

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Financial Statements And Independent Auditors' Report

December 31, 2005 And 2004

Table Of Contents

	<i>Page</i>
Independent Auditors' Report	1
Financial Statements:	
Statements Of Net Assets Available For Benefits	2
Statements Of Changes In Net Assets Available For Benefits	3
Notes To Financial Statements	4 - 9

Independent Auditors' Report

***Cities' Municipal Employees' Benefit Trust Committee
Municipal Employees' Benefit Trust
Bellevue, Washington***

We have audited the accompanying statements of net assets available for benefits of the Municipal Employees' Benefit Trust (the Trust) as of December 31, 2005 and 2004, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Cities' Municipal Employees' Benefit Trust Committee. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Trust as of December 31, 2005 and 2004, and the changes therein for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Clark Nuber PS

Certified Public Accountants
Bellevue, Washington
June 13, 2006

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Statements Of Net Assets Available For Benefits

	<i>December 31,</i>	<u>2005</u>	<u>2004</u>
<i>Assets:</i>			
Investments, at fair value:			
Equity mutual funds		\$ 106,143,051	\$ 96,546,499
Fixed income mutual funds			16,099,712
U.S government obligations		27,135,575	25,440,497
Corporate bonds		107,754,772	80,554,938
Common and preferred stock		122,268,531	109,606,705
Participant loans		1,934,616	2,040,073
Cash		<u>14,012,285</u>	<u>18,673,132</u>
Total Investments		379,248,830	348,961,556
Receivables:			
Employer contributions			2,802
Employee contributions		30,757	3,594
Accrued investment income		<u>1,564,107</u>	<u>816,182</u>
Total Receivables		<u>1,594,864</u>	<u>822,578</u>
Total Assets		380,843,694	349,784,134
<i>Liabilities:</i>			
Accrued administrative fees		<u>15,765</u>	<u>220,206</u>
Net Assets Available For Benefits		<u><u>\$ 380,827,929</u></u>	<u><u>\$ 349,563,928</u></u>

See accompanying notes to financial statements.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

**Statements Of Changes In Net Assets Available For Benefits
Years Ended December 31, 2005 And 2004**

	<u>2005</u>	<u>2004</u>
Additions To Net Assets:		
Contributions:		
Employer	\$ 12,900,153	\$ 12,369,140
Employee contributions	<u>15,676,982</u>	<u>15,246,694</u>
Total Contributions	28,577,135	27,615,834
Investment Income:		
Net appreciation in fair value of investments	10,297,708	25,986,111
Interest and dividends	<u>11,266,295</u>	<u>8,659,334</u>
Total Investment Income	<u>21,564,003</u>	<u>34,645,445</u>
Total Additions	50,141,138	62,261,279
Deductions From Net Assets:		
Benefits paid to participants	15,326,040	13,624,137
Insurance premiums	2,116,776	1,951,728
Administrative expenses	<u>1,434,321</u>	<u>1,315,109</u>
Total Deductions	18,877,137	16,890,974
Increase In Net Assets Available For Benefits	31,264,001	45,370,305
Net Assets Available For Benefits:		
Beginning of year	<u>349,563,928</u>	<u>304,193,623</u>
End Of Year	<u>\$ 380,827,929</u>	<u>\$ 349,563,928</u>

See accompanying notes to financial statements.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes To Financial Statements

Note 1 - Description Of The Trust

The following description of the Municipal Employees' Benefit Trust (the Trust) is provided for general information purposes only. More complete information regarding the Trust's provisions may be found in the Trust document and individual city Plan documents.

General - The Trust was created to manage the assets of the employee retirement benefit Plans (the Plans) of certain cities in the State of Washington, which currently include Bellevue, Edmonds, Federal Way, Kirkland, Mill Creek, Redmond, and Woodinville (collectively, the Cities). Each city has its individual Plan document, which governs its participation, contributions, and disbursements. Each of the Cities withdrew from, or elected not to participate in, coverage under the Federal Old Age, Survivors, Disability and Health Insurance Act (Social Security). In lieu of such coverage, the Cities created the Plans, whereby both the employee and employer make contributions to the Plans to provide retirement, survivor, and disability benefits otherwise provided by Social Security. The Trust is comprised of two levels of Social Security replacement. Regular employees participate in MEBT I with benefits invested primarily in the Pooled Balanced Fund. Those participants nearing retirement may choose to invest in the Money Market Fund. Partially benefiting employees who are not eligible for PERS or LEOFF participate in MEBT II with benefits invested in the Money Market Fund. The Trust and Plans are not subject to the provisions of the Employee Retirement Income Security Act of 1974.

Eligibility - In each city, all regular (40 hours per week) and part-time (20 hours per week) employees are immediately eligible upon the date of employment. With the exception of Federal Way, all temporary (hourly) employees are also eligible when hired. Bellevue, Redmond, and Kirkland PERS hourly/partially benefited employees are not eligible.

