REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS WITH REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION

SEATTLE PUBLIC UTILITIES – DRAINAGE AND WASTEWATER FUND (AN ENTERPRISE FUND OF THE CITY OF SEATTLE)

December 31, 2017 and 2016

MOSSADAMS

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Report of Independent Auditors

To the Director of Seattle Public Utilities
Drainage and Wastewater Fund
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Seattle Public Utilities – Drainage and Wastewater Fund (the Fund), which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seattle Public Utilities – Drainage and Wastewater Fund as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of Seattle Public Utilities' proportionate share of the net pension liability and schedule of Seattle Public Utilities' contributions, listed in the table of contents, be presented to supplement the financial statements. This information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other information on pages 49 – 52 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion or provide any assurance on it.

Moss Adams LLP

Seattle, Washington
May 4, 2018

As management of Seattle Public Utilities (SPU), a department of the City of Seattle (the City), we offer readers of SPU's financial statements this narrative overview and analysis of the financial activities of the Drainage and Wastewater Fund (the Fund) for the fiscal years ended December 31, 2017 and 2016. The revenues, expenses, assets, deferred outflows of resources, and liabilities of the City of Seattle's drainage and wastewater system are recorded in the Drainage and Wastewater Fund, the functions of which are primarily supported by user fees and charges to customers. The financial situation of other aspects of Seattle City government, including other utility services and general government operations, are reported elsewhere.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Fund's financial statements. The financial statements include Management's Discussion and Analysis and basic financial statements with accompanying notes.

Basic financial statements – The basic financial statements of the Fund report information similar to the presentation used by private sector companies. These statements offer short-term and long-term financial information about its activities. The basic financial statements begin on page 14 of this report and are comprised of three components: (1) statements of net position, (2) statements of revenues, expenses, and changes in net position, and (3) statements of cash flows.

The statements of net position present information, as of December 31, 2017 and 2016, on all of the Fund's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between assets combined with deferred outflows of resources and liabilities combined with deferred inflows of resources is reported as net position. They also provide information about the nature and amounts of investments in resources (assets and deferred outflows of resources), obligations to the Fund's creditors (liabilities and deferred inflows of resources), and provide the basis for assessing the liquidity and financial flexibility of the Fund.

The statements of revenues, expenses, and changes in net position present changes in the Fund's net position for the years ended December 31, 2017 and 2016. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. These statements reflect the results of the Fund's operations for the years identified to provide information about the Fund's credit worthiness and its ability to successfully recover all its costs through service fees and other charges.

The statements of cash flows are required to provide information about the Fund's cash receipts and cash payments during the years ended December 31, 2017 and 2016. To provide answers to questions about sources, uses, and impacts to cash, these statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities for the reporting period.

Notes to the financial statements – The notes are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the data provided in the financial statements, such as for certain estimates and financing details. The notes to the financial statements begin on page 19 of this report.

Financial Analysis

Increases or decreases in net position may serve over time as a useful indicator of whether the Fund's financial position is improving or deteriorating. At December 31, 2017 and 2016, the Fund's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources, resulting in a net position of $363.2 million and $332.5 million, respectively. In 2017, the Fund's overall position changed, with an increase in net position of $30.7 million (9.2%) as compared to an increase in net position of $2.6 million (0.8%) in 2016. The following summary statements of net position present the assets and deferred outflows of resources of the Fund and show the mix of liabilities, deferred inflows of resources and net position used to acquire these assets and deferred outflows of resources:

Statements of Net Position

	2017	2016	2015
ASSETS			
Current assets	$ 211,045,692	$ 174,268,140	$ 149,034,252
Capital assets, net	1,109,390,842	1,062,243,882	947,910,106
Other	274,180,787	114,404,535	90,597,273
Total assets	1,594,617,321	1,350,916,557	1,187,541,631
DEFERRED OUTFLOWS OF RESOURCES	20,175,891	28,026,276	15,269,200
Total assets and deferred outflows of resources	$ 1,614,793,212	$ 1,378,942,833	$ 1,202,810,831
LIABILITIES			
Current liabilities	$ 85,892,630	$ 77,643,284	$ 72,687,751
Revenue bonds	883,716,806	717,709,100	625,904,638
Other	274,832,892	248,846,621	174,316,453
Total liabilities	1,244,442,328	1,044,199,005	872,908,842
DEFERRED INFLOWS OF RESOURCES	7,164,363	2,278,901	-
NET POSITION			
Net investment in capital assets	379,865,089	403,956,846	353,149,704
Restricted	47,240,194	21,787,088	21,666,747
Unrestricted	(63,918,762)	(93,279,007)	(44,914,462)
Total net position	363,186,521	332,464,927	329,901,989
Total liabilities, deferred inflows of resources, and net position	$ 1,614,793,212	$ 1,378,942,833	$ 1,202,810,831

Financial Analysis (continued)

2017 Compared to 2016

Assets – Current assets increased $36.8 million (21.1%) over the prior year primarily due to increases of $43.4 million of operating cash, some of which was from proceeds from the Henderson loan, $2.0 million in unbilled revenues, $0.3 million in materials and supplies inventory and $0.2 million in accounts receivable, net of allowance for doubtful accounts. These increases were offset by decreases of $7.0 million in due from other governments, $1.8 million in due from other funds, $0.2 million in interest and dividends and $0.1 million in notes and contracts.

Other assets increased $159.8 million (139.7%) from 2016. This is mostly attributable to increases of $160.1 million in restricted cash and equity in pooled investments from issuing a bond and $1.2 million in regulatory assets. The increases were offset by decreases of $1.0 million in notes and contracts receivable, $0.1 million in environmental costs and recoveries, $0.3 million in external infrastructure costs and $0.1 million for other charges and long-term prepayments.

Deferred outflows of resources – Deferred outflows of resources decreased by $7.9 million (-28.0%) from 2016. This decrease is attributed to a $4.4 decrease for pension contributions and changes in assumptions related to pension accounting and by a $3.5 million decrease in unamortized loss on refunded debt.

Liabilities – Current liabilities increased $8.2 million (10.6%) from 2016. This is attributable to increases of $5.2 million in due to other governments, $4.0 million for interest payable, $3.7 million in revenue bonds due within one year, $1.5 million in loans payable due within one year and $0.5 million in salaries, benefits, payroll taxes and compensated absences. These increases were offset by decreases of $3.6 million in accounts payable, $1.6 million in other credits, $1.1 million in due to other funds, $0.2 million in taxes payable, $0.1 million in environmental liabilities and $0.1 million in claims payable.

Other liabilities increased $26.0 million (10.4%). The most significant factor affecting this change is the $29.2 million increase to loans payable (Note 11). Additional increases were $ 4.7 million to environmental liabilities and $0.1 million for compensated absences. These increases were offset by decreases of $6.6 million to net pension liability (Note 9), $1.0 million in vendor and other deposits and $0.4 million for claims payable.

Deferred inflows of resources – Deferred inflow of resources increased by $4.9 million (214.4%) from 2016. This increase is due to a change in the proportionate share of employer pension contributions.

Net position – The largest portion of the Fund's net position ($379.9 million or 104.6%) reflects the Fund's investment in capital assets such as land, buildings, and equipment, less accumulated depreciation and any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2017, net investment in capital assets decreased $24.1 million from 2016 due to a decrease in capital assets placed in service, net of depreciation offset by the related debt.

