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2005:

| | |
|--|---------------|
| Retirees and Beneficiaries Receiving Benefits | 68,609 |
| Terminated Plan Members Entitled to But Not Yet Receiving Benefits | 22,567 |
| Active Plan Members Vested | 104,574 |
| Active Plan Members Nonvested | <u>51,004</u> |
| Total | 246,754 |

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan I employer contribution rates, Plan II employer and employee contribution rates and Plan III employer contribution rates. Employee contribution rates for Plan I are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan II and the employer contribution rate for Plan III are developed by the Office of the State Actuary to fully fund Plan II and the defined benefit portion of Plan III. All employers are required to contribute at the level established by the Legislature. Plan III defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of Plan III do not contribute to the defined benefit portion of the Plan. The Employee Retirement Benefits Board sets Plan III employee contribution rates. Six rate options are available ranging from 5 to 15 percent. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates are expressed as a percentage of covered payroll, as of December 31, 2006 were:

| | <u>PERS Plan I</u> | <u>PERS Plan II</u> | <u>PERS Plan III</u> |
|-----------|--------------------|---------------------|----------------------|
| Employer* | 3.69%** | 3.69%* | 3.69%**** |
| Employee | 6.00%*** | 3.50% | ***** |

*The employer rates include the employer administrative expense fee currently set at 0.18%.

**The employer rate for state elected officials is 5.44%.

***The employee rate for state elected officials is 7.5%.

**** Plan III defined benefit portion only.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the member.

Both the City and the employees made the required contributions. The City’s required contributions for the years ended December 31st were:

| | <u>PERS Plan I</u> | <u>PERS Plan II</u> | <u>PERS Plan III</u> |
|------|--------------------|---------------------|----------------------|
| 2006 | \$21,943 | \$430,096 | \$91,303 |
| 2005 | \$17,143 | \$248,950 | \$57,306 |
| 2004 | \$14,757 | \$170,089 | \$39,500 |

Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF) Plans I and II

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF is comprised primarily of non-state employees, with the exception of the Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003. Participants who joined the system by September 30, 1977, are Plan I members. Those joining thereafter are enrolled in Plan II. Effective January 1, 2003 firefighter emergency medical technicians (EMTs) may transfer Public Employees’ Retirement System (PERS) Plan I or Plan II service credit to LEOFF Plan II if while employed for a city, town, county or district, the EMT’s job was relocated to a fire department from another city, town, county or district. Effective July 1, 2003, the LEOFF Plan II Retirement Board was established to provide governance of LEOFF Plan II. The Board’s duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan II retirement plan. LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employee and employer contributions, and a special funding situation in which the state pays through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan I participants are eligible to retire with five years of service at age 50. The benefit per year of service is as follows, with a cost-of-living allowance granted, capped at three percent annually:

| <u>Term of Service</u> | <u>Percent of Final Average</u> |
|------------------------|---------------------------------|
| 20+ | 2.0% |
| 10-20 | 1.5% |
| 5-10 | 1.0% |

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

Plan II members are eligible to retire at the age of 50 with 20 years of service or at 53 with five years of service. Retirement benefits prior to age 53 are actuarially reduced. The benefit is two percent of average salary per year of service. The average salary is based on the highest consecutive 60 months. Plan II retirements prior to the age of 53 are reduced by 3 percent for each year that the benefit commences prior to age 53. 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 three percent annually.

There are 376 participating employers in LEOFF. Membership in LEOFF consisted of the following at September 30, 2005:

| | |
|--|--------------|
| Retirees and Beneficiaries Receiving Benefits | 8,723 |
| Terminated Plan Members Entitled to But Not Yet Receiving Benefits | 577 |
| Active Plan Members Vested | 12,348 |
| Active Plan Members Nonvested | <u>3,543</u> |
| Total | 25,191 |

Funding Policy

Starting on July 1, 2000, Plan I 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 II employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan II in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with chapters 41.46 and 41.45 RCW.

The required contribution rates expressed as a percentage of covered payroll, as of December 31, 2006 were:

| | <u>LEOFF Plan I</u> | <u>LEOFF Plan II</u> |
|----------|---------------------|----------------------|
| Employer | 0.18%* | 4.90%* |
| Employee | 0.00% | 7.85% |
| State | n/a | 3.13% |

* The employer rates include the employer administrative expense fee currently set at 0.18%.

Both the City and the employees made the required contributions. The City's required contributions for the years ended December 31 were:

| | <u>LEOFF Plan I</u> | <u>LEOFF Plan II</u> |
|------|---------------------|----------------------|
| 2006 | \$ 354 | \$558,439 |
| 2005 | \$ 564 | \$413,980 |
| 2004 | \$ 595 | \$335,348 |

Volunteer Fire Fighters' Relief and Pension Fund

The Volunteer Fire Fighters' Relief and Pension Fund System is a cost-sharing multiple-employer retirement system which was created by the Legislature in 1945 under Chapter 41.24 RCW. It provides pension, disability and survivor benefits. Membership in the system requires volunteer service with a fire department of an electing municipality of Washington State. The system is funded through member contributions of \$30 per year; employer contributions of \$30 per year; 40 percent of the Fire Insurance Premium Tax; and earnings from the investment of moneys by the Washington State Investment Board. Members may elect to withdraw their contributions upon termination.

Fire Fighters' Pension

The City of Kirkland is the administrator of the Fire Fighters' Pension Plan which is a closed, single-employer, defined benefit pension plan that was established in conformance with RCW Chapter 41.18. This plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. All benefits and refunds of the plan are recognized when due and payable in

accordance with the terms of the plan. Membership is limited to fire fighters employed prior to March 1, 1970 when the LEOFF retirement system was established. The City's liability under the system is composed of all benefits for fire fighters retired prior to March 1, 1970, and excess benefits over LEOFF for covered fire fighters retired after March 1, 1970. No separate financial report is issued for the plan. Accordingly, the required supplemental information is included in this note.

Under State law, the Fire Fighters' Pension Plan is provided an allocation of 25% of all monies received by the State from taxes on fire insurance premiums. Other funding sources include interest earnings, member contributions made prior to the inception of LEOFF, and City contributions required to meet projected future pension obligations. Neither member nor employer contributions were made to the plan during the year as the actuary has determined that the current assets of the fund, along with future revenues from state fire insurance taxes and interest earnings will be sufficient to pay all future Fire Fighters' Pension Plan pension benefits.

Membership of the Fire Fighters' Pension Plan consisted of the following at December 31, 2006:

| | |
|---|----------|
| Retirees and beneficiaries receiving benefits | 4 |
| Active plan members | <u>1</u> |
| Total | <u>5</u> |

Annual Pension Costs and Net Pension Obligation changes at December 31:

| | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|---|----------------|-----------------|-----------------|
| Annual Required Contribution (ARC) | 0 | 0 | 0 |
| Annual Normal Cost – Beginning of Year | 1,054 | 1,054 | 516 |
| Amortization of Unfunded Actuarial Liability (UAL) – Beginning of Year | (30,432) | (30,432) | (37,626) |
| Interest to End of Year | <u>(1,469)</u> | <u>(1,469)</u> | <u>(1,856)</u> |
| ARC at End of Year, not less than zero | (30,847) | (30,847) | (38,966) |
| Interest on Net Pension Obligation (NPO) | (4,714) | (8,527) | (12,106) |
| Adjustment to ARC | <u>(6,132)</u> | <u>(11,299)</u> | <u>(16,361)</u> |
| Annual Pension Cost (APC) | (29,429) | (28,075) | (34,711) |
| Employer Contributions | <u>46,833</u> | <u>43,497</u> | <u>82,657</u> |
| Change in NPO | (76,262) | (71,572) | (117,368) |
| NPO at Beginning of Year | (94,284) | (170,546) | (242,118) |
| NPO at End of Year | \$(170,546) | \$(242,118) | \$(359,486) |

The negative net pension obligation has been recorded as a receivable on the City's government-wide statement of net assets.

Schedule of Contributions from the Employer and Other Contributing Entities

| Year Ended 12/31 | Employer Contribution \$ | Fire Insurance Premium Taxes \$ | Interest Earned on Net Fund Balance \$ | Annual Required Contribution* | Percentage Contributed |
|------------------|--------------------------|---------------------------------|--|-------------------------------|------------------------|
| 1998 | 0 | 40,759 | 18,159 | - | - |
| 1999 | 0 | 48,218 | 12,018 | - | - |
| 2000 | 0 | 27,006 | 23,174 | - | - |
| 2001 | 0 | 29,825 | 33,899 | - | - |
| 2002 | (7,992) | 33,969 | 0 | - | - |
| 2003 | 0 | 39,054 | 0 | - | - |
| 2004 | 0 | 46,833 | 0 | (30,847) | - |
| 2005 | (3,634) | 47,131 | 0 | (30,847) | - |
| 2006 | (15,582) | 55,586 | 42,653 | (38,966) | - |

* The ARC is documented as 0 for negative amounts prior to 2004.

Schedule of Funding Progress

| Valuation Date | Actuarial Value of Assets \$ (in thousands) | Actuarial Accrued Liabilities Entry Age \$ (in thousands) | Unfunded Actuarial Accrued Liabilities \$ (UAAL) | Funded Ratio % | Covered Payroll \$ (in thousands) | UAAL as a Percentage of Covered Payroll % |
|----------------|---|---|--|----------------|-----------------------------------|---|
| 1/1/2001 | 901 | 385 | (516) | 234 | 73 | 707 |
| 1/1/2004 | 1,015 | 547 | (466) | 186 | 79 | 592 |
| 1/1/2006 | 1,090 | 533 | (557) | 205 | 84 | 663 |

Three Year Trend Information (in dollars)

| Fiscal Year Ending | Annual Pension Cost (APC) \$ | Contributions as a Percentage of APC % | Net Pension Obligation (NPO) \$ |
|--------------------|------------------------------|--|---------------------------------|
| 12/31/04 | (29,429) | NA | (170,546) |
| 12/31/05 | (28,075) | NA | (242,118) |
| 12/31/06 | (34,711) | NA | (359,486) |

The information presented in the preceding required schedule was determined as part of the actuarial valuations at the dates indicated or based on the same set of actuarial assumptions.

| | |
|---|---|
| Actuarial cost method for all years: | Entry Age Normal Cost Method ⁽¹⁾ |
| Amortization period: | UAAL amortized over a closed 30yr period |
| Asset valuation method: | Market value |
| Cost-of-living adjustments for all years: | CPI, Seattle-Everett area |

Actuarial economic assumptions:

| | |
|---|------|
| Investment rate of return | 5.0% |
| Projected salary increases ⁽²⁾ | 4.0% |
| Consumer Price Index | 3.0% |
| Projected annual growth in fire | |
| Insurance premium tax revenue | 3.0% |

- (1) The Entry Age Cost Normal method was used to comply with GASB 25 and 27 reporting requirements. Under this method the projected benefits are allocated on a level basis as a percentage of salary over the earnings of each individual between entry age and assumed exit age. The amount allocated to each year is called the Normal Cost and the portion of the Actuarial Present Value of all benefits not provided for by the future Normal Cost payments is called the Actuarial Liability. Since nearly all members have already retired, the amount of the annual Normal Cost is small. The Unfunded Actuarial Accrued Liability (UAAL) is the Actuarial Liability minus the actuarial value of the Fund's assets.
- (2) Projected salary increases are for future inflation only. Since the members have at least 20 years of service, no merit increases are assumed.

Since the fund is closed to additional participants and is fully funded, the City does not perform an actuarial study on a yearly basis.

Municipal Employees Benefit Trust

By majority vote, City employees approved the City's withdrawal from the Social Security System pursuant to U.S.C.A., Section 418(g), effective January 1, 1975. Employees who work 1,000 or more hours per year are eligible but not required to participate in the plan. There were 503 employees who participated in the program during 2006. The City's contribution for 2006 was \$1,466,903; employee contributions were \$2,185,474 during the same period. The rate the City must pay and the employee may pay is equal to the current Social Security rate.

Assets of the Plan consist of stocks, bonds, and guaranteed insurance contracts, and are not the property of the City and are not subject to the claims of the City's general creditors. The Plan is administered and maintained by a private consulting firm.

Actuarial determinations are not required because (1) long-term disability insurance and survivor income insurance are provided by a group insurance policy with the Standard Insurance Company, and (2) each participant shall at his normal retirement instruct the trustee to either (a) acquire a nonforfeitable, non-transferable annuity contract, (b) pay the retirement benefits from the employee's deferred saving account to which no contribution by the City or the participant can be added after retirement, or (c) pay a single lump-sum payment equal to the accumulated balance in the employee's deferred saving account as of his retirement date.

Other Post-employment Benefits

The City of Kirkland provides post-retirement health care benefits to LEOFF I retirees in accordance with state statutes. Membership is limited to public safety personnel hired prior to March 1, 1970. All members' medical, hospital, and nursing care are covered at the discretion of the Retirement Board. At the end of 2006 there were 35 retirees receiving these benefits with 3 active employees eligible for these benefits when they retire.

For 2006, the City's annual OPEB cost of \$421,381 was equal to the required contribution.

NOTE 7:
RISK MANAGEMENT

The City of Kirkland is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 121 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$3 million per occurrence self insured layer, and \$12 million per occurrence in the re-insured excess layer with no annual aggregate except \$10 million per member for public officials errors and omissions. The excess layer is insured by the purchase of reinsurance and insurance. Total limits are \$15 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductibles to \$500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance.

No claims in any of the past three years exceeded the City's insurance coverage. None of the current claims or lawsuits made or expected to be made against the City appear to have any reasonable likelihood of significantly affecting the City's financial situation for 2006.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. These revenues directly offset portions of the membership's annual assessment.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

NOTE 8:
LONG-TERM DEBT AND LEASES

General Obligation Bonds are direct obligations of the City for which its full faith and credit are pledged. Debt service is paid from the Debt Service Funds. Debt service for voter approved issues is funded with special property tax levies. Debt service for City Council authorized or councilmanic issues is funded from regular property taxes and other general government revenues.

Revenue bond indebtedness issued to fund proprietary activities is recorded in the proprietary fund. Debt service payments are made from revenues generated by the proprietary fund.

Special Assessment Bonds are not a direct responsibility of the City. These bonds are funded from the collection of special assessment payments. Debt service principal and interest costs are paid from the LID Debt Service Fund. As a guarantee to bond holders, a guaranty is maintained at approximately 10% of the total outstanding bonds. The LID guaranty is funded from interest income, foreclosure amounts, and surplus from the LID Debt Service Fund.

State of Washington Public Works Trust Fund Loans are a direct responsibility of the City. The City currently has eight loans with principal outstanding of \$5,137,851. Of this amount \$682,463 is assumed debt from the Rose Hill Water District. This debt will be repaid from Water/Sewer Fund revenues.

Call Provisions

The City has optional redemption call provisions in relation to its Special Assessment bond issues. Subsequent to year-end, the City exercised optional redemption call provisions for Special Assessment Issue 126 in the amount of \$5,000.