Contributions - The Plans generally provide that the employers make contributions equal to those that would be required had the Cities not withdrawn from or elected to not participate in Social Security. Employer contributions to the Plans, which are made according to each city's Plan, are used to pay administrative expenses, operating costs, and other employee benefits, including disability coverage for employees and survivor benefits to beneficiaries.

The Plans also require that the employees contribute 100% of the amount that would be required for Social Security, except for Bellevue, Redmond, and Kirkland MEBT I employees, whose contributions to the Plans are optional. Depending on the individual city Plan, employees may make their contributions on a before- or after-tax basis. Additionally, depending on the individual city's Plan, these employees may elect to make additional voluntary contributions to the Plans on a before- or after-tax basis, subject to certain conditions and restrictions, as defined in the Plans' documents and subject to certain requirements set forth by the Internal Revenue Code.

Participant Accounts - Each participant's account is credited with the participant's contribution and an allocation of (a) the respective city's contribution, net of expense and insurance premiums, including forfeitures of terminated participants' non-vested accounts, and (b) Trust earnings, or other listed items. Allocations of earnings are based on the participant's proportionate share of the various investment funds held in their investment account within the specific city. The benefit to which a participant is entitled is limited to the participant's vested account balance.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes To Financial Statements

Note 1 - Continued

The Plans' Administration and Trustee - the Trust is administered by the Cities' Municipal Employees' Benefit Trust Committee (the Committee), which is appointed by the Bellevue City Manager. The Plan's investments are held under a trust agreement with American Stock Transfer and Trust Company (AST). AST bought the assets of Security Trust Company on January 7, 2004. An Investment Advisory Committee (IAC), which consists of a member from each of the Cities, provides advice to the Committee on the Trust's investment activities. As of August, 2004, all members are voting members of the IAC if their city has five or more years of membership in the Trust. A minimum of 5 members need to be present before new resolutions are adopted by the Trust.

Vesting - Employee contributions to the Plans are fully vested at all times. Employer contributions are vested as follows for each city:

Mill Creek, Edmonds, and Kirkland - Employer contributions vest at 10% at the end of 12 months of participation and then at 1.25% for each additional month of participation. Employees become fully vested after seven years.

Bellevue - Employer contributions vest at 10% at the end of 12 months of participation and then at 0.83% for each additional month of participation. Employees become fully vested after ten years.

Federal Way - Employer contributions vest at 20% per year and become fully vested after five years of service.

Redmond and Woodinville - Employer contributions vest at 20% after 12 months and at 1.66% for each additional month. Employees become fully vested after five years.

Forfeitures - Forfeitures become part of an unallocated account within each Plan, which is allocated to the Plan's respective participants on a periodic basis based on a prescribed formula related to employer contributions. Total forfeitures allocated in 2005 and 2004 were approximately \$441,000 and \$412,000, respectively.

Temporary/Hourly/Partially Benefited Employees - The Plans (except for the Plan of Federal Way) allow participation by temporary/hourly/partially benefited employees of the Cities. This part of the Plan is commonly referred to as MEBT II. Federal Way temporary/hourly employees are covered by Social Security. These participants do not share in the distribution of the Plans' earnings or in the risk of any of the Plans' investment losses. Their accounts are credited with earnings at the current money market rate of return.

On January 1, 2006, the City of Edmonds formally amended their Plan documents to eliminate separate benefits for those employees previously treated as MEBT II or Hourly Employees hired after December 31, 2005. All Hourly Employees who made contributions during the fourth quarter of 2005 will be given a one-time election to continue to participate. If they fail to elect or elect not to continue, the City of Edmonds will contribute to Social Security in the absence of a qualified replacement plan.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes To Financial Statements

Note 1 - Continued

Benefit Payments - The Plans provide that participants may make withdrawals of any extra after-tax contributions and, in the event of hardship (as defined in the Plans' documents), may make withdrawals from their before- or after-tax contributions, subject to certain limitations and restrictions. In addition, certain of the Cities allow withdrawals of after-tax contributions without a hardship event. Upon termination of service due to death, disability, or retirement, participants or their beneficiaries may elect to receive their vested account balances in a lump-sum distribution or in monthly or annual installments as determined by provisions of the Plans.

Participant Loans - Federal Way allows participants to obtain loans of up to 50% of their vested account balances, not to exceed \$50,000. The interest rate charged on loans is equal to the prime rate. For 2005 and 2004, the prime interest rate ranged from 4.00% to 7.25%.

Redmond allows participants to obtain loans of up to 50% of their vested account balances, not to exceed \$50,000. The interest rate charged is equal to the prime rate plus 1%. For 2005 and 2004, the interest rate ranged from 5.00% to 8.25%.