Financial Analysis (continued)

The Fund's restricted net position ($47.2 million or 13.0%) represent resources that are subject to restrictions on how they may be used. This portion of net position increased $25.6 million from 2016.

The remaining portion of the Fund's net position (a negative $63.9 million or -17.6%) represents resources that are unrestricted. The unrestricted portion of net position decreased $29.4 million from the prior year. The decrease in the negative net position is primarily due to the decrease of environmental liability expenses.

2016 Compared to 2015

Assets – Current assets increased $25.2 million (16.9%) over the prior year primarily due to increases of $20.2 million of operating cash, $3.3 million in due from other governments, $1.6 million in due from other funds, $0.7 million in unbilled revenues and $0.1 million in interest and dividends. These increases were offset by decreases of $0.5 million in notes and contracts, $0.1 million in accounts receivable, net of allowance for doubtful accounts, and $0.1 million in materials and supplies inventory.

Other assets increased $23.8 million (26.3%) from 2015. This is mostly attributable to increases of $26.5 million in restricted cash and equity in pooled investments and $0.4 million in regulatory assets. The increases were offset by decreases of $2.0 million in environmental costs and recoveries, $0.7 million for other charges, $0.3 for external infrastructure costs and $0.1 million in notes and contracts receivable.

Deferred outflows of resources – Deferred outflows of resources increased by $12.8 million (83.5%) from 2015. This increase is attributed to a $8.7 increase for pension contributions and changes in assumptions related to pension accounting and by a $4.0 million increase in unamortized loss on refunded debt.

Liabilities – Current liabilities increased $5.0 million (6.8%) from 2015. This is attributable to increases of $4.4 million in due to other funds, $2.5 million in revenue bonds due within one year, $1.2 million for interest payable, $0.4 million in claims payable, $0.1 million in taxes payable, $0.1 million on other credits and $0.1 million in due to other governments. These increases were offset by decreases of $2.2 million in accounts payable, $1.4 million in salaries, benefits and payroll taxes and a $0.1 million decrease in environmental liabilities.

Other liabilities increased $74.5 million (42.8%). The most significant factor affecting this change is the $63.3 million increase to environmental liabilities (Note 10). Additional increases were $10.6 million to net pension liability (Note 9), $2.4 million of other noncurrent liabilities, $0.9 million in vendor and other deposits and $0.7 million for claims payable. These increases were offset by decreases of $1.2 million in loans payable and $0.1 million in compensated absences payable.

Deferred inflows of resources – Deferred inflow of resources increased by $2.3 million (100%) from 2015. This increase is due to a change in the proportionate share of employer pension contributions.

Financial Analysis (continued)

Net position – The largest portion of the Fund's net position ($404.0 million or 121.5%) reflects the Fund's investment in capital assets such as land, buildings, and equipment, less accumulated depreciation and any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2016, net investment in capital assets increased $50.8 million from 2015 due to an increase in capital assets placed in service, net of depreciation offset by the related debt.

The Fund's restricted net position ($21.8 million or 6.6%) represent resources that are subject to restrictions on how they may be used. This portion of net position decreased $0.1 million from 2015. The remaining portion of the Fund's net position (a negative $93.3 million or -28.1%) represents resources that are unrestricted. The unrestricted portion of net position decreased $48.4 million from the prior year. The increase in the negative net position is primarily due to the recording of additional environmental liabilities (Note 10).

The following summary statements of revenues, expenses, and changes in net position present the annual surplus of revenues over expenses (the change in net position):

Summary Statements of Revenues, Expenses, and Changes in Net Position

	2017	2016	2015
Operating revenues	$ 400,284,279	$ 375,041,044	$ 363,778,513
Operating expenses	(344,645,809)	(320,406,157)	(302,120,829)
Net operating income	55,638,470	54,634,887	61,657,684
Other income (expenses)	(17,946,198)	(16,090,245)	(14,938,228)
Fees, contributions, grants, special items and environmental remediation	(6,970,678)	(35,981,704)	5,370,884
Change in net position	$ 30,721,594	$ 2,562,938	$ 52,090,340

2017 Compared to 2016

Current year operating revenues increased $25.2 million (6.7%) from 2016. This is due to a $11.3 million increase in wastewater revenues from an average rate increase of 5.4%. Drainage revenues increased $11.8 million due to an average rate increase of 10%. Other operating revenues increased by $2.1 million.

Financial Analysis (continued)

Operating expenses increased $24.2 million (7.6%) from 2016. The largest operating expense increase was related to Wastewater treatment costs which increased by $8.8 million due to a 5.5% increase in King County's treatment rate. The overall branch operations experienced a net increase in costs of $8.4 million. The increases included $2.8 million in utility systems management and planning and development, $2.1 million in project delivery, $1.6 in field operations, $1.5 million in general and administrative and $0.4 million in customer service. City and state business occupation tax increased by $2.4 million as a result of the overall increase in taxable revenues. Depreciation and other amortization also increased $4.3 million as a result of an increase in depreciable assets.

Nonoperating revenues/ (expenses) increased by $1.9 million (11.5%) as compared to 2016. This is primarily due to increases in interest expense, investment and interest income, amortization of bond premiums, and gain on sale of assets.

The Fund had an environmental remediation expense of $9.6 million for 2017 (Note 10). This increase was due to additional estimated costs for remediation management and construction.

Capital contributions and grants decreased $27.5 million (-91.2%) due to an $14.7 million reduction in donated assets offset by a $1.3 million increase in capital grants.

2016 Compared to 2015

Current year operating revenues increased $11.3 million (3.1%) from 2015. This is due to a $5.4 million increase in wastewater revenues from an average rate increase of 3.6%. Drainage revenues increased $5.9 million due to an average rate increase of 9.9%. Other operating revenues increased by $0.5 million.

Operating expenses increased $18.3 million (6.1%) from 2015. The largest operating expense increase was related to Wastewater treatment costs which increased by $3.7 million due to a 5.5% increase in King County's treatment rate. The overall branch operations experienced a net increase in costs of $8.9 million. The increases included $8.1 million in general and administrative, $0.8 million increase in utility systems management and planning and development, and a $0.7 million in project delivery. These increases were offset by a decrease of $0.7 in field operations. City and state business occupation tax increased by $1.4 million as a result of the overall increase in taxable revenues. Depreciation and other amortization also increased $4.0 million as a result of an increase in depreciable assets.

Nonoperating revenue/ (expenses) increased by $1.2 million (7.7%) as compared to 2015. This is primarily due to increases in interest expense, amortization of bond premiums and an increase in gain on sale of assets, offset by a decrease in investment and interest income.

The Fund had an increase in environmental remediation expenses of $61.2 million, mostly attributable to the estimated cleanup costs of the East Waterway site (Note 10).

Financial Analysis (continued)

Capital contributions and grants increased $19.9 million (191.9%) mainly due to an $13.4 million increase in donated assets and a $10.2 increase in interlocal capital contributions. These increases were offset by a decrease of $3.7 million in capital grants.