General obligation bonds currently outstanding are as follows:

| Issue - Purpose | | Issue Date | Maturity Date | Interest Rate | Amount Issued | Redemptions to Date | Outstanding 12/31/06 | Due Within One Year |
|--|---|------------|---------------|---------------|---------------|---------------------|----------------------|---------------------|
| 1993 Refunding of 1989 Ltd GO Maintenance Center | * | 03/02/93 | 07/01/09 | 4.45 to 5.75 | \$2,665,000 | \$1,740,000 | \$925,000 | \$290,000 |
| 1993 Refunding of 1989 & 1990 Unltd GO Parks | | 03/02/93 | 12/01/09 | 2.75 to 5.75 | 4,380,000 | 2,915,000 | 1,465,000 | 465,000 |
| 1995 Unltd G.O. Public Safety, Forbes Creek Fire Station | | 08/01/95 | 12/01/14 | 4.65 to 7.00 | 1,020,000 | 455,000 | 565,000 | 60,000 |
| 1999 Ltd. G.O. Teen Center Design and Construction | * | 11/01/99 | 12/01/19 | 4.30 to 6.00 | 1,025,000 | 225,000 | 800,000 | 45,000 |
| 2001 Unltd. G.O. Refunding 1992 UTGO Public Safety Bonds | | 07/06/01 | 12/12/12 | 4.00 to 4.65 | 1,730,000 | 755,000 | 975,000 | 150,000 |
| 2001 Ltd. GO Refunding 1994 LTGO, McAuliffe, Library Parking Garage, City Hall, Cemetery Improvement | * | 07/06/01 | 12/13/13 | 4.00 to 5.125 | 11,060,000 | 3,465,000 | 7,595,000 | 675,000 |
| 2001B Ltd. G.O. Purchase 505 Market Property | * | 10/30/01 | 12/01/07 | 3.7 | 1,785,000 | 0 | 1,785,000 | 1,785,000 |
| 2003 Unltd. G.O. Park Acquisition and Improvements | | 01/30/03 | 12/01/22 | 4.408 | 8,400,000 | 1,275,000 | 7,125,000 | 330,000 |
| Total | | | | | \$32,065,000 | \$10,830,000 | \$21,235,000 | \$3,800,000 |

* Councilmanic

The annual debt service requirements to maturity for general obligation bonds are as follows:

| Year Ending | Governmental Activities | |
|-------------|-------------------------|-------------|
| | Principal | Interest |
| 2007 | 3,800,000 | 972,434 |
| 2008 | 2,090,000 | 817,048 |
| 2009 | 2,190,000 | 722,332 |
| 2010 | 1,410,000 | 619,785 |
| 2011 | 1,465,000 | 560,880 |
| 2012-2016 | 5,790,000 | 1,850,910 |
| 2017-2021 | 3,885,000 | 767,510 |
| 2022 | 605,000 | 31,460 |
| Total | \$21,235,000 | \$6,342,359 |

The revenue debt, issuance, redemption and current balance outstanding are as follows:

| Issue - Purpose | Issue Date | Maturity Date | Interest Rate | Amount Issued | Redemptions to Date | Outstanding 12/31/06 | Due Within One Year |
|--|------------|---------------|---------------|---------------------|---------------------|----------------------|---------------------|
| 1996 Refunding portion of 1992 Water/Sewer Revenue Bonds | 03/04/96 | 06/01/12 | 3.9 to 5.2 | 3,725,000 | 1,130,000 | 2,595,000 | 330,000 |
| 1993 Public Works Trust Loan Lake Street Sewer Line Replacement | 08/25/93 | 07/01/14 | 1.0 | 823,368 | 520,022 | 303,346 | 43,335 |
| 1994 Public Works Trust Loan(A) Lake Washington Blvd Water Line Replacement | 07/26/94 | 07/01/14 | 1.0 | 1,231,700 | 713,287 | 518,413 | 64,802 |
| 1994 Public Works Trust Loan(B) Lake Washington Blvd Sewer Line Replacement | 07/26/94 | 07/01/14 | 1.0 | 1,165,500 | 672,037 | 493,463 | 61,683 |
| 1994 Public Works Trust Fund Loan Consolidated Rose Hill Assumption | 01/01/94 | 07/01/09 | 1.0 | 3,184,824 | 2,502,362 | 682,462 | 227,487 |
| 1995 Public Works Trust Loan Lake Shore Plaza Lift Station | 06/07/95 | 07/01/15 | 1.0 | 794,850 | 394,152 | 400,698 | 44,522 |
| 1999 Public Works Trust Loan Juanita Lift Station Replacement Project - Design | 07/01/00 | 07/01/19 | 1.0 | 227,500 | 64,546 | 162,954 | 12,535 |
| 2001 Public Works Trust Loan Juanita Lift Station Replacement Project - Construction | 11/14/01 | 07/01/21 | 0.5 | 1,848,000 | 303,470 | 1,544,530 | 102,969 |
| 2004 Public Works Trust Loan Central Way Sewer Replacement | 09/01/04 | 07/01/24 | .5 | 1,086,300 | 54,315 | 1,031,985 | 57,333 |
| 2004 Water/Sewer Revenue Refunding Bonds | 08/01/04 | 06/01/14 | 2.0 to 4.0 | 3,090,000 | 645,000 | 2,445,000 | 285,000 |
| Total | | | | \$17,177,042 | \$6,999,191 | \$10,177,851 | \$1,229,666 |

The revenue debt service requirements to maturity are as follows:

| Year Ending December 31 | Principal | Interest |
|-------------------------|---------------------|--------------------|
| | 2007 | 1,229,666 |
| 2008 | 1,254,665 | 211,324 |
| 2009 | 1,279,665 | 179,879 |
| 2010 | 1,077,178 | 146,644 |
| 2011 | 1,117,178 | 111,665 |
| 2012-2016 | 3,208,392 | 147,292 |
| 2017-2021 | 839,110 | 17,074 |
| 2021-2024 | 171,997 | 1,720 |
| Total | \$10,177,851 | \$1,056,874 |

Special Assessment Bonds, Issuances, Redemption, and Balances Outstanding

| Issue - Purpose | Issue Date | Maturity Date | Interest Rate | Amount Issued | Redemptions to Date | Outstanding 12/31/06 | Due Within One Year |
|-----------------|------------|---------------|---------------|---------------|---------------------|----------------------|---------------------|
| LID 126 | 12/01/97 | 12/01/07 | 4.2 to 5.2 | \$140,592 | \$135,592 | \$5,000 | \$5,000 |

Special Assessment Bond Debt Service Requirements to maturity are as follows:

| Year Ending December 31 | Principal | Interest |
|-------------------------|-----------|----------|
| 2007 | 5,000 | 260 |
| Total | \$5,000 | \$260 |

Changes in Long-Term Liabilities

| | Beginning Balance 01/01/2006 | Additions | Reductions | Ending Balance 12/31/2006 | Due Within One Year |
|---|---------------------------------|------------------|------------------|------------------------------|------------------------|
| <u>Governmental Activities</u> | | | | | |
| General Obligation Bonds | 23,150,000 | - | 1,915,000 | 21,235,000 | 3,800,000 |
| LID Assessment <small>with governmental commitment</small> | 10,000 | - | 5,000 | 5,000 | 5,000 |
| Compensated Absences | 1,536,145 | 1,886,938 | 1,772,824 | 1,650,259 | 1,308,414 |
| Governmental Activity long-term liabilities | <u>\$ 24,696,145</u> | <u>1,886,938</u> | <u>3,692,824</u> | <u>\$ 22,890,259</u> | <u>\$ 5,113,414</u> |
| <u>Business-Type Activities</u> | | | | | |
| Revenue Bonds | 5,635,000 | - | 595,000 | 5,040,000 | 615,000 |
| PWTF Loans | 5,423,609 | 325,890 | 611,648 | 5,137,851 | 614,665 |
| Compensated Absences | 83,525 | 118,444 | 128,854 | 73,115 | 58,492 |
| Business-type Activity long-term liabilities | <u>\$ 11,142,134</u> | <u>444,334</u> | <u>1,335,502</u> | <u>\$ 10,250,966</u> | <u>\$ 1,288,157</u> |

Compensated Absences

The City's liability for accrued compensated absences is recorded in the schedule above. The governmental activities category includes a liability of \$90,135 for Internal Service Funds which are predominantly associated with governmental funds. The funds that incur liability for compensated absences are responsible for liquidating them in future periods based upon where the employee's salary is paid. The governmental funds which typically liquidate compensated absences include the General, Street Operating, Parks Maintenance, Recreation Revolving, and Facilities Maintenance.

Refunded Debt

In prior years the City defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The remaining \$2,750,000 of general obligation defeased bonds were paid off in May 2006. At December 31, 2006, the City had no defeased general obligation bonds.

Leases

Operating Leases

In 2006, the City leased 3 copiers with four year non-cancelable agreements. The City also has three payments remaining from a three year non-cancelable rental agreement for two copiers entered into in 2004. The total cost for leased copiers for the year ended December 31, 2006 was \$21,785. The future minimum payments for these agreements are as follows:

| <u>Year Ending</u> | <u>Amount</u> |
|--------------------|------------------|
| <u>December 31</u> | |
| 2007 | 39,262 |
| 2008 | 33,816 |
| 2009 | 33,816 |
| 2010 | <u>33,816</u> |
| Total | <u>\$140,710</u> |

NOTE 9:
INTERFUND ASSETS/LIABILITIES

Interfund Loans Receivable/Payable represents loans from one fund to another. During 2006, the Equipment Rental Fund paid for the balance on the cost of new equipment purchased on behalf of the Capital Projects Fund. The loan amount of \$46,715 will be repaid in full in 2007. The loan will not incur interest due to the short duration of the payment period.

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Interfund Payable</u> |
|------------------|---------------------------------|------------------------------|
| Capital Projects | 0 | \$46,715 |
| Equipment Rental | \$46,715 | 0 |
| Total | <u>\$46,715</u> | <u>\$46,715</u> |

NOTE 10:
CONTINGENCIES AND LITIGATIONS

As of December 31, 2006, there were damage claims and lawsuits pending against the City. However, management believes, and the City Attorney concurs, neither the potential liability from any single claim or lawsuit, nor the aggregate potential liability resulting from all pending claims or lawsuits, would materially affect the financial condition of the City.

NOTE 11:
INTERFUND TRANSFERS

Transfers are legally authorized transfers of resources from a fund receiving revenue to the fund through which the resources are to be expended. Transfers occur for capital and operating reserves, capital purchases, debt service, indirect overhead and subsidies.

| <u>Fund</u> | <u>Transfer In</u> | <u>Transfer Out</u> |
|----------------------------|---------------------|---------------------|
| General | 466,686 | 4,494,903 |
| Street Operating | 145,751 | 0 |
| Facilities Maintenance | 1,665 | 1,387,911 |
| Park and Municipal Reserve | 2,073,438 | 112,541 |
| Contingency | 860,798 | 336,036 |
| Cemetery Improvement | 0 | 29,749 |
| Parks Maintenance | 2,100 | 0 |
| Impact Fee | 0 | 1,284,500 |
| Street Improve Reserve | 0 | 732,000 |
| Excise Capital Improvement | 0 | 3,916,208 |
| Recreation Revolving | 3,745 | 0 |
| Debt Service | 1,453,954 | 1,000 |
| Capital Projects | 6,510,786 | 100,000 |
| Internal Service | 1,087,055 | 60,700 |
| Water/Sewer | 4,530 | 100,000 |
| Surface Water | 2,715 | 50,000 |
| Pension Trust | 0 | 7,675 |
| Total Transfers In | <u>\$12,613,223</u> | <u>\$12,613,223</u> |

NOTE 12:
JOINT VENTURES

In 1999 eight cities and districts joined together to provide water supply for current and future demands through the Cascade Water Alliance. The members have entered into an interlocal agreement to enhance their ability to supply water to their respective service areas and the region by developing, owning, and operating regional water supply assets. Collectively, the membership of Cascade serves over 300,000 residents and 22,000 businesses in East and South King County, representing almost 50% of retail water sales outside of Seattle.

The City charges its members for each additional connection to the Cascade system. Each member collects a Regional Capital Facilities Charge and remits to the Cascade Alliance. During 2006 this amount was \$828,215 for the City of Kirkland.

In April of 2006, the Cascade Water Alliance issued revenue bonds in the amount of \$58 million. The bonds were issued to cover the costs of carrying out a portion of the capital program described in the Cascade Watershed Management Plan. The Cascade bonds do not pledge the full faith and credit of any of the eight members, nor do the bonds pledge any revenues except as the members commit under the Interlocal Contract which established Cascade Water Alliance.

NOTE 13:
BUDGET TO GAAP RECONCILIATION

The City's budget is prepared primarily on the cash basis of accounting; therefore, the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – for the General Fund, Street Operating Special Revenue Fund, Parks and Municipal Reserve Special Revenue Fund and Excise Tax Capital Improvement Special Revenue Fund report revenues when received and expenditures when paid, instead of revenue and expenditure amounts as defined under the modified accrual basis of accounting. The following schedule reconciles revenues and expenditures on the budgetary basis to revenues and expenditures on the modified accrual basis as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances.

| | General Fund | Street Operating | Parks and Municipal Reserve | Excise Tax Capital Improvement |
|---|-----------------|---------------------|-----------------------------------|--------------------------------------|
| Revenues on the Budgetary Basis | 51,309,884 | 3,586,018 | 348,685 | 7,591,922 |
| Increase (Decrease) due to accruals | (34,109) | (1,804) | (234) | 67,225 |
| Revenues on the GAAP Basis | 51,275,775 | 3,584,214 | 348,451 | 7,659,147 |
| Expenditures on the Budgetary Basis | 45,621,507 | 3,623,858 | 367,803 | 0 |
| Increase (Decrease) due to accruals | 18,122 | (29,624) | (3,407) | 0 |
| Expenditures on the GAAP Basis | 45,639,629 | 3,594,234 | 364,396 | 0 |
| Other Financing Sources (Uses) on the Budgetary Basis | (4,012,917) | 145,751 | 2,274,100 | (3,916,208) |
| Increase (Decrease) due to accruals | 0 | 0 | (1) | 0 |
| Other Financing Sources (Uses) on the GAAP Basis | (4,012,917) | 145,751 | 2,274,099 | (3,916,208) |
| Excess (Deficiency) of Revenues Over (Under) Expenditures on the Budgetary Basis | 5,688,377 | (37,840) | (19,118) | 7,591,922 |
| Increase (Decrease) due to accruals | (52,231) | 27,820 | 3,173 | 67,225 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures on the GAAP Basis | 5,636,146 | (10,020) | (15,945) | 7,659,147 |
| Fund Balances Beginning of Year on the Budgetary Basis | 4,741,650 | 1,403,100 | 9,056,966 | 8,418,435 |
| Increase (Decrease) due to accruals | 786,905 | (58,649) | 684,376 | 3,599,378 |
| Fund Balances Beginning of year on the GAAP Basis | 5,528,555 | 1,344,451 | 9,741,342 | 12,017,813 |
| Fund Balances End of Year on the Budgetary Basis | 5,865,784 | 1,587,329 | 12,003,198 | 15,380,056 |
| Increase (Decrease) due to Accruals | 1,286,000 | (107,147) | (3,702) | 380,696 |
| Fund Balances End of Year on the GAAP Basis | 7,151,784 | 1,480,182 | 11,999,496 | 15,760,752 |

NOTE 14:
OTHER DISCLOSURES

The City's impact fee revenue is collected and retained in the Impact Fee special revenue fund in accordance with RCW 82.02.080. These funds are collected for park and road system improvements as identified in the City's Comprehensive Plan. The projects expending impact fees are appropriated prospectively by the City Council as part of the Capital Improvement Program. These fees are imposed and collected based on development occurring within the City during the current fiscal year. They are considered measurable and available and are therefore considered revenues to the Impact Fee fund.



Fund Financial Statements and Schedules

NON MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are established to account for specific resources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

- The **Lodging Tax Fund** accounts for the City's tourism program and expenditures related to the operation of tourism-related facilities. The primary source of revenue is a one percent lodging tax instituted in January of 2002.
- The **Cemetery Operating Fund** accounts for the operation of the City's cemetery. The primary source of revenue is user fees.
- The **Parks Maintenance Fund** accounts for the maintenance and operation of park properties acquired and/or developed with a park bond passed in November 2002. The primary source of revenue is from a special property tax levy approved in November 2002.
- The **Recreation Program Revolving Fund** accounts for the City's fee supported recreational programs. The primary source of revenue is user fees.
- The **Facilities Maintenance Fund** accounts for the operations and maintenance of the City's building facilities and public facilities ground maintenance and landscaping. The primary sources of revenue are taxes and charges for service.
- The **Contingency Fund** is provided for by state law and allows for the accumulation of resources up to \$.375 per \$1,000 of assessed valuation for emergency uses.
- The **Cemetery Improvement Fund** receives a percentage of the revenue from the sale of plots at the City cemetery which is set aside for minor capital improvements and the maintenance of the cemetery after all plots are sold.
- The **Impact Fees Fund** accounts for road and park impact fees initiated in 1999. Impact fees, and the interest earned on them, are deposited in this fund and transferred out to the capital projects funds to pay for road and park capacity projects approved in the Capital Improvement Program (CIP).
- The **Off Street Parking Fund** was created to receive payments made by downtown businesses in lieu of providing on-site parking. Accumulated funds must be used for the acquisition, design, construction, development, financing, maintenance, and operation of off-site parking facilities in the Central Business District.
- The **Tour Dock Fund** was created to receive rental fees associated with use of the tour dock in Marina Park. Fees must be used for maintenance and repair of the dock.

- The ***Street Improvement Reserve Fund*** accumulates resources for street-related capital projects. Dedicated funding sources include \$270,000 per year in sales tax revenue and state distributions of the half-cent motor vehicle fuel tax. The motor vehicle fuel tax is legally restricted for the funding of street improvements, whereas the \$270,000 in sales tax revenue is set by council policy. Resources are transferred out of the Street Improvement Fund to the capital projects funds as needed for current year projects. The remainder is held in reserve for future year projects.
- The ***Grant Control Fund*** was established to meet the special accounting requirements associated with grants. This fund accounts for grant revenues and related expenditures for non-CIP grant projects.

Debt Service Funds

Debt Service Funds account for the accumulation payment of general obligation bond principal and interest from governmental resources and the payment of special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

- The ***Limited Tax General Obligation (LTGO) Bonds*** (also called Councilmanic Bonds) can be issued with approval of the City Council. The debt is repaid from general revenues of the city.
- The ***Unlimited Tax General Obligation (UTGO) Bonds*** represent debt that was approved by voters for a specific purpose. In this case, citizens have agreed to levy property taxes to repay the debt generally over a twenty-year period.
- The ***Local Improvement District (LID) Bonds*** represent debt that is repaid by the property owners who benefited from the capital improvement through annual assessments paid to the city. LID's are formed by the City Council after a majority of property owners agree to the assessment.