Insurance Premiums - Each of the Cities has purchased survivor and disability insurance coverage for Plan participants. The insurance carrier, Standard Insurance Company, provides surviving beneficiaries with coverage in the event of death and disabled participants with coverage in the event of a disabling condition, as described in such policy. The premiums for these policies, with the exception of life insurance premiums at Edmonds and Woodinville, are deducted from the Cities' overall contributions to the Plans, with the remainder deposited into the Trust. The cities of Edmonds and Woodinville replaced survivor insurance with term life insurance, which is wholly or partially paid by the employees on an after-tax basis.

Plan Termination - Although the Cities have no intent to do so, they have the right to reduce, suspend, or completely discontinue contributions to the Plans. Upon such action by any participating city, participant accounts related to that city would become fully vested.

Investment Policy - The Committee has established an investment policy that the trustee, American Stock Transfer and Trust Company, must follow. The approved target asset allocation of the Trust at December 31, 2005, is as follows:

Equities - Domestic	45.0%
Equities - International	15.0%
Fixed Income	40.0%
Cash and Cash Equivalents (kept to a minimum)	

For any allocation varying more than 5% from the percentages stated above, the MEBT designee will confer with the IAC Chair or the investment advisor to formulate a recommendation to the MEBT Trust Committee regarding the potential re-allocation of the invested assets.

For any allocation varying more than 10% from the target percentages, the Chair of the MEBT Trust Committee shall instruct the trustee to sell assets from the asset class in question, sufficient to bring that asset class back to within a 5% deviation from its target as per the investment policy statement, and allocate to the other asset classes to bring those asset classes back towards the targets specified in the investment policy statement.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes To Financial Statements

Note 2 - Significant Accounting Policies

Basis of Accounting Records - The accompanying financial statements are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Revenues are recognized when earned and expenses are recognized when incurred.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Benefits - Benefit payments are recorded when paid. Amounts allocated to accounts of participants who had elected to withdraw from the Trust as of year-end but had not yet been paid totaled \$1,310,610 and \$1,348,557 as of December 31, 2005 and 2004, respectively.

Investments - Investments are stated at fair value as determined by quoted market prices. Interest income is recorded as earned on the accrual basis. Dividend income is recorded on the ex-dividend date. Net appreciation or depreciation in fair value of investments represents the change in fair value from the beginning to the end of the Plans' fiscal year or from the date of purchase to the end of the Plans' fiscal year, if purchased during the current year, plus realized gains and losses. Purchases and sales of securities are reflected on a trade-date basis. Participant loans are stated at cost plus accrued interest, which approximates fair value.

Risks and Uncertainties - Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is reasonably possible that changes in risks in the near term would materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits and the statement of changes in net assets available for benefits.

Note 3 - Investments

The fair market values of individual investments representing 5% or more of the Plans' total net assets as of December 31 are as follows:

	<u>2005</u>	<u>2004</u>
Mutual Funds:		
State Street S&P 500 Flagship Fund	\$ 76,034,401	\$ 68,247,088
ING International Value A	30,108,650	28,299,411

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes To Financial Statements

Note 3 - Continued

During 2005 and 2004, the Plans' investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value as follows:

	<u>2005</u>	<u>2004</u>
Equity mutual funds	\$ 3,901,482	\$10,382,364
Fixed income mutual funds and corporate and government bonds	(3,629,679)	447,805
Common and preferred stock	<u>10,025,905</u>	<u>15,155,942</u>
	<u>\$ 10,297,708</u>	<u>\$ 25,986,111</u>

Note 4 - Relative Share Of The Trust Assets

The relative share of the Trust's assets for each city is as follows at December 31:

	<u>2005</u>	<u>2004</u>
Bellevue	54.0%	54.6%
Redmond	19.1%	19.0%
Kirkland	11.3%	11.2%
Edmonds	9.1%	8.9%
Federal Way	4.9%	4.7%
Mill Creek	0.9%	0.9%
Woodinville	<u>0.7%</u>	<u>0.7%</u>
	<u>100.0%</u>	<u>100.0%</u>

Note 5 - Administrative Expenses

The administrative expenses charged directly to the Trust consist of the following for the years ended December 31:

	<u>2005</u>	<u>2004</u>
Trustee and recordkeeper	\$ 191,553	\$ 192,287
Legal and accounting	113,977	126,771
Asset management and other	<u>1,128,791</u>	<u>996,051</u>
	<u>\$ 1,434,321</u>	<u>\$ 1,315,109</u>

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes To Financial Statements

Note 5 - Continued

Administrative expenses as a percentage of average net assets are as follows for the years ended December 31:

	<u>2005</u>	<u>2004</u>
Trustee and recordkeeper	0.05%	0.06%
Legal and accounting	0.03%	0.04%
Asset management and other	<u>0.30%</u>	<u>0.28%</u>
	<u>0.38%</u>	<u>0.38%</u>

Note 6 - Federal Income Taxes

Each city has received a determination letter from the Internal Revenue Service stating that its Plan qualifies for exemption from taxation. The Plans' administrators believe the Plans are designed in compliance with the applicable requirements of the Internal Revenue Code and are being operated as designed. Therefore, no provision for income taxes has been made in the accompanying financial statements.