Capital Assets

The following table summarizes capital assets, net of accumulated depreciation, by major asset category:

Summary of Capital Assets, Net of Accumulated Depreciation

	2017	2016	2015
Land and land rights	$ 23,690,882	$ 22,490,142	$ 22,490,142
Buildings	14,272,559	11,464,702	11,500,696
Structures	229,951,803	184,038,075	179,016,967
Machinery and equipment	696,142,959	635,252,032	584,855,750
Computer systems	20,699,197	22,897,845	10,096,112
Construction in progress	122,606,721	184,074,365	138,237,726
Other property	2,026,721	2,026,721	1,712,713
Capital assets, net of accumulated depreciation	$ 1,109,390,842	$ 1,062,243,882	$ 947,910,106

Additional information about the Fund's capital assets can be found in Note 3 of this report.

2017 Compared to 2016

The Fund's investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2017 was $1.1 billion. This represented an increase of approximately $47.1 million (4.4%) compared to 2016. Highlights of the Fund's major capital assets placed in service during 2017 included the following:

- $64.4 million for construction of combined sewer overflow storage facilities in Henderson North sewer overflow facilities.
- $22.3 million to construct new side sewers, collector sewers and connections as a result of the Seawall Replacement project.
- $10.9 million to replace sewer pipelines throughout several locations within the City.
- $5.3 million to construct a permanent drainage system in the area of Dallas Avenue South and 17th Avenue South.
- $2.2 million to purchase and renovate the Yankee Diner building.
- $2.1 million for the airlift replacement at Pump Station 70.

Capital Assets (continued)

Highlights of the Fund's major construction projects in progress at the end of 2017 include the following:

- $43.0 million for construction of a combined sewer overflow storage facility for the Ballard, Fremont, and Wallingford combined sewer overflow basins (Ship Canal Water Quality Project).
- $14.9 million to design and construct a new south operations center.
- $8.2 million to build a pump station and a water quality facility near 7th Street and Riverside in South Park.
- $4.3 million for improvements to Taylor Creek downstream from Rainier Ave S.
- $3.6 million to construct improvements to the sewer and storm water systems in the 12th Avenue NW and Broadview neighborhood.
- $3.3 million to replace the financial system software.
- $2.9 million to construct sewer and storm water system improvements in the Dayton Avenue area.
- $2.8 million for 1% for art.
- $2.6 million for the Alaskan Way Viaduct and Waterfront combined sewer overflow Control.
- $2.5 million for improvements related to the Center City Connector Streetcar project.
- $2.2 million for the South Park Stormwater Treatment Facility.
- $2.1 million for construction of combined sewer overflow storage facilities in Henderson North basins.
- $2.1 million for the Natural Drainage System Partnering.

Capital Assets (continued)

2016 Compared to 2015

The Fund's investment in capital assets, net of accumulated depreciation, for the year ended December 31, 2016 was $1.1 billion. This represented an increase of approximately $114.3 million (12.1%) compared to 2015. Highlights of the Fund's major capital assets placed in service during 2016 included the following:

- $13.8 million to replace the customer service billing system.
- $7.9 million to replace sewer pipelines throughout several locations within the City.
- $7.4 million to reduce combined sewer overflows in the Leschi basin.
- $6.7 million for implementation of the Ballard Natural Drainage System.
- $6.0 million for improvements to the Delridge combined sewer overflow facilities
- $5.6 million for construction of South Park sewer improvements.
- $2.8 million to upgrade the mains from Alder St. to Yesler then along 8th Avenue and connecting with the I-5 combined sewer crossing.

Highlights of the Fund's major construction projects in progress at the end of 2016 include the following:

- $60.8 million for construction of combined sewer overflow storage facilities in Henderson North basins.
- $34.3 million for construction of a combined sewer overflow storage facility for the Ballard, Fremont, and Wallingford combined sewer overflow basins as part of the Ship Canal Water Quality Project.
- $16.8 million to construct new side sewers, collector sewers and connections as a result of the Seawall Replacement project.
- $10.7 million to design and construct a new south operations center.
- $7.5 million to build a pump station and a water quality facility near 7th Street and Riverside in South Park.
- $4.9 million to construct a permanent drainage system in the area of Dallas Avenue South and 17th Avenue South.

Capital Assets (continued)

- $3.1 million to construct improvements to the sewer and storm water systems in the 12th Avenue NW and Broadview neighborhood.
- $3.0 million for improvements to Taylor Creek downstream from Rainier Ave S.
- $2.9 million for the bored tunnel portion of the Alaskan Way Viaduct and Seawall Replacement projects.
- $2.6 million to construct sewer and storm water system improvements in the Dayton Avenue area.
- $2.5 million for 1% for art.

Debt Administration

The Fund's debt primarily consists of bonded debt and loans. Bonded debt is secured solely by drainage and wastewater system revenues and provides financing for capital improvements. Loans issued by various Washington State agencies for certain capital improvements are unsecured. The Fund's credit ratings on its bonds were AA+ by Standard and Poor's Rating Service and Aa1 by Moody's Investor Service.

2017 Compared to 2016

At the end of 2017, the Fund had $821.3 million in bonded debt, as compared to $673.9 million in 2016, all of which was secured solely by drainage and wastewater system revenues. This increase of $147.4 million is attributed to the issuance of a new revenue and refunding bond, and the payment of debt principal.

At the end of 2017, the Fund had an outstanding loan balance of $46.1 million compared to $15.4 million in 2016. This increase is due to a $32.0 million loan drawdown from the Department of Ecology for the Henderson combined sewer overflow project and a decrease of $1.2 million payment of loan principal.

Debt Administration (continued)

2016 Compared to 2015

At the end of 2016, the Fund had $673.9 million in bonded debt, as compared to $600.7 million in 2015, all of which was secured solely by drainage and wastewater system revenues. This increase of $73.2 million is attributed to the issuance of a new revenue and refunding bond, and the payment of debt principal.

At the end of 2016, the Fund had an outstanding loan balance of $15.4 million compared to $16.6 million in 2015. This decrease of $1.2 million was the payment of loan principal.

Requests for Information

The Fund's financial statements are designed to provide a general overview of the Fund's finances, as well as to demonstrate the Fund's accountability to its customers, investors, creditors, and other interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Seattle Public Utilities, Finance and Administration Branch, Finance Division, PO Box 34018, Seattle, Washington 98124-4018, telephone: (206) 684-3000.

Seattle Public Utilities –
Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Statements of Net Position

	December 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS		
Operating cash and equity in pooled investments	$ 164,470,477	$ 121,116,924
Receivables		
Accounts, net of allowance	20,048,945	19,802,960
Interest and dividends	295,101	503,812
Unbilled revenues	21,415,752	19,398,966
Notes, and other contracts	1,012	56,394
Due from other funds	709,487	2,496,651
Due from other governments	2,687,633	9,721,567
Materials and supplies inventory	1,382,770	1,136,351
Prepayments and other current assets	34,515	34,515
Total current assets	211,045,692	174,268,140
NONCURRENT ASSETS		
Restricted cash and equity in pooled investments	214,212,693	54,121,642
Prepayments long-term	587,561	622,076
Notes and contracts receivable	2,290	1,048,868
Environmental costs and recoveries	2,050,249	2,148,752
External infrastructure costs	18,449,506	18,742,355
Regulatory assets - bond issue costs	5,629,850	4,406,068
Other charges	33,248,638	33,314,774
Capital assets		
Land and land rights	23,690,882	22,490,142
Plant in service, excluding land	1,319,571,930	1,194,642,146
Less accumulated depreciation	(358,505,412)	(340,989,492)
Construction in progress	122,606,721	184,074,365
Other property, net	2,026,721	2,026,721
Total noncurrent assets	1,383,571,629	1,176,648,417
Total assets	1,594,617,321	1,350,916,557
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunded debt	6,696,750	10,127,210
Pension contributions and changes in assumptions	13,479,141	17,899,066
Total deferred outflows of resources	20,175,891	28,026,276
Total assets and deferred outflow of resources	$ 1,614,793,212	$ 1,378,942,833