City of Kirkland
Combining Balance Sheet
 Non Major Governmental Funds
 December 31, 2006

Page 1 of 4

| | Special Revenue | | | Recreation |
|--|-----------------|-----------------------|----------------------|----------------------|
| | Lodging Tax | Cemetery Operating | Parks Maintenance | Program Revolving |
| Assets | | | | |
| Cash and Cash Equivalents | 51,015 | 34,291 | 133,899 | 4,573 |
| Investments | 147,830 | 99,598 | 388,912 | 13,282 |
| Receivables, Net of Allowances: | | | | |
| Taxes | 0 | 0 | 15,773 | 0 |
| Special Assessments | 0 | 0 | 0 | 0 |
| Accounts | 0 | 0 | 0 | 0 |
| Due From Other Governments | 0 | 0 | 0 | 5,500 |
| Total Assets | 198,845 | 133,889 | 538,584 | 23,355 |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts Payable | 4,255 | 272 | 6,198 | 11,281 |
| Wages Payable | 386 | 0 | 18,415 | 11,011 |
| Due to Other Sources | 0 | 540 | 3,235 | 0 |
| Deposits | 0 | 0 | 0 | 105 |
| Deferred Revenue | 0 | 0 | 15,773 | 0 |
| Total Liabilities | 4,641 | 812 | 43,621 | 22,397 |
| Fund Balances | | | | |
| Reserved | 194,204 | 0 | 494,963 | 0 |
| Unreserved | 0 | 133,077 | 0 | 958 |
| Total Liabilities and Fund Balances | 198,845 | 133,889 | 538,584 | 23,355 |

City of Kirkland
Combining Balance Sheet
 Non Major Governmental Funds
 December 31, 2006

Page 2 of 4

| Facilities Maintenance | Contingency | Cemetery Improvement | Impact Fees | Off Street Parking | Tour Dock |
|---------------------------|-------------|-------------------------|----------------|-----------------------|-----------|
| 619,832 | 721,164 | 106,928 | 537,158 | 17,816 | 12,610 |
| 1,772,537 | 2,094,626 | 310,572 | 1,552,950 | 51,748 | 36,625 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 2,392,369 | 2,815,790 | 417,500 | 2,090,108 | 69,564 | 49,235 |
| 70,710 | 0 | 0 | 0 | 0 | 0 |
| 20,690 | 0 | 0 | 0 | 0 | 0 |
| 6,921 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 98,321 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 2,090,108 | 0 | 0 |
| 2,294,048 | 2,815,790 | 417,500 | 0 | 69,564 | 49,235 |
| 2,392,369 | 2,815,790 | 417,500 | 2,090,108 | 69,564 | 49,235 |

City of Kirkland
Combining Balance Sheet
 Non Major Governmental Funds
 December 31, 2006

Page 3 of 4

| | Street Improvement Reserve | Grant Control | Total Special Revenue |
|--|----------------------------------|------------------|-----------------------------|
| Assets | | | |
| Cash and Cash Equivalents | 421,632 | 57,840 | 2,718,758 |
| Investments | 1,224,633 | 167,995 | 7,861,308 |
| Receivables, Net of Allowances: | | | |
| Taxes | 0 | 0 | 15,773 |
| Special Assessments | 0 | 0 | 0 |
| Accounts | 0 | 0 | 0 |
| Due From Other Governments | 0 | 0 | 5,500 |
| Total Assets | 1,646,265 | 225,835 | 10,601,339 |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts Payable | 0 | 0 | 92,716 |
| Wages Payable | 0 | 0 | 50,502 |
| Due to Other Sources | 0 | 0 | 10,696 |
| Deposits | 0 | 0 | 105 |
| Deferred Revenue | 0 | 21,236 | 37,009 |
| Total Liabilities | 0 | 21,236 | 191,028 |
| Fund Balances | | | |
| Reserved | 0 | 0 | 2,779,275 |
| Unreserved | 1,646,265 | 204,599 | 7,631,036 |
| Total Liabilities and Fund Balances | 1,646,265 | 225,835 | 10,601,339 |

City of Kirkland
Combining Balance Sheet
 Non Major Governmental Funds
 December 31, 2006

Page 4 of 4

| Debt Service | | | Total | Governmental |
|----------------|----------------|--------------|----------------|-------------------|
| LTGO | UTGO | LID | Debt | Funds |
| | | | Service | Total |
| 60,357 | 83,191 | 1,057 | 144,605 | 2,863,363 |
| 171,651 | 241,628 | 3,071 | 416,350 | 8,277,658 |
| 0 | 32,144 | 0 | 32,144 | 47,917 |
| 0 | 0 | 4,544 | 4,544 | 4,544 |
| 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 5,500 |
| 232,008 | 356,963 | 8,672 | 597,643 | 11,198,982 |
| 0 | 0 | 0 | 0 | 92,716 |
| 0 | 0 | 0 | 0 | 50,502 |
| 0 | 0 | 0 | 0 | 10,696 |
| 0 | 0 | 0 | 0 | 105 |
| 0 | 32,151 | 6,966 | 39,117 | 76,126 |
| 0 | 32,151 | 6,966 | 39,117 | 230,145 |
| 232,008 | 324,812 | 1,706 | 558,526 | 3,337,801 |
| 0 | 0 | 0 | 0 | 7,631,036 |
| 232,008 | 356,963 | 8,672 | 597,643 | 11,198,982 |

City of Kirkland
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
 Non Major Governmental Funds
 For the fiscal year ended December 31, 2006

Page 1 of 4

Special Revenue

| | Lodging Tax | Cemetery Operating | Parks Maintenance | Recreation Program Revolving |
|---|----------------|-----------------------|----------------------|------------------------------------|
| Revenues | | | | |
| Taxes and Assessments | 153,469 | 0 | 733,187 | 0 |
| Intergovernmental | 0 | 0 | 0 | 5,500 |
| Charges for Services | 0 | 72,042 | 0 | 851,953 |
| Investment Interest | 6,195 | 0 | 0 | 0 |
| Miscellaneous Revenues | 187 | 0 | 18,378 | 52,290 |
| Total Revenues | 159,851 | 72,042 | 751,565 | 909,743 |
| Expenditures | | | | |
| Current | | | | |
| General Government | 0 | 0 | 0 | 0 |
| Security of Persons and Property | 0 | 0 | 0 | 0 |
| Physical Environment | 0 | 99,924 | 0 | 0 |
| Transportation | 0 | 0 | 0 | 0 |
| Economic Environment | 117,628 | 0 | 0 | 83,871 |
| Culture and Recreation | 0 | 0 | 669,924 | 876,591 |
| Debt Service | | | | |
| Principal | 0 | 0 | 0 | 0 |
| Interest | 0 | 0 | 0 | 0 |
| Capital Outlay | 0 | 968 | 0 | 0 |
| Total Expenditures | 117,628 | 100,892 | 669,924 | 960,462 |
| Excess (Deficiency) of revenues | | | | |
| Over (under) expenditures | 42,223 | (28,850) | 81,641 | (50,719) |
| Other Financing Sources (Uses) | | | | |
| Sale of Capital Assets | 0 | 21,199 | 0 | 0 |
| Transfers In | 0 | 0 | 2,100 | 3,745 |
| Transfers Out | 0 | 0 | 0 | 0 |
| Total Other Financing Sources (Uses) | 0 | 21,199 | 2,100 | 3,745 |
| Net Change in Fund Balance | 42,223 | (7,651) | 83,741 | (46,974) |
| Fund Balances Beginning of Year | 151,981 | 140,728 | 411,222 | 47,932 |
| Fund Balances End of Year | 194,204 | 133,077 | 494,963 | 958 |

City of Kirkland
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
 Non Major Governmental Funds
 For the fiscal year ended December 31, 2006

Page 2 of 4

| Facilities Maintenance | Contingency | Cemetery Improvement | Impact Fees | Off Street Parking |
|---------------------------|-------------|-------------------------|----------------|-----------------------|
| 853,757 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 |
| 1,747,310 | 0 | 0 | 500,914 | 0 |
| 501,806 | 0 | 0 | 130,627 | 0 |
| 213,556 | 0 | 0 | 18,966 | 0 |
| 3,316,429 | 0 | 0 | 650,507 | 0 |
| | | | | |
| 1,254,727 | 0 | 0 | | |
| 194,571 | 0 | 0 | 0 | 0 |
| 203,086 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 |
| 81,645 | 0 | 0 | 0 | 0 |
| 124,618 | 0 | 0 | 0 | 0 |
| | | | | |
| 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 2,903 | 0 | 0 |
| 1,858,647 | 0 | 2,903 | 0 | 0 |
| | | | | |
| 1,457,782 | 0 | (2,903) | 650,507 | 0 |
| | | | | |
| 0 | 0 | 61,196 | 0 | 0 |
| 1,665 | 860,798 | 0 | 0 | 0 |
| (1,387,911) | (336,036) | (29,749) | (1,284,500) | 0 |
| (1,386,246) | 524,762 | 31,447 | (1,284,500) | 0 |
| | | | | |
| 71,536 | 524,762 | 28,544 | (633,993) | 0 |
| | | | | |
| 2,222,512 | 2,291,028 | 388,956 | 2,724,101 | 69,564 |
| 2,294,048 | 2,815,790 | 417,500 | 2,090,108 | 69,564 |

City of Kirkland
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
 Non Major Governmental Funds
 For the fiscal year ended December 31, 2006

Page 3 of 4

| | Tour Dock | Street Improvement Reserve | Grant Control | Total Special Revenue |
|---|---------------|----------------------------------|------------------|-----------------------------|
| Revenues | | | | |
| Taxes and Assessments | 0 | 145,000 | 0 | 1,885,413 |
| Intergovernmental | 0 | 340,240 | 27,044 | 372,784 |
| Charges for Services | 0 | 18,600 | 0 | 3,190,819 |
| Investment Interest | 0 | 0 | 0 | 638,628 |
| Miscellaneous Revenues | 32,238 | 0 | 0 | 335,615 |
| Total Revenues | 32,238 | 503,840 | 27,044 | 6,423,259 |
| Expenditures | | | | |
| Current | | | | |
| General Government | 0 | 0 | 0 | 1,254,727 |
| Security of Persons and Property | 0 | 0 | 0 | 194,571 |
| Physical Environment | 0 | 0 | 500 | 303,510 |
| Transportation | 0 | 0 | 40 | 40 |
| Economic Environment | 0 | 0 | 0 | 283,144 |
| Culture and Recreation | 4,515 | 0 | 0 | 1,675,648 |
| Debt Service | | | | |
| Principal | 0 | 0 | 0 | 0 |
| Interest | 0 | 0 | 0 | 0 |
| Capital Outlay | 0 | 0 | 31,472 | 35,343 |
| Total Expenditures | 4,515 | 0 | 32,012 | 3,746,983 |
| Excess (Deficiency) of revenues | | | | |
| Over (under) expenditures | 27,723 | 503,840 | (4,968) | 2,676,276 |
| Other Financing Sources (Uses) | | | | |
| Sale of Capital Assets | 0 | 153,891 | 0 | 236,286 |
| Transfers In | 0 | 0 | 0 | 868,308 |
| Transfers Out | 0 | (732,000) | 0 | (3,770,196) |
| Total Other Financing Sources (Uses) | 0 | (578,109) | 0 | (2,665,602) |
| Net Change in Fund Balance | 27,723 | (74,269) | (4,968) | 10,674 |
| Fund Balances Beginning of Year | 21,512 | 1,720,534 | 209,567 | 10,399,637 |
| Fund Balances End of Year | 49,235 | 1,646,265 | 204,599 | 10,410,311 |

City of Kirkland
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
 Non Major Governmental Funds
 For the fiscal year ended December 31, 2006

Page 4 of 4

Debt Service

| LTGO | UTGO | LID | Total Debt Service | Governmental Funds Total |
|-------------|-----------|---------|--------------------------|--------------------------------|
| 0 | 1,451,225 | 0 | 1,451,225 | 3,336,638 |
| 0 | 0 | 0 | 0 | 372,784 |
| 0 | 0 | 0 | 0 | 3,190,819 |
| 66,045 | 0 | 0 | 66,045 | 704,673 |
| 20,249 | 0 | 0 | 20,249 | 355,864 |
| 86,294 | 1,451,225 | 0 | 1,537,519 | 7,960,778 |
| | | | | |
| 0 | 0 | 2,517 | 2,517 | 1,257,244 |
| 0 | 0 | 0 | 0 | 194,571 |
| 0 | 0 | 0 | 0 | 303,510 |
| 0 | 0 | 0 | 0 | 40 |
| 0 | 0 | 0 | 0 | 283,144 |
| 0 | 0 | 0 | 0 | 1,675,648 |
| | | | | |
| 965,000 | 950,000 | 5,000 | 1,920,000 | 1,920,000 |
| 554,999 | 499,145 | 520 | 1,054,664 | 1,054,664 |
| 0 | 0 | 0 | 0 | 35,343 |
| 1,519,999 | 1,449,145 | 8,037 | 2,977,181 | 6,724,164 |
| | | | | |
| (1,433,705) | 2,080 | (8,037) | (1,439,662) | 1,236,614 |
| | | | | |
| 0 | 0 | 0 | 0 | 236,286 |
| 1,453,954 | 0 | 0 | 1,453,954 | 2,322,262 |
| 0 | 0 | (1,000) | (1,000) | (3,771,196) |
| 1,453,954 | 0 | (1,000) | 1,452,954 | (1,212,648) |
| | | | | |
| 20,249 | 2,080 | (9,037) | 13,292 | 23,966 |
| | | | | |
| 211,759 | 322,732 | 10,743 | 545,234 | 10,944,871 |
| 232,008 | 324,812 | 1,706 | 558,526 | 10,968,837 |

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Lodging Tax Special Revenue Fund
For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Taxes and Assessments | 215,000 | 215,000 | 135,211 | 153,469 | 288,680 | 73,680 |
| Miscellaneous Revenues | 0 | 0 | 381 | 6,724 | 7,105 | 7,105 |
| Total Revenues | 215,000 | 215,000 | 135,592 | 160,193 | 295,785 | 80,785 |
| Expenditures | | | | | | |
| Current | | | | | | |
| Economic Environment | 230,713 | 345,963 | 157,441 | 121,875 | 279,316 | 66,647 |
| Total Expenditures | 230,713 | 345,963 | 157,441 | 121,875 | 279,316 | 66,647 |
| Excess of revenues over expenditures | (15,713) | (130,963) | (21,849) | 38,318 | 16,469 | 147,432 |
| Net Change in Fund Balance | (15,713) | (130,963) | (21,849) | 38,318 | 16,469 | 147,432 |
| Fund Balances Beginning of Year | 162,884 | 182,713 | 182,713 | | 182,713 | 0 |
| Fund Balances End of Year | 147,171 | 51,750 | 160,864 | 38,318 | 199,182 | 147,432 |

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Cemetery Operating Special Revenue Fund
For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Charges for Services | 136,000 | 136,000 | 84,387 | 72,042 | 156,429 | 20,429 |
| Total Revenues | 136,000 | 136,000 | 84,387 | 72,042 | 156,429 | 20,429 |
| Expenditures | | | | | | |
| Current | | | | | | |
| Physical Environment | 301,024 | 307,728 | 95,109 | 100,860 | 195,969 | 111,759 |
| Capital Outlay | 4,000 | 4,000 | 825 | 968 | 1,793 | 2,207 |
| Total Expenditures | 305,024 | 311,728 | 95,934 | 101,828 | 197,762 | 113,966 |
| Excess of revenues over expenditures | (169,024) | (175,728) | (11,547) | (29,786) | (41,333) | 134,395 |
| Other Financing Sources (Uses) | | | | | | |
| Sale of capital assets | 44,000 | 44,000 | 22,295 | 21,199 | 43,494 | (506) |
| Total Other Financing Sources (Uses) | 44,000 | 44,000 | 22,295 | 21,199 | 43,494 | (506) |
| Net Change in Fund Balance | (125,024) | (131,728) | 10,748 | (8,587) | 2,161 | 133,889 |
| Fund Balances Beginning of Year | 125,024 | 131,728 | 131,728 | | 131,728 | 0 |
| Fund Balances End of Year | 0 | 0 | 142,476 | (8,587) | 133,889 | 133,889 |

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Parks Maintenance Special Revenue Fund
For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Taxes and Assessments | 1,457,482 | 1,457,482 | 716,114 | 733,319 | 1,449,433 | (8,049) |
| Miscellaneous Revenues | 10,600 | 10,600 | 10,545 | 19,529 | 30,074 | 19,474 |
| Total Revenues | 1,468,082 | 1,468,082 | 726,659 | 752,848 | 1,479,507 | 11,425 |
| Expenditures | | | | | | |
| Culture and Recreation | 1,478,976 | 1,478,976 | 600,092 | 663,244 | 1,263,336 | 215,640 |
| Total Expenditures | 1,478,976 | 1,478,976 | 600,092 | 663,244 | 1,263,336 | 215,640 |
| Excess of revenues over expenditures | (10,894) | (10,894) | 126,567 | 89,604 | 216,171 | 227,065 |
| Other Financing Sources (Uses) | | | | | | |
| Operating Transfers In | 0 | 2,100 | 0 | 2,100 | 2,100 | 0 |
| Transfers Out | 0 | 0 | (12,280) | 0 | (12,280) | (12,280) |
| Total Other Financing Sources (Uses) | 0 | 2,100 | (12,280) | 2,100 | (10,180) | (12,280) |
| Net Change in Fund Balance | (10,894) | (8,794) | 114,287 | 91,704 | 205,991 | 214,785 |
| Fund Balances Beginning of Year | 183,124 | 313,969 | 313,969 | | 313,969 | 0 |
| Fund Balances End of Year | 172,230 | 305,175 | 428,256 | 91,704 | 519,960 | 214,785 |

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Recreation Revolving Special Revenue Fund
For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Intergovernmental | 0 | 0 | 2,261 | 0 | 2,261 | 2,261 |
| Charges for Services | 1,538,250 | 1,615,158 | 854,375 | 838,821 | 1,693,196 | 78,038 |
| Miscellaneous Revenues | 56,600 | 56,600 | 35,716 | 52,292 | 88,008 | 31,408 |
| Total Revenues | 1,594,850 | 1,671,758 | 892,352 | 891,113 | 1,783,465 | 111,707 |
| Expenditures | | | | | | |
| Current | | | | | | |
| Economic Environment | 155,856 | 155,856 | 65,734 | 87,488 | 153,222 | 2,634 |
| Culture and Recreation | 1,707,485 | 1,695,111 | 840,758 | 877,232 | 1,717,990 | (22,879) |
| Total Expenditures | 1,863,341 | 1,850,967 | 906,492 | 964,720 | 1,871,212 | (20,245) |
| Excess of revenues over expenditures | (268,491) | (179,209) | (14,140) | (73,607) | (87,747) | 91,462 |
| Other Financing Sources (Uses) | | | | | | |
| Operating Transfers In | 155,000 | 155,000 | 0 | 3,745 | 3,745 | (151,255) |
| Total Other Financing Sources (Uses) | 155,000 | 155,000 | 0 | 3,745 | 3,745 | (151,255) |
| Net Change in Fund Balance | (113,491) | (24,209) | (14,140) | (69,862) | (84,002) | (59,793) |
| Fund Balances Beginning of Year | 113,491 | 101,117 | 101,117 | | 101,117 | 0 |
| Fund Balances End of Year | 0 | 76,908 | 86,977 | (69,862) | 17,115 | (59,793) |

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Facilities Maintenance Special Revenue Fund
For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Taxes and Assessments | 1,545,000 | 1,545,000 | 890,806 | 853,757 | 1,744,563 | 199,563 |
| Charges for Services | 3,356,871 | 3,356,871 | 1,609,876 | 1,747,312 | 3,357,188 | 317 |
| Investment Interest | 1,003,612 | 1,003,612 | 348,485 | 501,807 | 850,292 | (153,320) |
| Miscellaneous Revenues | 217,380 | 217,380 | 100,720 | 115,200 | 215,920 | (1,460) |
| Total Revenues | 6,122,863 | 6,122,863 | 2,949,887 | 3,218,076 | 6,167,963 | 45,100 |
| Expenditures | | | | | | |
| Current | | | | | | |
| General Government | 3,701,054 | 3,751,381 | 956,589 | 1,004,073 | 1,960,662 | 1,790,719 |
| Security of Persons and Property | 465,927 | 465,927 | 189,651 | 190,328 | 379,979 | 85,948 |
| Physical Environment | 656,469 | 656,500 | 285,837 | 326,069 | 611,906 | 44,594 |
| Economic Environment | 209,958 | 210,046 | 78,077 | 83,688 | 161,765 | 48,281 |
| Culture and Recreation | 367,544 | 367,775 | 229,818 | 253,281 | 483,099 | (115,324) |
| Capital Outlay | 0 | 44,688 | 33,594 | 0 | 33,594 | 11,094 |
| Total Expenditures | 5,400,952 | 5,496,317 | 1,773,566 | 1,857,439 | 3,631,005 | 1,865,312 |
| Excess of revenues over expenditures | 721,911 | 626,546 | 1,176,321 | 1,360,637 | 2,536,958 | 1,910,412 |
| Other Financing Sources (Uses) | | | | | | |
| Operating Transfers In | 0 | 1,665 | 153,321 | 1,665 | 154,986 | 153,321 |
| Transfers Out | (2,274,860) | (2,347,360) | (1,210,686) | (1,387,911) | (2,598,597) | (251,237) |
| Total Other Financing Sources (Uses) | (2,274,860) | (2,345,695) | (1,057,365) | (1,386,246) | (2,443,611) | (97,916) |
| Net Change in Fund Balance | (1,552,949) | (1,719,149) | 118,956 | (25,609) | 93,347 | 1,812,496 |
| Fund Balances Beginning of Year | 2,232,725 | 2,325,461 | 2,325,461 | | 2,325,461 | 0 |
| Fund Balances End of Year | 679,776 | 606,312 | 2,444,417 | (25,609) | 2,418,808 | 1,812,496 |

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
 Contingency Special Revenue Fund
 For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Other Financing Sources (Uses) | | | | | | |
| Operating Transfers In | 0 | 0 | 0 | 860,798 | 860,798 | 860,798 |
| Transfers Out | (236,994) | (402,329) | (66,293) | (336,036) | (402,329) | 0 |
| Total Other Financing Sources (Uses) | (236,994) | (402,329) | (66,293) | 524,762 | 458,469 | 860,798 |
| Net Change in Fund Balance | (236,994) | (402,329) | (66,293) | 524,762 | 458,469 | 860,798 |
| Fund Balances Beginning of Year | 2,352,671 | 2,357,321 | 2,357,321 | | 2,357,321 | 0 |
| Fund Balances End of Year | 2,115,677 | 1,954,992 | 2,291,028 | 524,762 | 2,815,790 | 860,798 |

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
 Cemetery Improvement Special Revenue Fund
 For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Expenditures | | | | | | |
| Capital Outlay | 12,000 | 12,000 | 2,475 | 2,902 | 5,377 | 6,623 |
| Total Expenditures | 12,000 | 12,000 | 2,475 | 2,902 | 5,377 | 6,623 |
| Excess of revenues over expenditures | (12,000) | (12,000) | (2,475) | (2,902) | (5,377) | 6,623 |
| Other Financing Sources (Uses) | | | | | | |
| Sale of capital assets | 132,000 | 132,000 | 65,985 | 61,196 | 127,181 | (4,819) |
| Transfers Out | (65,496) | (65,496) | (35,749) | (29,750) | (65,499) | (3) |
| Total Other Financing Sources (Uses) | 66,504 | 66,504 | 30,236 | 31,446 | 61,682 | (4,822) |
| Net Change in Fund Balance | 54,504 | 54,504 | 27,761 | 28,544 | 56,305 | 1,801 |
| Fund Balances Beginning of Year | 356,958 | 361,195 | 361,195 | | 361,195 | 0 |
| Fund Balances End of Year | 411,462 | 415,699 | 388,956 | 28,544 | 417,500 | 1,801 |

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Impact Fees Special Revenue Fund
For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Charges for Services | 1,280,000 | 1,280,000 | 1,143,380 | 500,914 | 1,644,294 | 364,294 |
| Investment Interest | 63,500 | 63,500 | 72,376 | 130,627 | 203,003 | 139,503 |
| Total Revenues | 1,343,500 | 1,343,500 | 1,215,756 | 631,541 | 1,847,297 | 503,797 |
| Excess of revenues over expenditures | 1,343,500 | 1,343,500 | 1,215,756 | 631,541 | 1,847,297 | 503,797 |
| Other Financing Sources (Uses) | | | | | | |
| Transfers Out | (1,274,000) | (1,921,900) | (578,472) | (1,284,500) | (1,862,972) | 58,928 |
| Total Other Financing Sources (Uses) | (1,274,000) | (1,921,900) | (578,472) | (1,284,500) | (1,862,972) | 58,928 |
| Net Change in Fund Balance | 69,500 | (578,400) | 637,284 | (652,959) | (15,675) | 562,725 |
| Fund Balances Beginning of Year | 1,466,955 | 2,113,012 | 2,113,012 | | 2,113,012 | 0 |
| Fund Balances End of Year | 1,536,455 | 1,534,612 | 2,750,296 | (652,959) | 2,097,337 | 562,725 |

City of Kirkland
**Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual**

Off Street Parking Reserve Special Revenue Fund
 For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Other Financing Sources (Uses) | | | | | | |
| Transfers Out | (15,000) | (15,000) | (15,000) | 0 | (15,000) | 0 |
| Total Other Financing Sources (Uses) | (15,000) | (15,000) | (15,000) | 0 | (15,000) | 0 |
| Net Change in Fund Balance | (15,000) | (15,000) | (15,000) | 0 | (15,000) | 0 |
| Fund Balances Beginning of Year | 84,564 | 84,564 | 84,564 | | 84,564 | 0 |
| Fund Balances End of Year | 69,564 | 69,564 | 69,564 | 0 | 69,564 | 0 |

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Tour Dock Special Revenue Fund
For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Miscellaneous Revenues | 58,000 | 58,000 | 25,598 | 32,239 | 57,837 | (163) |
| Total Revenues | 58,000 | 58,000 | 25,598 | 32,239 | 57,837 | (163) |
| Expenditures | | | | | | |
| Current | | | | | | |
| Culture and Recreation | 49,960 | 49,960 | 0 | 4,515 | 4,515 | 45,445 |
| Debt Service | | | | | | |
| Principal | 0 | 0 | 157,000 | 0 | 157,000 | (157,000) |
| Total Expenditures | 49,960 | 49,960 | 157,000 | 4,515 | 161,515 | (111,555) |
| Excess of revenues over expenditures | 8,040 | 8,040 | (131,402) | 27,724 | (103,678) | (111,718) |
| Net Change in Fund Balance | 8,040 | 8,040 | (131,402) | 27,724 | (103,678) | (111,718) |
| Fund Balances Beginning of Year | 147,538 | 152,913 | 152,913 | | 152,913 | 0 |
| Fund Balances End of Year | 155,578 | 160,953 | 21,511 | 27,724 | 49,235 | (111,718) |

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual

Street Improvement Reserve Special Revenue Fund
For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Taxes and Assessments | 540,000 | 540,000 | 144,655 | 145,000 | 289,655 | (250,345) |
| Intergovernmental | 623,800 | 703,800 | 312,225 | 340,240 | 652,465 | (51,335) |
| Charges for Services | 0 | 0 | 31,796 | 18,600 | 50,396 | 50,396 |
| Total Revenues | 1,163,800 | 1,243,800 | 488,676 | 503,840 | 992,516 | (251,284) |
| Excess of revenues over expenditures | 1,163,800 | 1,243,800 | 488,676 | 503,840 | 992,516 | (251,284) |
| Other Financing Sources (Uses) | | | | | | |
| Sale of capital assets | 0 | 0 | 73,140 | 153,891 | 227,031 | 227,031 |
| Operating Transfers In | 1,837,500 | 0 | 0 | 0 | 0 | 0 |
| Transfers Out | (2,158,300) | (3,304,836) | (688,729) | (732,000) | (1,420,729) | 1,884,107 |
| Total Other Financing Sources (Uses) | (320,800) | (3,304,836) | (615,589) | (578,109) | (1,193,698) | 2,111,138 |
| Net Change in Fund Balance | 843,000 | (2,061,036) | (126,913) | (74,269) | (201,182) | 1,859,854 |
| Fund Balances Beginning of Year | 1,758,759 | 1,847,447 | 1,847,447 | | 1,847,447 | 0 |
| Fund Balances End of Year | 2,601,759 | (213,589) | 1,720,534 | (74,269) | 1,646,265 | 1,859,854 |

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Grant Control Special Revenue Fund
For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Intergovernmental | 129,860 | 227,360 | 86,082 | 84,153 | 170,235 | (57,125) |
| Total Revenues | 129,860 | 227,360 | 86,082 | 84,153 | 170,235 | (57,125) |
| Expenditures | | | | | | |
| Current | | | | | | |
| Transportation | 33,520 | 131,020 | 8,839 | 540 | 9,379 | 121,641 |
| Human Services | 128,860 | 128,860 | 83,540 | 20,464 | 104,004 | 24,856 |
| Capital Outlay | 0 | 0 | 6,512 | 31,470 | 37,982 | (37,982) |
| Total Expenditures | 162,380 | 259,880 | 98,891 | 52,474 | 151,365 | 108,515 |
| Excess of revenues over expenditures | (32,520) | (32,520) | (12,809) | 31,679 | 18,870 | 51,390 |
| Other Financing Sources (Uses) | | | | | | |
| Transfers Out | 0 | 0 | (2,676) | 0 | (2,676) | (2,676) |
| Total Other Financing Sources (Uses) | 0 | 0 | (2,676) | 0 | (2,676) | (2,676) |
| Net Change in Fund Balance | (32,520) | (32,520) | (15,485) | 31,679 | 16,194 | 48,714 |
| Fund Balances Beginning of Year | 239,187 | 209,641 | 209,641 | | 209,641 | 0 |
| Fund Balances End of Year | 206,667 | 177,121 | 194,156 | 31,679 | 225,835 | 48,714 |

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
 General Capital Projects Revenue Fund
 For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Taxes and Assessments | 1,000,000 | 1,125,000 | 625,345 | 625,000 | 1,250,345 | 125,345 |
| Intergovernmental | 131,679 | 187,679 | 170,302 | 218,430 | 388,732 | 201,053 |
| Charges for Services | 95,600 | 95,600 | 79,579 | 0 | 79,579 | (16,021) |
| Investment Interest | 1,600,000 | 1,475,000 | 768,705 | 990,375 | 1,759,080 | 284,080 |
| Miscellaneous Revenues | 0 | 0 | 322,649 | 35,334 | 357,983 | 357,983 |
| Total Revenues | 2,827,279 | 2,883,279 | 1,966,580 | 1,869,139 | 3,835,719 | 952,440 |
| Expenditures | | | | | | |
| Current | | | | | | |
| General Government | 817,825 | 1,293,330 | 605,927 | 142,863 | 748,790 | 544,540 |
| Security of Persons and Property | 92,700 | 142,700 | 64,456 | 26,686 | 91,142 | 51,558 |
| Physical Environment | 318,600 | 413,482 | 143,360 | 147,501 | 290,861 | 122,621 |
| Transportation | 0 | 0 | 11,799 | 138,213 | 150,012 | (150,012) |
| Culture and Recreation | 0 | 0 | 11,213 | 42,626 | 53,839 | (53,839) |
| Capital Outlay | 10,712,829 | 23,300,396 | 7,197,859 | 4,582,242 | 11,780,101 | 11,520,295 |
| Total Expenditures | 11,941,954 | 25,149,908 | 8,034,614 | 5,080,131 | 13,114,745 | 12,035,163 |
| Excess of revenues over expenditures | (9,114,675) | (22,266,629) | (6,068,034) | (3,210,992) | (9,279,026) | 12,987,603 |
| Other Financing Sources (Uses) | | | | | | |
| Transfers In | 6,052,154 | 10,185,854 | 3,393,674 | 4,225,586 | 7,619,260 | (2,566,594) |
| Transfers Out | 0 | (350,000) | (35,000) | (100,000) | (135,000) | 215,000 |
| Total Other Financing Sources (Uses) | 6,052,154 | 9,835,854 | 3,358,674 | 4,125,586 | 7,484,260 | (2,351,594) |
| Net Change in Fund Balance | (3,062,521) | (12,430,775) | (2,709,360) | 914,594 | (1,794,766) | 10,636,009 |
| Fund Balances Beginning of Year | 5,709,727 | 15,726,845 | 15,726,845 | | 15,726,845 | 0 |
| Fund Balances End of Year | 2,647,206 | 3,296,070 | 13,017,485 | 914,594 | 13,932,079 | 10,636,009 |

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Grant Capital Projects Revenue Fund
For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Intergovernmental | 3,879,540 | 6,714,586 | 409,727 | 32,500 | 442,227 | (6,272,359) |
| Charges for Services | 0 | 146,984 | 13,229 | 107,730 | 120,959 | (26,025) |
| Miscellaneous Revenues | 318,300 | 110,000 | 1,375 | 1,625 | 3,000 | (107,000) |
| Total Revenues | 4,197,840 | 6,971,570 | 424,331 | 141,855 | 566,186 | (6,405,384) |
| Expenditures | | | | | | |
| Current | | | | | | |
| Transportation | 0 | 0 | 802 | 0 | 802 | (802) |
| Capital Outlay | 10,051,100 | 17,177,886 | 2,878,285 | 1,134,227 | 4,012,512 | 13,165,374 |
| Total Expenditures | 10,051,100 | 17,177,886 | 2,879,087 | 1,134,227 | 4,013,314 | 13,164,572 |
| Excess of revenues over expenditures | (5,853,260) | (10,206,316) | (2,454,756) | (992,372) | (3,447,128) | 6,759,188 |
| Other Financing Sources (Uses) | | | | | | |
| Transfers In | 5,853,260 | 7,166,096 | 2,908,092 | 2,285,200 | 5,193,292 | (1,972,804) |
| Total Other Financing Sources (Uses) | 5,853,260 | 7,166,096 | 2,908,092 | 2,285,200 | 5,193,292 | (1,972,804) |
| Net Change in Fund Balance | 0 | (3,040,220) | 453,336 | 1,292,828 | 1,746,164 | 4,786,384 |
| Fund Balances Beginning of Year | 390,376 | 3,291,889 | 3,291,889 | | 3,291,889 | 0 |
| Fund Balances End of Year | 390,376 | 251,669 | 3,745,225 | 1,292,828 | 5,038,053 | 4,786,384 |