	December 31, 2017	December 31, 2016
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 4,919,978	$ 8,518,670
Salaries, benefits, and payroll taxes payable	4,067,494	3,611,312
Compensated absences payable	428,197	398,873
Due to other funds	11,539,775	12,637,024
Due to other governments	17,947,089	12,789,445
Interest payable	12,154,879	8,165,842
Taxes payable	238,737	404,814
Revenue bonds due within one year	25,225,000	21,570,000
Claims payable	3,132,172	3,172,153
Environmental liabilities	1,805,786	1,931,411
Loans payable, due within one year	2,761,144	1,223,366
Other	1,672,379	3,220,374
Total current liabilities	85,892,630	77,643,284
NONCURRENT LIABILITIES		
Compensated absences payable	4,516,266	4,459,219
Claims payable	4,267,810	4,636,144
Environmental liabilities	137,000,689	132,341,719
Loans	43,338,003	14,130,020
Vendor and other deposits payable	1,562,942	2,604,554
Unfunded other post employment benefits	2,758,485	2,718,526
Net pension liability	81,147,048	87,690,216
Other noncurrent liabilities	241,649	266,223
Revenue bonds	821,255,000	673,920,000
Less bonds due within one year	(25,225,000)	(21,570,000)
Bond discount and premium, net	87,686,806	65,359,100
Total noncurrent liabilities	1,158,549,698	966,555,721
Total liabilities	1,244,442,328	1,044,199,005
DEFERRED INFLOWS OF RESOURCES		
Pension contributions and changes in assumptions	7,164,363	2,278,901
NET POSITION		
Net investment in capital assets	379,865,089	403,956,846
Restricted for		
External infrastructure costs	7,099,432	7,231,991
Other charges	40,140,762	14,555,097
Unrestricted	(63,918,762)	(93,279,007)
Total net position	363,186,521	332,464,927
Total liabilities, deferred inflows of resources, and net position	$ 1,614,793,212	$ 1,378,942,833

See accompanying notes.

Seattle Public Utilities –
Drainage and Wastewater Fund
(An Enterprise Fund of the City of Seattle)
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31, 2017	2016
OPERATING REVENUES		
Charges for services and other revenues	$ 400,284,279	$ 375,041,044
OPERATING EXPENSES		
Planning and development	1,051,788	1,493,543
Utility systems management	15,655,757	12,370,902
Field operations	30,465,873	28,859,854
Project delivery	12,581,960	10,494,398
Customer services	6,902,470	6,500,742
Wastewater treatment	162,758,338	154,000,792
General and administrative	31,618,031	30,135,237
City business and occupation taxes	46,724,003	44,311,317
Other taxes	5,230,421	4,836,487
Depreciation and other amortization	31,657,168	27,402,885
Total operating expenses	344,645,809	320,406,157
OPERATING INCOME	55,638,470	54,634,887
NONOPERATING REVENUES (EXPENSES)		
Investment and interest income	5,028,287	3,095,699
Interest expense	(29,141,698)	(22,779,050)
Amortization of bonds premiums and discounts, net	2,923,585	2,126,821
Amortization of refunding loss	(481,672)	(511,696)
Gain on sale of capital assets	237,519	147,382
Contributions and grants	1,565,623	1,053,743
Other, net	1,922,158	776,856
Total nonoperating revenues (expenses)	(17,946,198)	(16,090,245)
INCOME BEFORE CAPITAL CONTRIBUTIONS AND GRANTS, AND SPECIAL ITEMS	37,692,272	38,544,642
CAPITAL CONTRIBUTIONS AND GRANTS	2,648,195	30,205,190
ENVIRONMENTAL REMEDIATION	(9,618,873)	(66,186,894)
CHANGE IN NET POSITION	30,721,594	2,562,938
NET POSITION		
Beginning of year	332,464,927	329,901,989
End of year	$ 363,186,521	$ 332,464,927

 See accompanying notes.

Statements of Cash Flows

	Years Ended December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 407,356,006	$ 370,806,392
Cash paid to suppliers	(195,322,991)	(169,184,050)
Cash paid to employees	(61,860,049)	(66,268,885)
Cash paid for taxes	(52,176,342)	(48,702,216)
Net cash provided by operating activities	97,996,624	86,651,241
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	1,617,123	1,796,005
Payments for environmental liabilities	(4,987,026)	(957,639)
Net cash used in noncapital financing activities	(3,369,903)	838,366
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the sale of bonds and other long-term debt	294,268,092	183,722,951
Principal payments on long-term debt	(22,802,235)	(20,513,366)
Bond refunding	(65,248,630)	(72,355,909)
Capital expenditures and other charges paid	(78,190,146)	(116,611,390)
Interest paid on long-term debt	(31,117,916)	(28,993,254)
Build America Bonds federal interest subsidy	1,755,536	1,757,422
Capital fees and grants received	7,484,290	11,360,903
Debt issuance costs	(1,160,169)	(556,250)
Proceeds from sale of capital assets	347,600	196,610
Net cash used in capital and related financing activities	105,336,422	(41,992,284)
CASH FLOWS FROM INVESTING ACTIVITIES		
Gain on investments	3,481,462	1,261,083
NET INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	203,444,605	46,758,406
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	175,238,564	128,480,159
End of year	$ 378,683,169	$ 175,238,564
CASH AT THE END OF THE YEAR CONSISTS OF		
Operating cash and equity in pooled investments	$ 164,470,477	$ 121,116,924
Noncurrent restricted cash and equity in pooled investments	214,212,693	54,121,642
Total cash at the end of the year	$ 378,683,170	$ 175,238,566

See accompanying notes.

	Years Ended December 31, 2017	Years Ended December 31, 2016
RECONCILIATION OF NET OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	$ 55,638,470	$ 54,634,887
Adjustments to reconcile net operating income to net cash from operating activities		
Adjustment for net pension liability	2,762,219	10,643,040
Depreciation and amortization	31,657,168	27,402,885
Other receipts and payments	3,287,108	1,972,219
Changes in operating assets and liabilities		
Accounts receivable	(245,985)	601,260
Unbilled revenues	(2,016,786)	(686,753)
Due from other funds	1,787,164	(1,631,964)
Due from other governments	6,280,507	(3,656,949)
Materials and supplies inventory	(246,419)	70,417
Other assets	1,136,475	(8,626,781)
Accounts payable	(3,598,692)	(2,177,808)
Salaries, benefits, and payroll taxes payable	456,182	(1,398,535)
Compensated absences payable	86,371	(140,237)
Due to other funds	(1,097,249)	4,387,104
Due to other governments	5,157,644	57,033
Claims payable	(408,315)	1,087,535
Taxes payable	(166,077)	95,228
Other liabilities	(2,473,161)	4,018,660
Total adjustments	42,358,154	32,016,354
Net cash from operating activities	$ 97,996,624	$ 86,651,241

Note 1 – Operations and Summary of Significant Accounting Policies

Operations – The City of Seattle, Seattle Public Utilities – Drainage and Wastewater Fund (the Fund) is a public utility enterprise fund of the City of Seattle (the City). The Fund was established to account for the drainage and wastewater activities of Seattle Public Utilities (SPU). Drainage activities include regulating storm water runoff, alleviating flooding, mitigating water pollution caused by runoff, and responding to federal storm water regulations, in addition to managing drainage utility assets. Wastewater activities consist of managing the City's sewer system, including the operation of sewer utility facilities and pumping stations necessary to collect the sewage of the City and discharge it into the King County Department of Natural Resources Wastewater Treatment System for treatment and disposal.