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
 Limited GO Debt Service Fund
 For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Investment Interest | 132,090 | 132,090 | 66,045 | 66,045 | 132,090 | 0 |
| Total Revenues | 132,090 | 132,090 | 66,045 | 66,045 | 132,090 | 0 |
| Expenditures | | | | | | |
| Debt Service | | | | | | |
| Principal | 1,900,000 | 1,900,000 | 935,000 | 965,000 | 1,900,000 | 0 |
| Interest | 1,151,694 | 1,151,694 | 596,695 | 554,999 | 1,151,694 | 0 |
| Total Expenditures | 3,051,694 | 3,051,694 | 1,531,695 | 1,519,999 | 3,051,694 | 0 |
| Excess of revenues over expenditures | (2,919,604) | (2,919,604) | (1,465,650) | (1,453,954) | (2,919,604) | 0 |
| Other Financing Sources (Uses) | | | | | | |
| Operating Transfers In | 2,919,604 | 2,919,604 | 1,465,650 | 1,453,954 | 2,919,604 | 0 |
| Total Other Financing Sources (Uses) | 2,919,604 | 2,919,604 | 1,465,650 | 1,453,954 | 2,919,604 | 0 |
| Net Change in Fund Balance | 0 | 0 | 0 | 0 | 0 | 0 |
| Fund Balances Beginning of Year | 235,660 | 235,660 | 235,661 | | 235,661 | 1 |
| Fund Balances End of Year | 235,660 | 235,660 | 235,661 | 0 | 235,661 | 1 |

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
 Unlimited GO Debt Service Fund
 For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Taxes and Assessments | 2,898,685 | 2,898,685 | 1,433,787 | 1,451,450 | 2,885,237 | (13,448) |
| Total Revenues | 2,898,685 | 2,898,685 | 1,433,787 | 1,451,450 | 2,885,237 | (13,448) |
| Expenditures | | | | | | |
| Debt Service | | | | | | |
| Principal | 1,865,000 | 1,865,000 | 915,000 | 950,000 | 1,865,000 | 0 |
| Interest | 1,033,685 | 1,033,685 | 534,537 | 499,145 | 1,033,682 | 3 |
| Total Expenditures | 2,898,685 | 2,898,685 | 1,449,537 | 1,449,145 | 2,898,682 | 3 |
| Excess of revenues over expenditures | 0 | 0 | (15,750) | 2,305 | (13,445) | (13,445) |
| Net Change in Fund Balance | 0 | 0 | (15,750) | 2,305 | (13,445) | (13,445) |
| Fund Balances Beginning of Year | 335,868 | 338,264 | 338,264 | | 338,264 | 0 |
| Fund Balances End of Year | 335,868 | 338,264 | 322,514 | 2,305 | 324,819 | (13,445) |

City of Kirkland
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
LID Debt Service Fund
For the year ended December 31, 2006

| | Original Budget 2005-2006 | Final Budget 2005-2006 | 2005 Actual Amounts Budgetary Basis | 2006 Actual Amounts Budgetary Basis | Actual 2005-2006 Biennium | Variance with Final Budget |
|---|---------------------------------|------------------------------|---|---|---------------------------------|-------------------------------|
| Revenues | | | | | | |
| Miscellaneous Revenues | 11,739 | 11,739 | 5,064 | 7,881 | 12,945 | 1,206 |
| Total Revenues | 11,739 | 11,739 | 5,064 | 7,881 | 12,945 | 1,206 |
| Expenditures | | | | | | |
| Debt Service | | | | | | |
| Principal | 10,000 | 10,000 | 5,000 | 5,000 | 10,000 | 0 |
| Interest | 1,815 | 1,815 | 780 | 520 | 1,300 | 515 |
| Total Expenditures | 11,815 | 11,815 | 5,780 | 5,520 | 11,300 | 515 |
| Excess of revenues over expenditures | (76) | (76) | (716) | 2,361 | 1,645 | 1,721 |
| Other Financing Sources (Uses) | | | | | | |
| Operating Transfers Out | (2,000) | (2,000) | (1,000) | (1,000) | (2,000) | 0 |
| Total Other Financing Sources (Uses) | (2,000) | (2,000) | (1,000) | (1,000) | (2,000) | 0 |
| Net Change in Fund Balance | (2,076) | (2,076) | (1,716) | 1,361 | (355) | 1,721 |
| Fund Balances Beginning of Year | 9,482 | 4,482 | 4,482 | | 4,482 | 0 |
| Fund Balances End of Year | 7,406 | 2,406 | 2,766 | 1,361 | 4,127 | 1,721 |

INTERNAL SERVICE FUNDS

Internal Service Funds account for the financing of goods and services provided by one department to other City departments on a cost reimbursement basis.

- The ***Equipment Rental Fund*** accounts and assesses user charges for the cost of maintaining and replacing all City vehicles and heavy equipment.
- The ***Information Technology Fund*** accounts and assesses user charges for the cost of supporting the City's information processing and telecommunications functions and replacing all City computers.

City of Kirkland, Washington
Combining Statement of Net Assets
Internal Service Funds
December 31, 2006

| | Equipment Rental | Information Technology | 2006 |
|---|---------------------|---------------------------|-------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and Cash Equivalents | 1,473,399 | 654,480 | 2,127,879 |
| Investments | 4,279,499 | 1,900,942 | 6,180,441 |
| Accounts Receivable | 1,560 | 18,781 | 20,341 |
| Due from Other Sources | 0 | 996 | 996 |
| Loan Receivable | 46,398 | 0 | 46,398 |
| Inventories | 46,945 | 0 | 46,945 |
| Total Current Assets | 5,847,801 | 2,575,199 | 8,423,000 |
| Noncurrent Assets | | | |
| Capital Assets: | | | |
| Improvements | 128,605 | 0 | 128,605 |
| Equipment | 10,870,813 | 59,775 | 10,930,588 |
| Accumulated Depreciation | (4,590,774) | (6,866) | (4,597,640) |
| Total Capital Assets Net | 6,408,644 | 52,909 | 6,461,553 |
| Total Noncurrent Assets | 6,408,644 | 52,909 | 6,461,553 |
| Total Assets | 12,256,445 | 2,628,108 | 14,884,553 |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts Payable | 30,129 | 24,092 | 54,221 |
| Due to Other Governments | 0 | 265 | 265 |
| Wages Payable | 20,411 | 81,876 | 102,287 |
| Employee Benefits Payable | 24,555 | 65,580 | 90,135 |
| Total Liabilities | 75,095 | 171,813 | 246,908 |
| Net Assets | | | |
| Invested in Capital Assets, net of related debt | 6,408,645 | 52,909 | 6,461,554 |
| Unrestricted | 5,772,705 | 2,403,386 | 8,176,091 |
| Total Fund Equity | 12,181,350 | 2,456,295 | 14,637,645 |
| Total Net Assets | 12,256,445 | 2,628,108 | 14,884,553 |

City of Kirkland, Washington
**Combining Statement of Revenues, Expenses
and Changes in Fund Net Assets**
Internal Service Funds
For the Fiscal Year Ended December 31, 2006

| | Equipment Rental | Information Technology | 2006 |
|---|---------------------|---------------------------|-------------------|
| Operating Revenues | | | |
| Charges for Services | 2,802,956 | 2,794,122 | 5,597,078 |
| Miscellaneous Revenues | 27,246 | 8,230 | 35,476 |
| Total Operating Revenues | 2,830,202 | 2,802,352 | 5,632,554 |
| Operating Expenses | | | |
| Administrative & General | 526,352 | 705,036 | 1,231,388 |
| Supplies | 37,702 | 212,238 | 249,940 |
| Maintenance & Operations | 1,009,545 | 2,233,928 | 3,243,473 |
| Depreciation | 779,377 | 6,865 | 786,242 |
| Total Operating Expenses | 2,352,976 | 3,158,067 | 5,511,043 |
| Operating Income (Loss) | 477,226 | (355,715) | 121,511 |
| Nonoperating Revenues (Expenses) | | | |
| Gain (loss) on Disposal of Capital Assets | 180,458 | 0 | 180,458 |
| Other Nonoperating Revenue | 44,660 | 18,753 | 63,413 |
| Total Nonoperating Revenues (Expenses) | 225,118 | 18,753 | 243,871 |
| Income (Loss) before Contributions and Transfers | 702,344 | (336,962) | 365,382 |
| Transfers In | 427,906 | 659,149 | 1,087,055 |
| Transfers Out | (60,700) | 0 | (60,700) |
| Change in Net Assets | 1,069,550 | 322,187 | 1,391,737 |
| Total Net Assets - Beginning | 11,111,800 | 2,134,108 | 13,245,908 |
| Total Net Assets - Ending | 12,181,350 | 2,456,295 | 14,637,645 |

City of Kirkland, Washington
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended December 31, 2006

| | Equipment Rental | Information Technology | 2006 |
|---|---------------------|---------------------------|--------------------|
| Cash Flows From Operating Activities | | | |
| Cash Received From Interfund Charges | 2,756,558 | 2,802,360 | 5,558,918 |
| Cash From Other Sources | 25,936 | 7,234 | 33,170 |
| Cash Paid to Suppliers for Goods and Services | (961,266) | (1,279,387) | (2,240,653) |
| Cash Paid to Employees for Services | (455,381) | (1,908,102) | (2,363,483) |
| Cash Paid for Central Business Functions | (171,864) | 0 | (171,864) |
| Net Cash Provided by Operating Activities | 1,193,983 | (377,895) | 816,088 |
| Cash Flows From Noncapital Financing Activities | | | |
| Transfers In | 427,906 | 659,149 | 1,087,055 |
| Transfers Out | (60,700) | 0 | (60,700) |
| Net Cash Provided by (Used for) Noncapital Financing Activities | 367,206 | 659,149 | 1,026,355 |
| Cash Flows From Capital and Related Financing Activities | | | |
| Proceeds From Sale of Assets and Insurance Recoveries | 239,467 | 0 | 239,467 |
| Acquisition and Construction of Capital Assets | (2,870,067) | (11,717) | (2,881,784) |
| Net Cash Provided by (Used for) Capital and Related Financing Activities | (2,630,600) | (11,717) | (2,642,317) |
| Cash Flows From Investing Activities | | | |
| Net (Increase) Decrease in Investments | 1,065,587 | (110,016) | 955,571 |
| Net Cash Provided by Investing Activities | 1,065,587 | (110,016) | 955,571 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (3,824) | 159,521 | 155,697 |
| Cash and Cash Equivalents, January 1 | 1,477,223 | 494,959 | 1,972,182 |
| Cash and Cash Equivalents, December 31 | 1,473,399 | 654,480 | 2,127,879 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities | | | |
| Operating Income (Loss) | 477,226 | (355,714) | 121,512 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities | | | |
| Depreciation | 779,377 | 6,865 | 786,242 |
| Changes in Assets and Liabilities | | | |
| (Increase) Decrease in Accounts Receivable | 360 | (27) | 333 |
| (Increase) Decrease in Loan Receivable | (46,398) | 0 | (46,398) |
| (Increase) Decrease in Inventories | (496) | 0 | (496) |
| (Increase) Decrease in Due From Other Funds | 0 | 6,527 | 6,527 |
| Increase (Decrease) in Accounts Payable | (15,069) | 2,261 | (12,808) |
| Increase (Decrease) in Due to Other Governments | (6,210) | (56,992) | (63,202) |
| Increase (Decrease) in Wages Payable | 1,268 | 16,477 | 17,745 |
| Increase (Decrease) in Employee Benefits Payable | 3,925 | 2,708 | 6,633 |
| Net Cash Provided by Operating Activities | 1,193,983 | (377,895) | 816,088 |

AGENCY FUNDS

Agency Funds account for resources held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

- The ***Intergovernmental Clearing Fund*** consists of funds paid to the City as an agent. These funds are generally disbursed to other governmental agencies such as King County and the State of Washington.
- The ***Customer Deposits Fund*** accounts for cash bonds and guaranties from contractors or private parties.

City of Kirkland
Statement of Agency Fund Net Assets
 December 31, 2006

| | Intergovernmental Clearing | Customer Deposits | 2006 |
|---------------------------|-------------------------------|----------------------|----------------|
| Assets | | | |
| Cash and Cash Equivalents | 5,533 | 0 | 5,533 |
| Deposits | 0 | 894,341 | 894,341 |
| Total Assets | 5,533 | 894,341 | 899,874 |
| Liabilities | | | |
| Current Liabilities | | | |
| Due to Other Governments | 5,533 | 0 | 5,533 |
| Deposits | 0 | 894,341 | 894,341 |
| Total Liabilities | 5,533 | 894,341 | 899,874 |

City of Kirkland
Statement of Changes in Assets and Liabilities
All Agency Funds
For the fiscal year ended December 31, 2006

| | 01/01/06 Balance | Additions | Deletions | 12/31/06 Balance |
|------------------------------------|---------------------|------------------|------------------|---------------------|
| Intergovernmental Custodial | | | | |
| Assets | | | | |
| Cash and Cash Equivalents | 5,429 | 2,211,813 | 2,211,709 | 5,533 |
| Total Assets | <u>5,429</u> | <u>2,211,813</u> | <u>2,211,709</u> | <u>5,533</u> |
| Liabilities | | | | |
| Due to Other Governments | 5,429 | 2,271,270 | 2,271,166 | 5,533 |
| Total Liabilities | <u>5,429</u> | <u>2,271,270</u> | <u>2,271,166</u> | <u>5,533</u> |
| Customer Deposits | | | | |
| Assets | | | | |
| Deposits | 675,166 | 716,649 | 497,474 | 894,341 |
| Total Assets | <u>675,166</u> | <u>716,649</u> | <u>497,474</u> | <u>894,341</u> |
| Liabilities | | | | |
| Deposits | 675,166 | 1,206,276 | 987,101 | 894,341 |
| Total Liabilities | <u>675,166</u> | <u>1,206,276</u> | <u>987,101</u> | <u>894,341</u> |
| Totals - All Agency Funds | | | | |
| Assets | | | | |
| Cash and Cash Equivalents | 5,429 | 2,211,813 | 2,211,709 | 5,533 |
| Deposits | 675,166 | 716,649 | 497,474 | 894,341 |
| Total Assets | <u>680,595</u> | <u>2,928,462</u> | <u>2,709,183</u> | <u>899,874</u> |
| Liabilities | | | | |
| Due to Other Governments | 5,429 | 2,271,270 | 2,271,166 | 5,533 |
| Deposits | 675,166 | 1,206,276 | 987,101 | 894,341 |
| Total Liabilities | <u>680,595</u> | <u>3,477,546</u> | <u>3,258,267</u> | <u>899,874</u> |



Capital Assets

City of Kirkland
Capital Assets Used in the Operation of Governmental Funds
Comparative Schedules by Source
December 31, 2006
Unaudited

2006

Governmental Funds Capital Assets:

| | |
|--|------------------------------|
| Land | \$ 73,771,701 |
| Buildings | 28,936,900 |
| Improvements other than Buildings | 13,951,829 |
| Machinery and Equipment | 1,164,674 |
| Artwork | 1,592,234 |
| Infrastructure | 123,778,316 |
| Construction in Progress | 20,952,821 |
| Total Governmental Funds Capital Assets | <u>\$ 264,148,475</u> |

Investments in Governmental Funds Capital Assets by Source:

| | |
|--|------------------------------|
| General Fund | \$ 207,436,290 |
| Special Revenue Funds | 1,376,355 |
| Impact Fees | 2,819,761 |
| Federal Grants | 88,902 |
| General Obligation Bonds | 43,278,002 |
| Private Gifts | 9,149,165 |
| Total Governmental Funds Capital Assets | <u>\$ 264,148,475</u> |

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in Internal Service Funds are excluded from the above amounts. Generally, the capital assets of Internal Service Funds are included as governmental activities in the Statement of Net Assets.



City of Kirkland
Capital Assets used in the Operation of Governmental Funds
Schedule by Function and Activity
December 31, 2006
Unaudited

| FUNCTION AND ACTIVITY | Land | Buildings | Improvements | Machinery and Equip | Artwork | Infrastructure | CIP | TOTAL |
|--|-----------------------------|-----------------------------|-----------------------------|----------------------------|----------------------------|------------------------------|-----------------------------|------------------------------|
| General Govt | \$ 5,300,415 | \$ 13,589,390 | \$ 2,457,577 | \$ 452,696 | \$ - | \$ - | \$ 13,231,291 | \$ 35,031,369 |
| Judicial | - | - | 1,297,552 | - | - | - | - | \$ 1,297,552 |
| Security | | | | | | | | |
| Police | - | - | 23,404 | 279,493 | - | - | 207,455 | \$ 510,352 |
| Fire | 134,000 | 3,603,614 | 644,331 | 114,253 | - | - | 85,403 | \$ 4,581,601 |
| Total Security | <u>134,000</u> | <u>3,603,614</u> | <u>667,735</u> | <u>393,746</u> | <u>-</u> | <u>-</u> | <u>292,858</u> | <u>\$ 5,091,953</u> |
| Transportation | 31,287,897 | \$ 5,845,821 | \$ - | \$ 14,481 | \$ - | \$ 123,778,316 | \$ 2,229,121 | \$ 163,155,636 |
| Physical Environment | 58,912 | - | 1,053,377 | 107,556 | - | - | - | \$ 1,219,845 |
| Economic Environment | - | - | - | - | - | - | - | \$ - |
| Human Services | - | - | - | - | - | - | 100,395 | \$ 100,395 |
| Culture and Recreation | 36,990,477 | 5,898,075 | 8,475,588 | 196,195 | 1,592,234 | - | 5,099,156 | \$ 58,251,725 |
| Total Governmental Funds Capital Assets | <u>\$ 73,771,701</u> | <u>\$ 28,936,900</u> | <u>\$ 13,951,829</u> | <u>\$ 1,164,674</u> | <u>\$ 1,592,234</u> | <u>\$ 123,778,316</u> | <u>\$ 20,952,821</u> | <u>\$ 264,148,475</u> |

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in Internal Service Funds are excluded from the above amounts. Generally, the capital assets of Internal Service Funds are included as governmental activities in the Statement of Net Assets.

City of Kirkland
Capital Assets used in the Operation of Governmental Funds
Schedule by Function and Activity
For the Year Ended December 31, 2006
Unaudited

| FUNCTION AND ACTIVITY | Governmental Funds Capital Assets | | | Governmental Funds Capital Assets |
|--|---|-----------------------------|----------------------------|---|
| | Jan 1, 2006 | Additions | Deductions | Dec 31, 2006 |
| General Govt | \$ 35,533,984 | \$ 2,609,155 | \$ 3,111,770 | \$ 35,031,369 |
| Judicial | - | 1,297,552 | - | 1,297,552 |
| Security | | | | |
| Police | 493,075 | 17,277 | - | 510,352 |
| Fire | 4,539,035 | 77,774 | 35,208 | 4,581,601 |
| Total Security | <u>5,032,110</u> | <u>95,051</u> | <u>35,208</u> | <u>5,091,953</u> |
| Transportation | 162,419,065 | 4,182,866 | 3,446,295 | 163,155,636 |
| Physical Environment | 1,227,691 | 3,870 | 11,716 | 1,219,845 |
| Economic Environment | - | - | - | - |
| Human Services | 100,395 | 201,573 | 201,573 | 100,395 |
| Culture and Recreation | 57,034,085 | 1,847,000 | 629,360 | 58,251,725 |
| Total Governmental Funds Capital Assets | <u>\$ 261,347,330</u> | <u>\$ 10,237,067</u> | <u>\$ 7,435,922</u> | <u>\$ 264,148,475</u> |

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in Internal Service Funds are excluded from the above amounts. Generally, the capital assets of Internal Service Funds are included as governmental activities in the Statement of Net Assets.

Statistical Section

City of Kirkland STATISTICAL SECTION

The following section of the City of Kirkland's Comprehensive Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

| <i>Statistical Section</i> | <i>Page</i> |
|--|--------------------|
| Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time. | 129 |
| Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue sources, sales and property tax. | 134 |
| Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future. | 140 |
| Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place. | 145 |
| Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs. | 148 |

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.



Schedule 1

City of Kirkland

Net Assets by Component

Last Four Fiscal Years* - Unaudited

(accrual basis of accounting)

| | Fiscal Year | | | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2003 | 2004 | 2005 | 2006 |
| Governmental Activities | | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 141,921,038 | \$ 144,192,014 | \$ 144,889,758 | \$ 149,842,998 |
| Restricted | 39,956,320 | 32,708,901 | 31,529,052 | 37,582,793 |
| Unrestricted | 11,725,447 | 25,921,417 | 35,872,865 | 36,557,096 |
| Total Governmental Activities Net Assets | \$ 193,602,805 | \$ 202,822,332 | \$ 212,291,675 | \$ 223,982,887 |
| Business-type Activities | | | | |
| Invested In Capital Assets, Net of Related Debt | \$ 72,934,376 | \$ 83,386,001 | \$ 92,417,203 | \$ 96,222,908 |
| Restricted | 297,987 | 211,353 | 203,786 | 181,440 |
| Unrestricted | 17,041,390 | 18,749,964 | 18,643,884 | 23,948,928 |
| Total Business-type Net Assets | \$ 90,273,753 | \$ 102,347,318 | \$ 111,264,873 | \$ 120,353,276 |
| Primary Government | | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 214,855,414 | \$ 227,578,015 | \$ 237,306,961 | \$ 246,065,906 |
| Restricted | 40,254,307 | 32,920,254 | 31,732,838 | 37,764,233 |
| Unrestricted | 28,766,837 | 44,671,381 | 54,516,749 | 60,506,024 |
| Total Primary Government Net Assets | \$ 283,876,558 | \$ 305,169,650 | \$ 323,556,548 | \$ 344,336,163 |

*Only four years of data available due to implementation of GASB Statement 34 in the fiscal year 2003

Source: City of Kirkland Finance and Administration Financial Operations

Schedule 2

City of Kirkland

Changes in Net Assets

Last Four Fiscal Years* - Unaudited

(accrual basis of accounting)

130

| | Fiscal Year | | | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2003 | 2004 | 2005 | 2006 |
| Expenses | | | | |
| Governmental Activities | | | | |
| General Government | \$ 2,856,768 | \$ 3,072,412 | \$ 4,029,646 | \$ 4,399,307 |
| Judicial | 1,132,956 | 1,237,842 | 1,232,126 | 1,346,720 |
| Public Safety | 21,283,552 | 21,663,542 | 24,501,016 | 25,210,510 |
| Physical Environment | 2,051,401 | 2,335,038 | 2,160,540 | 2,345,553 |
| Transportation | 8,376,404 | 6,718,867 | 9,859,368 | 11,225,929 |
| Human Services | 1,138,226 | 1,115,196 | 1,013,306 | 1,049,579 |
| Economic Environment | 4,655,743 | 4,383,632 | 5,063,940 | 4,956,792 |
| Culture and Recreation | 5,647,716 | 5,617,903 | 5,878,788 | 6,244,431 |
| Interest on Long Term Debt | 1,467,601 | 1,335,805 | 1,248,028 | 1,157,676 |
| Total Governmental Activities Expenses | \$ 48,610,367 | \$ 47,480,237 | \$ 54,986,758 | \$ 57,936,497 |
| Business Type Activities | | | | |
| Water/Sewer | \$ 13,783,135 | \$ 12,444,661 | \$ 13,415,317 | \$ 14,293,499 |
| Surface Water | 2,270,481 | 2,468,998 | 2,694,872 | 2,698,022 |
| Solid Waste | 7,542,788 | 7,006,972 | 7,055,826 | 7,313,435 |
| Total Business Type Activities Expenses | \$ 23,596,404 | \$ 21,920,631 | \$ 23,166,015 | \$ 24,304,956 |
| Total Primary Government Expenses | \$ 72,206,771 | \$ 69,400,868 | \$ 78,152,773 | \$ 82,241,453 |
| Program Revenues | | | | |
| Governmental Activities | | | | |
| Charges for Services | | | | |
| General Government | \$ 1,892,009 | \$ 1,871,874 | \$ 2,176,589 | \$ 2,400,660 |
| Judicial | 2,491,794 | 1,489,330 | 1,198,671 | 1,365,820 |
| Public Safety | 3,372,591 | 3,758,854 | 4,700,508 | 4,601,906 |
| Physical Environment | 334,062 | 489,291 | 614,942 | 697,593 |
| Transportation | 70,526 | 207,436 | 1,096,127 | 580,475 |
| Economic Environment | 3,542,188 | 4,538,432 | 4,648,507 | 4,047,288 |
| Culture and Recreation | 843,363 | 861,459 | 1,095,629 | 1,053,975 |
| Operating Grants and Contributions | 1,962,167 | 1,579,462 | 2,081,827 | 1,688,627 |
| Capital Grants and Contributions | 901,588 | 892,384 | 1,233,637 | 1,031,834 |
| Total Governmental Activities Program Revenues | \$ 15,410,288 | \$ 15,688,522 | \$ 18,846,437 | \$ 17,468,178 |

| | Fiscal Year | | | |
|--|------------------------|------------------------|------------------------|------------------------|
| | 2003 | 2004 | 2005 | 2006 |
| Business Type Activities | | | | |
| Charges for Service | | | | |
| Water/Sewer | \$ 15,147,095 | \$ 13,564,146 | \$ 13,628,018 | \$ 15,523,178 |
| Surface Water | 2,563,696 | 2,806,057 | 4,065,829 | 5,049,525 |
| Solid Waste | 7,622,436 | 7,118,725 | 7,199,748 | 8,206,347 |
| Operating Grants and Contributions | 406,482 | 64,698 | - | 105,073 |
| Capital Grants and Contributions | 7,052,440 | 10,251,810 | 7,139,864 | 3,692,047 |
| Total Business Type Activities Program Revenues | \$ 32,792,149 | \$ 33,805,436 | \$ 32,033,459 | \$ 32,576,170 |
| Total Primary Government Program Revenues | \$ 48,202,437 | \$ 49,493,958 | \$ 50,879,896 | \$ 50,044,348 |
| | | | | |
| Net (Expense)/Revenue | | | | |
| Governmental Activities | \$ (33,200,079) | \$ (31,791,715) | \$ (36,140,321) | \$ (40,468,319) |
| Business Type Activities | 9,195,745 | 11,884,805 | 8,867,444 | 8,271,214 |
| Total Primary Government Net Expense | \$ (24,004,334) | \$ (19,906,910) | \$ (27,272,877) | \$ (32,197,105) |
| | | | | |
| General Revenue and Other Changes in Net Assets | | | | |
| Governmental Activities | | | | |
| Taxes | | | | |
| Property Taxes | \$ 11,379,010 | \$ 11,772,666 | \$ 11,593,056 | \$ 13,023,578 |
| Sales Taxes | 13,614,210 | 14,245,140 | 16,008,359 | 17,473,327 |
| Excise Taxes ** | - | - | 6,261,813 | 7,044,850 |
| Business and Occupational Taxes | 500,194 | 899,709 | 929,499 | 978,746 |
| Utility Taxes | 7,200,791 | 7,390,288 | 6,978,378 | 8,004,268 |
| Other Taxes | 3,618,383 | 5,262,954 | 1,429,341 | 1,782,141 |
| Unrestricted Grants and Contributions | 46,856 | 520,573 | 324,842 | - |
| Investment Earnings | 1,083,545 | 954,779 | 1,417,570 | 3,391,684 |
| Gain (Loss) of Sale of Capital Assets | 36,611 | (172,867) | 272,899 | 318,182 |
| Transfers, Internal Activities | 40,598 | 138,000 | 393,907 | 142,755 |
| Total Governmental Activities | \$ 37,520,198 | \$ 41,011,242 | \$ 45,609,664 | \$ 52,159,531 |
| | | | | |
| Business Type Activities | | | | |
| Investment Earnings | \$ 316,405 | \$ 326,761 | \$ 444,017 | \$ 959,944 |
| Transfers, Internal Activities | (40,598) | (138,000) | (393,907) | (142,755) |
| Total Business Type Activities | \$ 275,807 | \$ 188,761 | \$ 50,110 | \$ 817,189 |
| Total Primary Government | \$ 37,796,005 | \$ 41,200,003 | \$ 45,659,774 | \$ 52,976,720 |
| | | | | |
| Change in Net Assets | | | | |
| Governmental Activities | \$ 4,320,117 | \$ 9,219,527 | \$ 9,469,343 | \$ 11,691,212 |
| Business Type Activities | 9,471,554 | 12,073,566 | 8,917,554 | 9,088,403 |
| Total Primary Government | \$ 13,791,671 | \$ 21,293,093 | \$ 18,386,897 | \$ 20,779,615 |

*Only four years of data available due to implementation of GASB Statement 34 in fiscal year 2003

** Excise Taxes were reported as a portion of "Other Taxes" in 2003 and 2004.

Source: City of Kirkland Finance and Administration Financial Operations

Schedule 3

City of Kirkland

Fund Balances, Governmental Funds

Last Four Fiscal Years* - Unaudited

(modified accrual basis of accounting)

| | Fiscal Year | | | |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2003 | 2004 | 2005 | 2006 |
| General Fund | | | | |
| Reserved | \$ 23,175 | \$ 23,175 | \$ 23,175 | \$ - |
| Unreserved | 4,132,740 | 5,603,516 | 5,505,380 | 7,151,784 |
| Total General Fund | <u>\$ 4,155,915</u> | <u>\$ 5,626,691</u> | <u>\$ 5,528,555</u> | <u>\$ 7,151,784</u> |
| All Other Governmental Funds | | | | |
| Reserved | \$ 595,670 | \$ 568,667 | \$ 15,850,351 | \$ 19,098,553 |
| Unreserved, reported in: | | | | |
| Special Revenue Funds | 28,828,816 | 29,056,531 | 18,198,126 | 21,110,714 |
| Capital Projects Funds | 24,010,369 | 18,743,786 | 15,771,542 | 18,484,240 |
| Total all Other Governmental Funds | <u>\$ 53,434,855</u> | <u>\$ 48,368,984</u> | <u>\$ 49,820,019</u> | <u>\$ 58,693,507</u> |

*Only four years of data available due to implementation of GASB Statement 34 in fiscal year 2003

Source: City of Kirkland Finance and Administration Financial Operations

Schedule 4

City of Kirkland

Changes in Fund Balance, Governmental Funds

Last Four Fiscal Years* - Unaudited

(modified accrual basis of accounting)

| | Fiscal Year | | | |
|--|----------------------|-----------------------|----------------------|----------------------|
| | 2003 | 2004 | 2005 | 2,006 |
| Revenues | | | | |
| Taxes and Assessments | \$ 36,148,462 | \$ 39,285,690 | \$ 43,013,052 | \$ 47,810,588 |
| Licenses and Permits | 2,622,783 | 3,076,018 | 3,979,870 | 3,708,339 |
| Intergovernmental | 5,894,441 | 5,730,204 | 6,871,563 | 6,240,952 |
| Charges for Services | 8,386,242 | 9,450,454 | 10,094,396 | 9,865,249 |
| Fines and Forfeitures | 1,173,958 | 1,233,761 | 1,117,030 | 1,165,921 |
| Investment Interest | 1,387,251 | 1,258,689 | 1,829,674 | 2,778,651 |
| Miscellaneous Revenues | 640,413 | 447,210 | 797,317 | 1,531,327 |
| Total Revenues | \$ 56,253,550 | \$ 60,482,026 | \$ 67,702,902 | \$ 73,101,027 |
| Expenditures | | | | |
| Current | | | | |
| General Government | \$ 7,972,444 | \$ 7,909,306 | \$ 8,758,846 | \$ 8,744,986 |
| Security of Persons and Property | 20,511,004 | 23,445,532 | 26,257,339 | 27,543,202 |
| Physical Environment | 3,132,268 | 3,182,524 | 3,409,688 | 3,547,034 |
| Transportation | 4,056,329 | 3,298,181 | 4,628,907 | 4,999,973 |
| Economic Environment | 5,231,261 | 3,991,399 | 4,360,324 | 4,115,011 |
| Culture and Recreation | 5,020,420 | 5,053,334 | 5,479,543 | 5,919,511 |
| Debt Service | | | | |
| Principal | 1,970,000 | 1,835,000 | 2,012,000 | 1,920,000 |
| Interest | 1,374,996 | 1,207,062 | 1,132,012 | 1,054,664 |
| Capital Outlay | 4,836,500 | 13,256,914 | 10,239,560 | 4,448,792 |
| Total Expenditures | \$ 54,105,222 | \$ 63,179,252 | \$ 66,278,218 | \$ 62,293,173 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | \$ 2,148,328 | \$ (2,697,226) | \$ 1,424,684 | \$ 10,807,854 |
| Other Financing Sources (Uses) | | | | |
| Sale of Capital Assets | \$ 90,670 | \$ 87,600 | \$ 234,560 | \$ 564,788 |
| Proceeds from Long Term Debt | 8,560,351 | - | - | - |
| Operating Transfers In | 9,963,670 | 9,494,297 | 9,347,701 | 11,518,923 |
| Operating Transfers Out | (9,923,072) | (10,479,766) | (9,654,045) | (12,394,848) |
| Total Other Financing Sources (Uses) | 8,691,619 | (897,869) | (71,784) | (311,137) |
| Net Change in Fund Balance | \$ 10,839,947 | \$ (3,595,095) | \$ 1,352,900 | \$ 10,496,717 |
| | | | | |
| Debt Service as a percentage of noncapital expenditures | 6.79% | 6.09% | 5.61% | 5.14% |

*Only four years of data available due to implementation of GASB Statement 34 in fiscal year 2003