On January 1, 1997, the City created SPU, which brought together under one administrative umbrella the water, solid waste, and drainage and wastewater functions of the City. The Fund (as well as SPU's other funds) remains separate for accounting purposes.

SPU receives certain services from other departments and agencies of the City, including information technology and others that are normally considered to be general and administrative. The Fund is charged a share of these costs and during 2017 and 2016, paid $22,064,583 and $13,221,969, respectively, to the City for its share of these services. The $8.8 million increase is largely attributable to the consolidation of Seattle IT. Additionally, the Fund pays a business and occupation utility tax to the City's General Fund. The Fund paid $46,724,003 and $44,311,317 for these taxes in 2017 and 2016, respectively.

The utility billing function is co-managed by SPU, Seattle City Light (SCL) and Seattle IT. SPU provides customer service through the call center and walk-in center. SCL and Seattle IT operate and manage the billing system. SPU and SCL bill and reimburse each other for these services. SPU reimburses Seattle IT for the information technologies services mentioned above. Within SPU, the costs and reimbursements were shared among its three utility funds (Water, Drainage and Wastewater, and Solid Waste). The Fund received reimbursements related to the call center and walk-in center of $1,995,765 and $2,043,002 in 2017 and 2016, respectively. The Fund paid $25,205 and $186,283 for the utility billing services in 2017 and 2016, respectively. These costs do not include reimbursements to Seattle IT for the Fund's share of capital costs for the Customer Care and Billing System (CCB) completed in 2016.

Wastewater disposal and drainage services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected $3,372,156 in 2017 and $3,583,824 in 2016 from the City for wastewater services provided. The Fund also collected $7,815,062 in 2017 and $7,893,879 in 2016 from the City for drainage services.

The Fund is subject to regulation by the City and the State of Washington. Service rates are authorized by ordinances passed by the City Council. Financial reporting is reviewed by the Washington State Auditor's Office and conforms to accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

Basis of accounting – The Fund is accounted for on a flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. With the flow of economic resources measurement focus, all assets, deferred outflows of resources, and liabilities associated with the Fund's operations are included on the statements of net position. The operating statements present increases (revenues) and decreases (expenses) in total net position.

Cash and equity in pooled investments – Cash resources of the Fund are combined with cash resources of the City in a pooled investment portfolio that is managed by the City's Finance and Administration Services Department. The City's investment portfolio consists of fixed income securities authorized by the Revised Code of Washington and other applicable law. The pool operates like a demand deposit account in that all City departments may deposit cash at any time and withdraw cash out of the pool without prior notice or penalty. Interest earned on the pooled investments is prorated to individual funds at the end of each month on the basis of their average daily cash balances during the month when interest was earned. Cash and equity in pooled investments are reported at fair market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and GASB Statement No. 72, *Fair Value Measurement and Application*. The Fund's share of the pool is included in the accompanying Statement of Net Position under the caption "cash and equity in pooled investments." Accordingly, the Statements of Cash Flows reconcile to cash and equity in pooled investments. The restricted cash and equity in pooled investments are comprised of unexpended bond proceeds, bond reserve funds and vendor's escrow deposits.

Receivables and unbilled revenues – Customer accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. The Fund also accrues an estimated amount for services that have been provided but not billed.

Due from/to other funds and governments – Activity between other funds and governments that is outstanding at the end of the year, not related to the provision of utility services, is reported as due from or due to other funds and governments.

Allowance for doubtful accounts – A reserve has been established for uncollectible accounts receivable based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. As of December 31, 2017 and 2016, the Fund's allowance for doubtful accounts was $728,621 and $519,036, respectively.

Materials and supplies inventory – The Fund values its inventory based on a moving average method. The most recent total cost of an inventory item is divided by the total units of the item that remain in inventory to determine the moving average cost of the item. The moving average cost is then applied to all the units of the inventory item.

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

Environmental costs and recoveries – The Fund is involved in several remediation efforts around the City (Note 10). When estimated remediation costs are approved to be recovered through rates, the costs, net of recoveries, associated with these efforts are deferred when accrued as a regulatory asset and are amortized over the rate recovery period. Certain environmental remediation costs that are infrequent in occurrence are treated as a special item in the Statements of Revenues, Expenses, and Changes in Net Position.

External infrastructure costs – The Fund has contributed $21,963,686 to a joint project with King County to expand one of their transmission lines to help alleviate sewer overflows in the area. These costs represent the portion of the project that did not result in a capital asset for the Fund. The project was completed in 2005. The Fund has deferred these costs and began amortizing them in 2006 over a 75-year period.

Regulatory assets – bond issue costs – GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, allows for certain costs to be capitalized as a regulatory asset instead of charged to expense. A regulatory asset is recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will be recovered through customer rates over some future period. The Fund uses regulatory accounting for debt issuance costs because these costs are included in the rate structure and, as such, will continue to be amortized over the life of the associated bond issues. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, would have required these costs to be expensed in the period incurred if the Fund had not utilized regulatory accounting for these costs.

Other charges – Other charges primarily include costs related to the Long Term Control Plan which direct the Fund’s construction and monitoring of several Combined Sewer Overflow projects. The Fund amortizes these charges over a 5 to 30-year period.

Capital assets – Capital assets are stated at cost or, if contributed, at fair value at the date of contribution. Costs include direct material, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest relating to the financing of projects under construction. The cost of current repairs and maintenance is charged to expense, while the cost of additions and improvements is capitalized. SPU’s policy is to generally capitalize assets with a cost of $5,000 or more. The Fund received donated assets, such as sewer and drainage pipes, from developers and other government agencies. These donated assets are recorded under capital contributions and grants in the statements of revenues, expenses, and changes in net position.

Construction in progress – Capitalizable costs incurred on projects which are not in use or ready for use are held in construction in progress. When the asset is ready for use, related costs are transferred to capital assets. Upon determining that a project will be abandoned, the related costs are charged to expense.

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

Other property – Other property is stated at cost, or if contributed, the fair value at the date of contribution. Other property includes artwork and property held for future use. The artwork is acquired through the City's "One Percent for Art" program, which supports the City ordinance established to direct the inclusion of works of art in public spaces within the City.

Depreciation – Capital assets in service are depreciated on the straight-line method over estimated useful lives as follows:

Buildings and fixtures	10 to 50 years
Laterals, mains, and outfalls	75 years
Detention structures	75 years
Pumping stations, equipment, and overflow structures	10 to 50 years
Machinery and equipment	3 to 20 years
Computer systems	3 to 11 years

Composite rates based on year of addition are used for depreciating the laterals, mains, and outfalls asset group. For most assets, it is SPU's policy to begin depreciation in the year following acquisition and to record a full year's depreciation in the year of disposition. This does not apply to heavy equipment, for which depreciation begins in the month following the equipment's in-service date to more accurately allocate equipment costs to various activities.

Deferred outflows/inflows of resources – In addition to assets, the Statement of Net Position, when applicable, will report a separate section for deferred outflows of resources. It represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Fund has deferred loss on refunding debt which qualifies for reporting in this category. A deferred loss on refunding bonds results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. As a result of implementing GASB Statement No. 68 and No. 71, the Fund has also recorded deferred outflows of resources for certain pension activities including, the difference between projected and actual experience, the difference between projected and actual earnings on investments, and contributions made subsequent to the measurement date (Note 9).

In addition to liabilities, the statement of net position, when applicable, will report a separate section for deferred inflows of resources. It represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. As a result of implementing GASB Statement No. 68 and No. 71, the Fund has also recorded deferred inflows of resources for changes in proportion and differences between employer contributions and proportionate share of contributions.

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

Environmental liabilities – The Fund has accrued a liability for pollution remediation activities in accordance with GASB Statement No. 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB 49 outlines five specific obligating events that give rise to estimating expected pollution remediation outlays. These outlays may be accrued as a liability and expensed, or if appropriate, capitalized. The Fund will accrue a liability if any of the following obligating events occurs:

- The Fund is compelled to take pollution remediation action because of an imminent endangerment.
- The Fund violates a pollution prevention-related permit or license.
- The Fund is named, or evidence indicates it will be named, by a regulator as a potentially responsible party (PRP) for remediation.
- The Fund is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The Fund commences or legally obligates itself to commence pollution remediation.

Most pollution remediation outlays do not qualify for capitalization and the Fund does not anticipate significant capitalized costs in the future. See Note 10 for site descriptions.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Seattle City Employees' Retirement System (SCERS) are reported on the same basis as reported by SCERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated absences – Employees earn vacation based upon their date of hire and years of service, and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund. Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit.

Employees who submit the required documentation to be represented by the Coalition of City Unions are paid 35% of the value of unused sick leave upon retirement as part of the Health Reimbursement Arrangement – Voluntary Employees' Beneficiary Association (HRA-VEBA) program. If the employee fails to submit the required documentation by their last working day of employment, their sick leave balance is forfeited.

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

Retiring employees who are not eligible to participate in the HRA-VEBA program may elect to receive 25% of the value of unused sick leave upon retirement or defer receipt of 35% of the value of their sick leave balance to the City's 457 Plan and Trust, subject to the year-to-date or life-to-date limitations on deferrals and contributions. If the 35% value of the sick leave balance exceeds the maximum amount deferred to the City's 457 Plan and Trust, the employee shall receive a taxable cash payment equal to the amount by which the 25% value of the sick leave balance exceeds the 35% that was allowed to be deferred. The Fund records a liability for estimated sick leave payments.

Operating revenues – Wastewater service revenues are recorded through cycle billings rendered to customers monthly or bimonthly. The Fund accrues and records unbilled wastewater service revenues in the financial statements for services provided from the date of the last billing to year end.

Drainage service charges are billed to the City's drainage residential and nonresidential customers twice a year through the service of King County's property tax billing system. These charges fund operations and maintenance of, and improvements to, the City's system of storm and drainage facilities.

Other operating revenues include revenues generated from wastewater and sewer permits, and engineering services provided to other City funds.

Operating expenses – Certain expenses of the Fund are reported on the Statement of Revenue, Expenses and Change in Net Position by functional category. The types of work performed within each category are as follows:

- **Planning and development** – Provides planning services and other related costs prior to the start of capital projects.
- **Utility systems management** – Accounts for the overall management of the Fund's infrastructure assets, assuring they are properly designed, constructed, operated, and protected.
- **Field operations** – Operates and maintains the Fund's drainage and wastewater systems.
- **Project delivery** – Provides project management and engineering services to the Fund and executes the Fund's capital projects from start to completion.
- **Customer services** – Invoices the Fund's customers for services provided and is the primary point of contact for customers.

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

Taxes – The Fund is charged a public utility tax by the City at a rate of 12.0% for Wastewater revenues and 11.5% for Drainage revenues, net of certain credits. In addition, the Fund paid a 3.85% public utility tax to the State on a certain portion of revenues identified as sewer collection revenues. The Fund also paid business and occupation tax to the State on certain drainage and other non-utility revenues at the rate of 1.5%.

Nonoperating revenues and expenses – This includes the non-operating revenues and expenses that arise from transactions not related directly to the major income-earning operations of the Fund and are of a recurring nature. Major items are investment and interest income, interest expense, amortization of debt expenses, and sale of capital assets.

Net position – The Statement of Net Position reports all financial and capital resources. Assets and deferred outflows of resources minus liabilities and deferred inflows of resources is net position. There are three components of net position: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Net position is restricted when constraints placed on net position use are either: (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. The Fund’s restricted net position as of December 31, 2017 and 2016, are related to external infrastructure costs and certain other charges.

Unrestricted net position is the portion that is not “net investment in capital assets” or “restricted.”

Arbitrage rebate requirement – The Fund is subject to the Internal Revenue Code (IRC), Section 148(f), related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had no liability for arbitrage as of December 31, 2017 and 2016.

Accounting standard changes – GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this statement is for the Fund to record its proportionate share of its defined other post-employment obligations for inactive and retired employees who receive benefits from the Fund. This statement is effective periods beginning after June 15, 2017. The Fund is evaluating the impact of this standard on the financial statements, but anticipates recording amounts for the unfunded portion of the obligation. At this time, the amounts are not yet known.

Note 1 – Operations and Summary of Significant Accounting Policies (continued)

GASB has issued Statement No. 82, *Pension Issues-an Amendment of GASB Statements No. 67, No. 68 and No. 73*. The statement requires issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (“plan member”) contribution requirements. This statement is effective for reporting periods beginning after June 15, 2016, except for the requirements for the selection of assumptions that deviate from the guidance in an Actuarial Standard of Practice in which the requirements are effective for an employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The Fund has included this within the required supplementary information provided.

Use of estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. Estimates and assumptions are used to record unbilled revenues, allowance for doubtful accounts, fair market value of cash and equity in pooled investments, accrued sick leave, capitalized interest, depreciation, environmental liabilities, risk liabilities, pension liability, and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

Significant risks and uncertainties – The Fund is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, weather and natural disaster-related disruptions, collective bargaining labor disputes, Environmental Protection Agency regulations, and federal government regulations or orders concerning the operation, maintenance, and licensing of facilities.

Note 2 – Cash and Equity in Pooled Investments

Per Seattle Municipal Code, SMC 5.06.010 Investment Authority, the Director of Finance and Administrative Services (FAS) is authorized to invest all moneys in the City Treasury. Cash resources of all City funds are combined into a common investment pool that is managed by FAS. Each fund’s share of the pooled investments is included in the participating fund’s balance sheet under the caption “Cash and Equity in Pooled Investments.” The pool operates like a demand deposit account in that all City funds may deposit cash at any time and also withdraw cash up to their respective fund balance out of the pool without prior notice or penalty.