Source: City of Kirkland Finance and Administration Financial Operations

Schedule 5

City of Kirkland

Assessed Value and Actual Value of Taxable Property

Last Ten Fiscal Years - Unaudited

(in thousands)

| <u>Fiscal Year</u> | <u>Real Property</u> | <u>Personal Property</u> | <u>Total Taxable Assessed Valuation</u> | <u>Total Direct Tax Rate</u> |
|--------------------|----------------------|--------------------------|---|------------------------------|
| 1997 | \$3,395,759,867 | \$238,791,783 | \$3,634,551,650 | 2.26 |
| 1998 | \$3,865,098,825 | \$298,244,390 | \$4,163,343,215 | 2.16 |
| 1999 | \$4,490,682,018 | \$330,285,204 | \$4,820,967,222 | 1.95 |
| 2000 | \$4,916,387,558 | \$296,624,693 | \$5,213,012,251 | 1.84 |
| 2001 | \$5,628,415,398 | \$368,150,440 | \$5,996,565,838 | 1.64 |
| 2002 | \$6,311,766,096 | \$414,773,536 | \$6,726,539,632 | 1.44 |
| 2003 | \$6,788,777,356 | \$344,404,165 | \$7,133,181,521 | 1.59 |
| 2004 | \$7,151,120,913 | \$295,356,068 | \$7,446,476,981 | 1.55 |
| 2005 | \$7,605,630,655 | \$290,763,254 | \$7,896,393,909 | 1.49 |
| 2006 | \$8,489,201,834 | \$313,726,919 | \$8,802,928,753 | 1.49 |

Schedule 6

City of Kirkland

Direct and Overlapping Property Tax Rates

Last Ten Fiscal Years - Unaudited

| | City Direct Rates | | | Overlapping Rates | | | | | | | | Total |
|------|-------------------|---------------------------------|-------------------|-------------------|--------|-------|----------------------------|----------|---------------------|-----------------|-------|-------|
| | Regular Levy | General Obligation Debt Service | Total Direct Rate | School District | County | State | Emergency Medical Services | Hospital | King County Library | Port of Seattle | | |
| 1997 | 1.87 | 0.40 | 2.26 | 3.95 | 2.13 | 3.52 | 0.25 | 0.44 | 0.50 | 0.28 | 13.33 | |
| 1998 | 1.83 | 0.34 | 2.16 | 3.52 | 1.85 | 3.51 | 0.00 | 0.43 | 0.50 | 0.27 | 12.24 | |
| 1999 | 1.66 | 0.29 | 1.95 | 4.06 | 1.77 | 3.36 | 0.29 | 0.41 | 0.50 | 0.24 | 12.58 | |
| 2000 | 1.59 | 0.25 | 1.84 | 4.02 | 1.69 | 3.30 | 0.27 | 0.41 | 0.50 | 0.22 | 12.25 | |
| 2001 | 1.43 | 0.22 | 1.64 | 3.53 | 1.55 | 3.15 | 0.25 | 0.39 | 0.48 | 0.19 | 11.18 | |
| 2002 | 1.31 | 0.13 | 1.44 | 3.17 | 1.45 | 2.99 | 0.25 | 0.36 | 0.46 | 0.19 | 10.31 | |
| 2003 | 1.37 | 0.22 | 1.59 | 3.06 | 1.35 | 2.90 | 0.25 | 0.34 | 0.50 | 0.26 | 10.25 | |
| 2004 | 1.35 | 0.20 | 1.55 | 2.96 | 1.43 | 2.76 | 0.25 | 0.34 | 0.49 | 0.25 | 10.03 | |
| 2005 | 1.31 | 0.18 | 1.49 | 2.83 | 1.38 | 2.69 | 0.23 | 0.59 | 0.49 | 0.25 | 9.95 | |
| 2006 | 1.31 | 0.18 | 1.49 | 2.64 | 1.33 | 2.49 | 0.22 | 0.54 | 0.49 | 0.24 | 9.44 | |

Tax rates are for a representative tax code area (1700) within the City and are stated at \$1,000 of assessed value

Initiative 747 passed in November 2001 limiting the annual optional increase in property tax levies to the lesser of one percent or the implicit price deflator.

Source: City of Kirkland Finance and Administration Financial Planning

Schedule 7

City of Kirkland

Principal Property Tax Payers

Current Year and Ten Years Ago - Unaudited

136

| Taxpayer | 2006 | | | 1997 | | |
|---|----------------------|------|---|----------------------|------|---|
| | Taxable Assessed | Rank | Percentage of Total City Taxable Assessed Value | Taxable Assessed | Rank | Percentage of Total City Taxable Assessed Value |
| | Value | | Value | Value | | Value |
| Carillon Properties | \$120,441,250 | 1 | 1.37% | \$84,300,000 | 1 | 2.32% |
| Park at Forbes Creek LLC | 54,381,000 | 2 | 0.62% | 25,800,000 | 2 | 0.71% |
| Villaggio (Yarrow Bay Club Apartments) | 53,232,000 | 3 | 0.60% | 13,400,000 | 8 | 0.37% |
| Plaza at Yarrow Bay, Inc. | 48,229,100 | 4 | 0.55% | 23,900,000 | 3 | 0.66% |
| Property Tax Advisors, LLC | 45,004,300 | 5 | 0.51% | | | |
| BRE Properties | 44,913,000 | 6 | 0.51% | | | |
| Essex Property Trust | 33,396,000 | 7 | 0.38% | | | |
| Verizon Northwest | 32,162,016 | 8 | 0.37% | | | |
| Sylvan S. Shulman Co. (Parkplace) | 31,621,600 | 9 | 0.36% | 21,300,000 | 5 | 0.59% |
| Puget Sound Energy Electricity/Gas | 31,476,044 | 10 | 0.36% | | | |
| Riggs National Bank of Washington DC (405 Corp Center) | | | | 23,700,000 | 4 | 0.65% |
| HSC Management, Inc. (Carillon Heights Apartments) | | | | 16,700,000 | 6 | 0.46% |
| Paccar, Inc. | | | | 15,400,000 | 7 | 0.42% |
| Eproperty Tax, Inc. (formerly CB Heronfield Apts, Inc.) | | | | 12,900,000 | 9 | 0.35% |
| Totem Shopping Center Assoc. (Totem lake Mall) | | | | 11,800,000 | 10 | 0.32% |
| Totals | <u>\$494,856,310</u> | | <u>5.63%</u> | <u>\$249,200,000</u> | | <u>6.85%</u> |

Source: King County Assessor's Office

Schedule 8

City of Kirkland

Property Tax Levies and Collections

Last Seven Fiscal Years - Unaudited

| | Taxes Levied for the Fiscal Year | Collected within the Fiscal Year of the Levy | | Collections in Subsequent Years | Total Collections to Date | |
|------|--|---|-----------------------|---------------------------------------|---------------------------|-----------------------|
| | | Amount | Percentage of Levy | | Amount | Percentage of Levy |
| 2000 | \$9,444,624 | \$9,244,961 | 97.89% | \$183,110 | \$9,428,071 | 99.82% |
| 2001 | \$9,706,445 | \$9,479,204 | 97.66% | \$202,809 | \$9,682,013 | 99.75% |
| 2002 | \$9,672,026 | \$9,419,039 | 97.38% | \$219,726 | \$9,638,765 | 99.66% |
| 2003 | \$11,289,849 | \$10,955,151 | 97.04% | \$264,377 | \$11,219,528 | 99.38% |
| 2004 | \$11,528,775 | \$11,264,874 | 97.71% | \$212,961 | \$11,477,835 | 99.56% |
| 2005 | \$11,628,478 | \$11,393,400 | 97.98% | \$207,863 | \$11,601,263 | 99.77% |
| 2006 | \$13,054,382 | \$12,791,085 | 97.98% | - | \$12,791,085 | 97.98% |

Schedule 9

City of Kirkland

Taxable Sales by Category

Last Ten Calendar Years - Unaudited

138

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Services | \$1,179,121 | \$1,198,905 | \$1,313,285 | \$1,424,590 | \$1,418,678 | \$1,342,157 | \$1,277,213 | \$1,347,480 | \$1,518,349 | \$1,728,503 |
| Contracting | 1,130,274 | 1,392,912 | 1,470,683 | 1,788,687 | 1,739,136 | 1,463,962 | 1,497,052 | 1,777,419 | 2,315,568 | 3,278,515 |
| Communications | 477,946 | 551,033 | 654,747 | 706,919 | 644,333 | 551,003 | 936,836 | 576,840 | 689,090 | 791,023 |
| Automotive/Gas Retail | 1,746,999 | 2,092,993 | 2,286,476 | 2,417,073 | 2,325,651 | 2,283,057 | 2,532,728 | 2,721,983 | 2,797,473 | 2,938,600 |
| Other Retail & Wholesale | 5,123,798 | 5,176,731 | 5,371,209 | 5,756,164 | 5,060,727 | 5,036,291 | 5,780,886 | 5,559,874 | 6,321,059 | 6,909,919 |
| Miscellaneous | 559,116 | 607,119 | 654,198 | 652,062 | 648,901 | 544,290 | 647,736 | 720,378 | 668,259 | 781,584 |
| Total | \$10,217,254 | \$11,019,693 | \$11,750,598 | \$12,745,495 | \$11,837,426 | \$11,220,760 | \$12,672,451 | \$12,703,974 | \$14,309,798 | \$16,428,144 |
| City direct sales tax rate | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |

Source: City of Kirkland Finance and Administration Financial Planning

Schedule 10

City of Kirkland

Direct and Overlapping Sales Tax Rates

Last Ten Fiscal Years - Unaudited

139

| Fiscal Year | State of Washington | King County | | Regional Transit Authority | City of Kirkland * | Total General Sales Tax | State of Washington | Total Automobile Sales/Leases | King County | Total Restaurant Food and Beverage |
|-------------|---------------------|-------------|-----------------------|----------------------------|--------------------|-------------------------|-------------------------|-------------------------------|-------------------|------------------------------------|
| | General Sales | Metro | Criminal Justice Levy | | | | Automobile Sales/Leases | | Food and Beverage | |
| 1997 | 6.50% | 0.60% | 0.10% | - | 1.00% | 8.20% | - | 8.20% | 0.50% | 8.70% |
| 1998 | 6.50% | 0.60% | 0.10% | 0.40% | 1.00% | 8.60% | - | 8.60% | 0.50% | 9.10% |
| 1999 | 6.50% | 0.60% | 0.10% | 0.40% | 1.00% | 8.60% | - | 8.60% | 0.50% | 9.10% |
| 2000 | 6.50% | 0.80% | 0.10% | 0.40% | 1.00% | 8.80% | - | 8.80% | 0.50% | 9.30% |
| 2001 | 6.50% | 0.80% | 0.10% | 0.40% | 1.00% | 8.80% | - | 8.80% | 0.50% | 9.30% |
| 2002 | 6.50% | 0.80% | 0.10% | 0.40% | 1.00% | 8.80% | - | 8.80% | 0.50% | 9.30% |
| 2003 | 6.50% | 0.80% | 0.10% | 0.40% | 1.00% | 8.80% | - | 8.80% | 0.50% | 9.30% |
| 2004 | 6.50% | 0.80% | 0.10% | 0.40% | 1.00% | 8.80% | 0.30% | 9.10% | 0.50% | 9.30% |
| 2005 | 6.50% | 0.80% | 0.10% | 0.40% | 1.00% | 8.80% | 0.30% | 9.10% | 0.50% | 9.30% |
| 2006 | 6.50% | 0.80% | 0.10% | 0.40% | 1.00% | 8.80% | 0.30% | 9.10% | 0.50% | 9.30% |

* The City of Kirkland direct tax rate is 1.0% with .15% remitted to King County.

Source: City of Kirkland Finance and Administration Financial Planning

Schedule 11

City of Kirkland

Ratios of Outstanding Debt by Type

Last Ten Fiscal Years - Unaudited

| Fiscal Year | Governmental Activities | | | | Business-Type Activities | | Total Government | Percentage of Personal Income | Per Capita |
|-------------|--------------------------|--------------------------|-------------------------------|----------------|--------------------------|-------------------------------|------------------|-------------------------------|------------|
| | General Obligation Bonds | Special Assessment Bonds | Tourdock Interlocal Agreement | Capital Leases | Revenue Bonds | Public Works Trust Fund Loans | | | |
| 1997 | \$21,720,000 | \$180,592 | \$130,068 | - | \$9,040,000 | \$5,915,228 | \$36,985,888 | 2.41% | 846 |
| 1998 | \$20,340,000 | \$156,000 | \$130,068 | - | \$8,700,000 | \$5,498,933 | \$34,825,001 | 2.00% | 788 |
| 1999 | \$19,905,000 | \$99,000 | \$130,068 | - | \$8,325,000 | \$5,491,189 | \$33,950,257 | 1.74% | 757 |
| 2000 | \$18,425,000 | \$60,000 | \$130,068 | - | \$7,930,000 | \$5,219,983 | \$31,765,051 | 1.58% | 704 |
| 2001 | \$21,930,000 | \$50,000 | \$130,068 | \$29,670 | \$7,510,000 | \$4,769,176 | \$34,418,914 | 1.72% | 752 |
| 2002 | \$20,380,000 | \$40,000 | \$130,068 | \$16,150 | \$7,060,000 | \$4,318,367 | \$31,944,585 | 1.59% | 698 |
| 2003 | \$26,820,000 | \$30,000 | \$130,068 | \$1,424 | \$6,580,000 | \$5,680,030 | \$39,241,522 | 1.95% | 860 |
| 2004 | \$25,000,000 | \$15,000 | \$130,068 | 21,785 | \$6,215,000 | \$5,437,794 | \$36,819,647 | 1.64% | 804 |
| 2005 | \$23,150,000 | \$10,000 | - | 21,785 | \$5,635,000 | \$5,423,610 | \$34,240,395 | 1.46% | 749 |
| 2006 | \$21,235,000 | \$5,000 | - | 39,262 | \$5,040,000 | \$5,137,851 | \$31,457,113 | 1.27% | 667 |

Sources: City of Kirkland Finance and Administration Financial Operations; Public Works Accounting

Schedule 12

City of Kirkland

Ratios of General Bonded Debt Outstanding

Last Ten Fiscal Years - Unaudited

| <u>Fiscal Year</u> | <u>General Obligation Bonds</u> | <u>Percentage of Actual Taxable Value of Property</u> | <u>Per Capita</u> |
|--------------------|---------------------------------|---|-------------------|
| 1997 | \$21,720,000 | 0.60% | \$496.80 |
| 1998 | \$20,340,000 | 0.49% | \$459.97 |
| 1999 | \$19,905,000 | 0.41% | \$443.71 |
| 2000 | \$18,425,000 | 0.35% | \$408.63 |
| 2001 | \$21,930,000 | 0.37% | \$479.13 |
| 2002 | \$20,380,000 | 0.30% | \$445.08 |
| 2003 | \$26,820,000 | 0.38% | \$587.77 |
| 2004 | \$25,000,000 | 0.34% | \$545.85 |
| 2005 | \$23,150,000 | 0.29% | \$506.12 |
| 2006 | \$21,235,000 | 0.24% | \$450.08 |

Schedule 13

City of Kirkland

Direct and Overlapping Governmental Activities Debt

As of December 31, 2006 - Unaudited

| <u>Governmental Unit</u> | <u>Net Debt Outstanding</u> | <u>Estimated Percentage Applicable</u> | <u>Estimated Share of Overlapping Debt</u> |
|-----------------------------------|-----------------------------|--|--|
| Overlapping Debt | | | |
| King County | \$882,224,867 | 3.32% | \$29,262,730 |
| Lake Washington School District | 231,355,000 | 31.08% | 71,913,435 |
| Port of Seattle | 416,645,000 | 3.32% | 13,819,799 |
| Bellevue School District | 238,795,000 | 0.08% | 189,255 |
| Hospital District #2 | 180,540,000 | 21.31% | 38,470,433 |
| Library | 81,255,000 | 0.02% | <u>18,578</u> |
| Total Overlapping Debt | | | \$153,674,230 |
| Direct Debt | | | |
| City of Kirkland** | 21,235,000 | 100.00% | <u>21,235,000</u> |
| Total Direct and Overlapping Debt | | | <u><u>\$174,909,230</u></u> |

** General obligations bonded debt excluding special assessment and revenue supported bonded debt.

Source: King County Assessment and Finance Offices

Schedule 14
City of Kirkland
 Legal Debt Margin Information
 Last Ten Fiscal Years - Unaudited

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|---|------------------------|
| Debt Limit | \$272,591,374 | \$312,250,741 | \$361,572,542 | \$390,975,919 | \$449,742,438 | \$504,490,472 | \$534,988,614 | \$558,485,774 | \$592,229,543 | \$660,219,656 | |
| Total Net Debt Applicable to Limit | 21,246,411 | 19,900,534 | 19,463,045 | 17,983,159 | 21,437,081 | 19,849,153 | 26,236,750 | 24,436,756 | 22,615,509 | 20,678,180 | |
| Legal Debt Margin | <u>\$251,344,963</u> | <u>\$292,350,207</u> | <u>\$342,109,497</u> | <u>\$372,992,760</u> | <u>\$428,305,357</u> | <u>\$484,641,319</u> | <u>\$508,751,864</u> | <u>\$534,049,018</u> | <u>\$569,614,034</u> | <u>\$639,541,476</u> | |
| Total Net Debt Applicable to Limit as a Percentage of Debt Limit | 7.79% | 6.37% | 5.38% | 4.60% | 4.77% | 3.93% | 4.90% | 4.38% | 3.82% | 3.13% | |
| | | | | | | | | | | Total Assessed Value | <u>\$8,802,928,753</u> |
| | | | | | | | | | | Debt Limit (7.5% of Total Assessed Value) | <u>660,219,656</u> |
| | | | | | | | | | | Debt Applicable to Limit: | |
| | | | | | | | | | | General Obligation Bonds | \$21,235,000 |
| | | | | | | | | | | Less Cash on Hand for Debt Redemption | <u>(556,820)</u> |
| | | | | | | | | | | Total Net Debt Applicable to Limit | 20,678,180 |
| | | | | | | | | | | Legal Debt Margin | <u>\$639,541,476</u> |

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Washington State statutes limit the amount of general obligation debt a governmental entity may issue to 7.5% of its total assessed valuation. This 7.5% debt capacity is allocated evenly among general purposes, open space/park/capital facilities, and utilities. The City Council has authority to issue bonds without voter approval for a combined total of up to 1.5% of the City's assessed valuation.