Note 2 – Cash and Equity in Pooled Investments (continued)

Custodial credit risk – deposits – The custodial credit risk of deposits is the risk that in the event of bank failure of one of the City's depository institutions, the City's deposits or related collateral securities may not be returned in a timely manner. As of December 31, 2017, the City did not have custodial credit risk. The City's deposits are covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA) as well as protection provided by the Washington State Public Deposit Protection Commission (PDPC) as established in RCW 39.58. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks, credit unions, and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC or NCUA by requiring banks, credit unions, and thrifts to pledge securities as collateral.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Some of the City's Pooled investments have credit risk from holdings in commercial paper, corporate notes, and taxable municipal bonds. The City may not hold more than 50% of the Pool's total assets in these credit sensitive sectors. State statute defines the investments in commercial paper and corporate notes as a "credit portfolio". The credit portfolio may not exceed 25 percent of the Pool's market value. Credit investments must be diversified by sector and industry. No single issuer shall exceed 3 percent of the Pool's market value. Commercial Paper investments may not have maturities exceeding 270 days and must hold the highest short-term credit rating by all the major credit rating agencies that rate the issuer at the time of purchase. Corporate notes must mature within 5.5 years from the time of purchase and must be rated at least weak single-A or better by all the major rating agencies that rate the note at the time of purchase. No single issuer rated AA or better may exceed 3 percent of the Pool's market value. No single issuer rated in the single-A category may exceed 2 percent of the Pool's market value. Municipal bonds must have a credit rating of weak single-A or better by all the major rating agencies that rate the issuer at the time of purchase. No single issuer may exceed 5 percent of the Pool's market value.

The City also purchases obligations of government-sponsored enterprises which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include, but are not limited to, debt securities of Federal Home Loan Bank, Federal National Mortgage Association, Wells Fargo, and Federal Home Loan Mortgage Corporation. As of December 31, 2017, these investments were rated Aaa by Moody's Investors Service and AA+ or AA- by Standard & Poor's Rating Service. As of December 31, 2016, these investments were rated Aaa by Moody's Investors Service and AA+ by Standard & Poor's Rating Service.

Note 2 – Cash and Equity in Pooled Investments (continued)

Interest rate risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City manages this risk by limiting the average maturity of investments to five years. However, the Fund's investments are selected for greater liquidity in order to support the Fund's cash flow needs and therefore typically have much shorter average maturities.

Investments – The City reports its investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction amongst market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

Valuation techniques to determine fair value should be consistent with one or more of three approaches: the market approach, cost approach, and income approach. The City uses a combination of the market and cost approach for the valuation of pooled investments.

The City's overnight repurchase agreement with Wells Fargo Bank, N.A., and investment in the State of Washington Local Government Investment Pool (LGIP) are accounted for at cost. The LGIP is an external investment pool and is measured at a net asset value (NAV) per share of $1. The remainder of the City's investments are purchased in the over-the-counter U.S. bond market and accounted for at market.

The City uses market pricing for its over-the-counter investments as provided by its contractual custodial agent, Wells Fargo Institutional Retirement & Trust, and its third-party investment accounting vendor FIS AvantGard LLC. Both Wells Fargo and FIS contract with Interactive Data Pricing and Reference Data, Inc. for securities pricing.

As a basis for considering market participant assumptions in fair value measurements, GASB Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund can access at the measurement date.

Level 2 – inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – inputs are unobservable inputs for the asset or liability. Valuation adjustments such as for nonperformance risk or inactive markets could cause an instrument to be classified as Level 3 that would otherwise be classified as Level 1 or Level 2.

Note 2 – Cash and Equity in Pooled Investments (continued)

As of December 31, 2017 and 2016, the City's pooled investments were categorized within the fair value hierarchy as follows:

Investments	Fair Value as of December 31, 2017	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Weighted Average Maturity (Days)
U.S. Government Agency Securities	$ 693,621,813	$ -	$ 693,621,813	$ -	887
U.S. Treasury and U.S. Government-Backed Securities	475,683,801	463,218,182	12,465,619	-	489
Municipal Bonds	366,132,818	-	366,132,818	-	1,858
Commercial Paper	251,665,039	-	251,665,039	-	32
U.S. Government Agency Mortgage-Backed Securities	243,661,069	-	243,661,069	-	450
Repurchase Agreements	138,385,200	138,385,200	-	-	1
Local Government Investment Pool	120,655,354	-	120,655,354	-	-
Bank Note	47,987,867	-	47,987,867	-	293
	$ 2,337,792,961	$ 601,603,382	$ 1,736,189,579	$ -	
Weighted Average Maturity of the City's Pooled Investments					936

Investments	Fair Value as of December 31, 2016	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Weighted Average Maturity (Days)
Bank Note	$ 48,132,770	$ -	$ 48,132,770	$ -	658
Commercial Paper	204,474,875	-	204,474,875	-	90
Local Government Investment Pool	45,382,406	-	45,382,406	-	-
Municipal Bonds	306,457,925	-	306,457,925	-	1,692
Repurchase Agreements	50,446,235	50,446,235	-	-	2
U.S. Government Agency Mortgage-Backed Securities	261,378,071	-	261,378,071	-	590
U.S. Government Agency Securities	553,815,643	-	553,815,643	-	920
U.S. Treasury and U.S. Government-Backed Securities	287,802,378	275,300,476	12,501,902	-	472
	$ 1,757,890,303	$ 325,746,711	$ 1,432,143,592	$ -	
Weighted Average Maturity of the City's Pooled Investments					1,101

Note 2 – Cash and Equity in Pooled Investments (continued)

The Fund's share of the City pool was as follows as of December 31:

	2017	2016
Operating cash and equity in pooled investments	$ 164,470,477	$ 121,116,924
Restricted cash and equity in pooled investments	214,212,693	54,121,642
Total	$ 378,683,170	$ 175,238,566
Balance as a percentage of City pool cash and investments	16.2%	10.0%

Concentration of credit risk – The City's investment policy limits concentration of credit risk for the City's investments as a whole, inclusive of the Fund's investments. These policy limits vary for each investment category.

The City's investments in which five percent or more is invested in any single issuer, as of December 31, are as follows:

	2017		2016	
Issuer	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
United States Government	$ 475,683,801	20%	$ 287,802,378	16%
Federal National Mortgage Association	339,104,849	15%	302,419,724	17%
Federal Farm Credit Bank	259,982,939	11%	190,087,160	11%
Federal Home Loan Bank	168,930,820	7%	139,856,360	8%
Wells Fargo	138,385,200	6%	**	**
Local Government Investment Pool	120,655,354	5%	**	**
Federal Home Loan Mortgage Corp	**	**	93,916,723	5%
Freddie Mac Multifamily Securities	**	**	88,913,747	5%

** Investment did not represent 5% or more of investments as of December 31, 2017, or 2016,

Note 3 – Capital Assets

Capital asset activity consisted of the following for the year ended December 31, 2017:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 19,649,476	$ 3,450,761	$ (71,255)	$ 23,028,982
Structures	243,095,429	52,485,714	(50,000)	295,531,143
Machinery and equipment	860,247,233	80,302,436	(3,416,294)	937,133,375
Computer systems	71,650,008	2,396,146	(10,167,724)	63,878,430
Total capital assets, excluding land	1,194,642,146	138,635,057	(13,705,273)	1,319,571,930
Less accumulated depreciation	(340,989,492)	(29,592,577)	12,076,657	(358,505,412)
	853,652,654	109,042,480	(1,628,616)	961,066,518
Construction in progress	184,074,365	83,017,383	(144,485,027)	122,606,721
Land and land rights	22,490,142	1,200,740	-	23,690,882
Other property	2,026,721	-	-	2,026,721
Capital assets, net	$ 1,062,243,882	$ 193,260,603	$ (146,113,643)	$ 1,109,390,842