Source: City of Kirkland Finance and Administration Financial Operations

Schedule 15

City of Kirkland

Pledged-Revenue Coverage

Last Ten Fiscal Years - Unaudited

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| | Water Revenue Bonds | | | | | | Special Assessment Bonds | | | |
|------|-------------------------|--------------------------|-----------------------|--------------|-----------|----------|--------------------------------|--------------|----------|----------|
| | Utility Service Charges | Less: Operating Expenses | Net Available Revenue | Debt Service | | Coverage | Special Assessment Collections | Debt Service | | Coverage |
| | | | | Principal | Interest | | | Principal | Interest | |
| 1997 | \$10,164,467 | \$7,409,541 | \$2,754,926 | \$300,000 | \$564,717 | 3.19 | - | - | - | - |
| 1998 | \$10,783,126 | \$8,004,297 | \$2,778,829 | \$340,000 | \$552,682 | 3.11 | \$61,193 | \$24,592 | \$9,200 | 1.81 |
| 1999 | \$11,721,980 | \$8,654,290 | \$3,067,690 | \$375,000 | \$464,335 | 3.65 | \$54,852 | \$57,000 | \$7,982 | 0.84 |
| 2000 | \$12,575,674 | \$9,406,929 | \$3,168,745 | \$395,000 | \$442,480 | 3.78 | \$37,681 | \$39,000 | \$5,102 | 0.85 |
| 2001 | \$13,031,759 | \$9,570,486 | \$3,461,273 | \$770,000 | \$415,409 | 2.92 | \$13,446 | \$10,000 | \$3,030 | 1.03 |
| 2002 | \$14,639,664 | \$10,559,037 | \$4,080,627 | \$770,000 | \$390,865 | 3.52 | \$15,800 | \$10,000 | \$2,540 | 1.26 |
| 2003 | \$15,375,176 | \$11,814,586 | \$3,560,590 | \$770,000 | \$365,925 | 3.13 | \$19,963 | \$10,000 | \$2,045 | 1.66 |
| 2004 | \$13,847,471 | \$10,504,460 | \$3,343,011 | \$580,000 | \$192,024 | 4.33 | \$11,134 | \$15,000 | \$1,545 | 0.67 |
| 2005 | \$13,648,336 | \$11,397,440 | \$2,250,896 | \$595,000 | \$244,756 | 2.68 | \$5,064 | \$10,000 | \$780 | 0.47 |
| 2006 | \$16,151,250 | \$12,168,914 | \$3,982,336 | \$615,000 | \$225,385 | 4.74 | \$7,881 | \$5,000 | \$520 | 1.43 |

Source: City of Kirkland Finance and Administration Treasury; Public Works Accounting

Schedule 16

City of Kirkland

Demographic and Economic Statistics

Last Ten Fiscal Years - Unaudited

| <u>Year</u> | <u>Population</u> | <u>Personal Income (thousands of dollars)</u> | <u>Per Capita Personal Income</u> | <u>King County Unemployment Rate</u> |
|-------------|-------------------|---|---|--|
| 1997 | 43,720 | \$1,532,605 | \$35,055 | 3.3 |
| 1998 | 44,220 | \$1,738,377 | \$39,312 | 3.1 |
| 1999 | 44,860 | \$1,952,666 | \$43,528 | 3.2 |
| 2000 | 45,090 | \$2,005,829 | \$44,485 | 3.6 |
| 2001 | 45,770 | \$2,001,339 | \$43,726 | 4.8 |
| 2002 | 45,790 | \$2,011,463 | \$43,928 | 6.3 |
| 2003 | 45,630 | \$2,014,017 | \$44,138 | 6.8 |
| 2004 | 45,800 | \$2,243,971 | \$48,995 | 5.7 |
| 2005 | 45,740 | \$2,241,031 | \$51,377 | 4.7 |
| 2006 | 47,180 | \$2,304,554 | \$52,434 | 4.1 |

Sources: City of Kirkland Finance and Administration Financial Planning
 Used King County personal Income and population to project City of
 Kirkland personal income.

Schedule 17

City of Kirkland

Property Values and Construction

Last Ten Fiscal Years - Unaudited

| Fiscal Year | Commercial Construction | | Residential Construction | | Multi-Family Construction * | | Total Assessed Property Valuation |
|-------------|-------------------------|--------------|--------------------------|--------------|-----------------------------|--------------|-----------------------------------|
| | Number of Units | Valuation | Number of Units | Valuation | Number of Units | Valuation | |
| 1997 | 19 | \$24,533,988 | 630 | \$95,917,528 | - | - | \$3,634,551,650 |
| 1998 | 7 | \$3,737,731 | 429 | \$69,423,245 | - | - | \$4,163,343,215 |
| 1999 | 18 | \$23,760,782 | 416 | \$74,980,467 | - | - | \$4,820,967,222 |
| 2000 | 8 | \$11,098,790 | 246 | \$52,369,011 | - | - | \$5,213,012,251 |
| 2001 | 12 | \$10,823,390 | 150 | \$44,718,844 | 262 | \$25,917,299 | \$5,996,565,838 |
| 2002 | 6 | \$6,091,081 | 137 | \$44,598,760 | 155 | \$14,095,460 | \$6,726,539,632 |
| 2003 | 3 | \$6,725,700 | 165 | \$53,479,192 | 27 | \$4,239,774 | \$7,133,181,521 |
| 2004 | 11 | \$46,413,334 | 192 | \$59,285,927 | 263 | \$26,658,812 | \$7,446,476,981 |
| 2005 | 10 | \$36,336,205 | 229 | \$77,808,567 | 277 | \$31,070,574 | \$7,896,393,909 |
| 2006 | 4 | \$6,440,429 | 237 | \$86,466,535 | 160 | \$22,000,720 | \$8,802,928,753 |

* Prior to 2001, Multi-Family Construction included with Residential Construction

Source: King County Assessor's Office; City of Kirkland Building Department

Schedule 18

City of Kirkland

Principal Employers

Current Year and Nine Years Ago - Unaudited

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| Employer | 2006 | | | 1997 | | |
|-----------------------------------|--------------|------|-------------------------------------|--------------|------|-------------------------------------|
| | Employees | Rank | Percentage of Total City Employment | Employees | Rank | Percentage of Total City Employment |
| Evergreen Hospital | 2,700 | 1 | 8.44% | 1305 | 1 | 5.67% |
| Lake Washington School District | 617 | 2 | 1.93% | | | |
| City of Kirkland | 581 | 3 | 1.82% | 349 | 5 | 1.52% |
| Wireless Data Services | 500 | 4 | 1.56% | | | |
| Housevalues, Inc. | 500 | 5 | 1.56% | | | |
| Kenworth Truck Co. | 443 | 6 | 1.38% | 300 | 7 | 1.30% |
| Costco Wholesale | 300 | 7 | 0.94% | 304 | 6 | 1.32% |
| Lake Washington Technical College | 200 | 8 | 0.63% | | | |
| Fred Meyer | 191 | 9 | 0.60% | 280 | 8 | 1.22% |
| Digeo, Inc. | 185 | 10 | 0.58% | | | |
| Keane, Inc. | | | | 600 | 3 | 2.61% |
| Evergreen Pharmaceutical | | | | 269 | 9 | 1.17% |
| AT&T Wireless Services | | | | 1110 | 2 | 4.83% |
| Larry's Market | | | | 350 | 4 | 1.52% |
| Van Water and Rogers, Inc. | | | | 268 | 10 | 1.17% |
| Total | 6,217 | | 19.43% | 5,135 | | 22.33% |

Source: City of Kirkland Finance and Administration Financial Planning

Schedule 19

City of Kirkland

Full-time Equivalent City Government Employees by Function/Program

Last Ten Fiscal Years - Unaudited

| Function/Program | Full-time Equivalent Employees as of December 31 | | | | | | | | | |
|--|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| General Government | | | | | | | | | | |
| City Council | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 | 7.00 |
| City Manager | 5.06 | 5.50 | 6.00 | 6.00 | 6.50 | 6.50 | 6.50 | 6.89 | 6.89 | 19.48 |
| City Attorney | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.00 | 4.00 | 4.00 |
| Human Resources | - | - | - | - | - | - | - | 5.56 | 6.68 | 7.10 |
| Parks and Community Services | 28.40 | 29.15 | 30.15 | 31.40 | 30.15 | 32.15 | 32.15 | 31.15 | 32.28 | 32.28 |
| Public Works Engineering | 20.25 | 21.33 | 22.32 | 23.39 | 24.39 | 24.39 | 26.39 | 26.39 | 25.65 | 26.65 |
| Finance and Administration | 37.80 | 41.47 | 42.67 | 44.73 | 46.41 | 47.47 | 48.47 | 41.41 | 41.29 | 28.45 |
| Planning and Community Development | 16.50 | 17.50 | 20.00 | 20.50 | 21.50 | 21.62 | 21.62 | 21.62 | 21.62 | 22.56 |
| Police | 82.50 | 85.50 | 89.50 | 90.50 | 92.50 | 96.50 | 96.00 | 96.50 | 99.50 | 105.50 |
| Fire & Building | 83.16 | 83.16 | 85.61 | 86.61 | 90.61 | 93.53 | 96.53 | 96.53 | 96.53 | 100.53 |
| Other General Gov't Operating Funds | | | | | | | | | | |
| Lodging Tax Fund | - | - | - | - | - | - | - | 0.11 | 0.11 | 0.11 |
| Street Operating | 17.25 | 14.60 | 15.23 | 14.97 | 14.97 | 14.97 | 14.67 | 15.45 | 15.40 | 15.40 |
| Parks Maintenance | - | - | - | - | - | - | 4.50 | 6.50 | 7.50 | 7.50 |
| Recreation Programs | 1.85 | 1.85 | 2.10 | 2.10 | 2.10 | 3.25 | 3.25 | 3.25 | 3.25 | 3.25 |
| Facilities Maintenance | 3.00 | 3.00 | 4.00 | 4.50 | 6.50 | 6.50 | 6.50 | 5.90 | 5.90 | 5.90 |
| Equipment Rental | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 | 5.50 | 5.50 | 5.50 | 5.50 |
| Information Technology | 4.00 | 5.00 | 5.00 | 6.00 | 7.00 | 7.50 | 14.00 | 14.00 | 15.00 | 18.25 |
| Utility Funds | | | | | | | | | | |
| Water/Sewer Operation | 19.60 | 18.08 | 18.45 | 18.45 | 18.45 | 18.95 | 19.15 | 20.10 | 20.31 | 20.31 |
| Surface Water Management | - | 8.13 | 8.25 | 9.44 | 12.44 | 12.32 | 12.42 | 13.16 | 13.69 | 15.19 |
| Solid Waste | - | - | - | - | - | - | - | - | 1.05 | 1.05 |
| Total | 334.87 | 349.77 | 364.78 | 374.09 | 389.02 | 401.15 | 418.15 | 420.02 | 429.15 | 446.01 |

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Source: City of Kirkland Finance and Administration Financial Planning

Schedule 20

City of Kirkland

Operating Indicators by Function/Program

Last Ten Fiscal Years - Unaudited

| Function/Program | Fiscal Year | | | | | | | | | |
|--|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Public Safety - Police | | | | | | | | | | |
| Calls for Service | * | * | * | 50,915 | 54,706 | 54,735 | 57,026 | 53,238 | 43,120 | 53,215 |
| Public Safety - Fire | | | | | | | | | | |
| Calls for Service (aid and fire) | * | 6,373 | 6,373 | 6,568 | 7,000 | 7,151 | 7,175 | 7,335 | 7,195 | 8,109 |
| Average EMS Reponse (minutes) | * | 4:37 | 4:28 | 4:24 | 5:45 | 5:28 | 5:09 | 5:11 | 5:17 | 5:21 |
| Average Fire Response (minutes) | * | 5:09 | 5:07 | 5:05 | 6:40 | 5:56 | 5:53 | 5:58 | 5:53 | 6:02 |
| Culture and Recreation | | | | | | | | | | |
| Adult Program Registrations | * | * | * | 1,887 | 3,367 | 4,466 | 4,546 | 3,868 | 4,621 | 4,484 |
| Preschool Program Registrations | * | * | * | 2,250 | 2,562 | 2,488 | 2,654 | 3,131 | 3,436 | 3,520 |
| Youth Program Registrations | * | * | * | 3,619 | 4,141 | 4,045 | 3,924 | 4,180 | 4,553 | 4,639 |
| Teen Program Registrations | * | * | * | 113 | 54 | 56 | 155 | 210 | 134 | 140 |
| Parent/Child Program Registrations | * | * | * | 176 | 182 | 224 | 167 | 180 | 348 | 484 |
| Senior Program Registrations | * | * | * | * | 2,449 | 4,114 | 4,090 | 3,777 | 5,010 | 4,858 |
| Physical Environment | | | | | | | | | | |
| Street Hot Patching (hours) | 8,545 | 6,768 | 5,616 | 6,336 | 5,377 | 5,283 | 4,632 | 4,924 | 5,261 | 4,127 |
| Street Signal Maintenance (hours) | 2,436 | 2,796 | 2,140 | 2,932 | 2,927 | 2,874 | 2,356 | 2,645 | 2,976 | 2,685 |
| Street Sweeping (hours) | 1,536 | 1,443 | 2,285 | 1,520 | 2,008 | 1,703 | 1,931 | 1,824 | 2,016 | 2,177 |
| Number of Sewer Customers | 8,337 | 8,445 | 8,567 | 8,723 | 8,843 | 8,971 | 9,103 | 9,276 | 9,420 | 9,580 |
| Number of Water Customers | 10,660 | 10,862 | 10,962 | 11,090 | 11,197 | 11,265 | 11,376 | 11,452 | 11,534 | 11,648 |
| Average Daily Water Consumption (million gallons) | * | 6.00 | 6.00 | 6.00 | 5.80 | 5.80 | 5.21 | 6.20 | 5.72 | 6.60 |

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* Data not available

Sources: City of Kirkland Police; Fire; Public Works; Parks and Community Services

Schedule 21

City of Kirkland

Capital Asset Statistics by Function/Program

Last Ten Fiscal Years - Unaudited

| Function/Program | Fiscal Year | | | | | | | | | |
|--------------------------------------|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Public Safety - Police | | | | | | | | | | |
| Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Patrol Officers per 12 hr shift | * | * | * | 5.1 | 6.2 | 6.4 | 6.4 | 7.1 | 6.5 | 6.59 |
| Public Safety - Fire | | | | | | | | | | |
| Stations (full-time staffed) | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Stations (part-time reserve staffed) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Culture and Recreation | | | | | | | | | | |
| Parks Acreage | 403 | 403 | 403 | 403 | 403 | 450 | 480 | 512 | 525 | 510 |
| Parks (developed) | 30 | 30 | 30 | 30 | 30 | 30 | 32 | 32 | 32 | 33 |
| Parks (undeveloped) | 2 | 2 | 2 | 2 | 2 | 2 | 5 | 5 | 5 | 2 |
| Waterfront Footage | 12,000 | 12,000 | 12,000 | 12,000 | 12,000 | 12,000 | 13,200 | 13,200 | 13,200 | 13,200 |
| Miles of Improved Park Trails | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 | 5.0 | 5.0 | 5.5 |
| Miles of Unimproved Park Trails | 4.2 | 4.2 | 4.2 | 4.2 | 4.2 | 4.2 | 4.2 | 4.0 | 4.0 | 4.0 |
| Community Centers | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 2 |
| Physical Environment | | | | | | | | | | |
| Water Mains (miles) | 162 | 162 | 162 | 162 | 162 | 162 | 162 | 163 | 166 | 166 |
| Sanitary Sewers (miles) | 95 | 95 | * | * | 100 | 100 | 100 | 115 | 116 | 116 |
| Streets (miles) | 146 | 146 | 146 | 146 | 146 | 146 | 146 | 148 | 149 | 149 |
| Sidewalks (miles) | 118 | 118 | 118 | 118 | 118 | 118 | 118 | 134 | 134 | 136 |

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* Data not available

Sources: City of Kirkland Police; Fire; Public Works; Parks and Community Services