Capital asset activity consisted of the following for the year ended December 31, 2016:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 19,070,364	$ 579,112	$ -	$ 19,649,476
Structures	232,021,153	11,074,276	-	243,095,429
Machinery and equipment	796,130,295	64,855,434	(738,496)	860,247,233
Computer systems	55,401,980	16,248,028	-	71,650,008
Total capital assets, excluding land	1,102,623,792	92,756,850	(738,496)	1,194,642,146
Less accumulated depreciation	(317,154,267)	(26,370,606)	2,535,381	(340,989,492)
	785,469,525	66,386,244	1,796,885	853,652,654
Construction in progress	138,237,726	121,333,063	(75,496,424)	184,074,365
Land and land rights	22,490,142	-	-	22,490,142
Other property	1,712,713	314,008	-	2,026,721
Capital assets, net	$ 947,910,106	$ 188,033,315	$ (73,699,539)	$ 1,062,243,882

During 2017 and 2016, the Fund capitalized interest costs relating to construction of $5,965,256 and $7,386,166, respectively.

Note 4 – Revenue Bonds

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has $30,679,678 in a debt service reserve fund and has obtained reserve insurance policies to meet the remainder of its reserve requirements. The total bonds outstanding as of December 31, 2017 and 2016, were $821,255,000 and $673,920,000, respectively. Revenue bonds outstanding as of December 31, 2017 and 2016, consisted of the following Municipal Drainage and Wastewater bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding 2017	Bonds Outstanding 2016
2006 parity refunding bonds	11/1/06	2007-2037	4.0-5.0%	$ 121,765,000	$ -	$ 70,215,000
2008 parity bonds	4/16/08	2009-2038	4.0-5.0%	84,645,000	1,975,000	3,850,000
2009A parity bonds	12/17/09	2017-2039	4.2-5.5%	102,535,000	99,510,000	102,535,000
2009B parity refunding bonds	12/17/09	2010-2027	2.0-4.0%	36,680,000	11,475,000	12,380,000
2012 parity refunding bonds	6/27/12	2012-2042	2.0-5.0%	222,090,000	187,450,000	194,720,000
2014 parity refunding bonds	7/10/14	2015-2044	3.0-5.0%	133,180,000	127,590,000	129,520,000
2016 parity refunding bonds	6/22/16	2016-2046	4.0-5.0%	160,910,000	159,130,000	160,700,000
2017 parity refunding bonds	6/28/17	2018-2047	4.0-5.0%	234,125,000	234,125,000	-
				$ 1,095,930,000	$ 821,255,000	$ 673,920,000

Minimum debt service requirements to maturity on revenue bonds are as follows:

Years Ending December 31,	Principal	Interest	Total
2018	$ 25,225,000	$ 36,620,171	$ 61,845,171
2019	26,425,000	35,412,652	61,837,652
2020	27,575,000	34,170,077	61,745,077
2021	27,300,000	32,861,537	60,161,537
2022	28,610,000	31,509,253	60,119,253
2023 - 2027	155,485,000	135,476,225	290,961,225
2028 - 2032	168,780,000	96,619,913	265,399,913
2033 - 2037	155,560,000	60,083,543	215,643,543
2038 - 2042	127,110,000	28,792,430	155,902,430
2043 - 2047	79,185,000	6,952,300	86,137,300
	$ 821,255,000	$ 498,498,101	$ 1,319,753,101

Note 4 – Revenue Bonds (continued)

The following table shows the revenue bond activity during the year ended December 31, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 673,920,000	$ 234,125,000	$ (86,790,000)	$ 821,255,000	$ 25,225,000
Add (deduct) deferred amounts					
Issuance premiums	65,881,831	25,251,291	(2,947,347)	88,185,775	-
Issuance discounts	(522,731)	-	23,762	(498,969)	-
Total bonds payable	$ 739,279,100	$ 259,376,291	$ (89,713,585)	$ 908,941,806	$ 25,225,000

The following table shows the revenue bond activity during the year ended December 31, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 600,680,000	$ 160,910,000	$ (87,670,000)	$ 673,920,000	$ 21,570,000
Add (deduct) deferred amounts					
Issuance premiums	44,851,129	24,127,347	(3,096,645)	65,881,831	-
Issuance discounts	(546,491)	-	23,760	(522,731)	-
Total bonds payable	$ 644,984,638	$ 185,037,347	$ (90,742,885)	$ 739,279,100	$ 21,570,000

Defeasance of debt – The Fund defeases certain obligations by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the old bonds are considered defeased, and the corresponding liabilities and trust account assets are not included in the Statement of Net Position. In 2017, $65,220,000 bonds were defeased and $81,550,000 bonds were redeemed as shown below:

Name of Issue	Amount Outstanding at December 31, 2016	Additions	Redemptions	Amount Outstanding at December 31, 2017
2006 Parity	$ 16,330,000	$ 65,220,000	$ (81,550,000)	$ -
2008 Parity	68,380,000	-	-	68,380,000
	$ 84,710,000	$ 65,220,000	$ (81,550,000)	$ 68,380,000

Note 4 – Revenue Bonds (continued)

In 2016, $68,380,000 bonds were defeased and no bonds were redeemed as shown below:

Name of Issue	Amount Outstanding at December 31, 2015	Additions	Redemptions	Amount Outstanding at December 31, 2016
2006 Parity	$ 16,330,000	$ -	$ -	$ 16,330,000
2008 Parity	-	68,380,000	-	68,380,000
	$ 16,330,000	$ 68,380,000	$ -	$ 84,710,000

In June 2017, the Fund issued $234,125,000 of Drainage and Wastewater Improvement and Refunding Revenue Bonds with varying annual principal payments due beginning 2018 and ending in 2047, at interest rates ranging from 4.0 percent and 5.0 percent. A portion of the proceeds were used to fully refund the remaining 2006 bonds. As a result of the refunding, the Fund reduced total debt service requirements by $7.5 million resulting in an economic gain (difference between the present value of the debt service payments on the old and new debts) of $5.5 million.

In June 2016, the Fund issued $160,910,000 of Drainage and Wastewater Improvement and Refunding Revenue Bonds with varying annual principal payments due beginning 2016 and ending in 2046, at interest rates ranging from 4.0 percent and 5.0 percent. A portion of the proceeds were used to partially refund the 2008 bonds. As a result of the refunding, the Fund reduced total debt service requirements by $16.5 million resulting in an economic gain (difference between the present value of the debt service payments on the old and new debts) of $12.8 million.

Financial covenants – The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service of at least equal to 125% of annual debt service. For 2017, net revenue available for debt service, as defined by the bond covenants, is 271% of annual debt service. Management believes the Fund was in compliance with all debt covenants as of December 31, 2017. For more information, see Other Information (page 49).

Note 5 – Leases

The Fund has noncancelable operating lease commitments for real and personal property, with payments of $52,967 and $97,554 in 2017 and 2016, respectively. The two remaining leases for the fund will expire as of July 31, 2020. Rents are paid as they become due and payable. Minimum lease payments under the leases for the years ending December 31, are as follows:

2018	$ 53,580
2019	54,012
2020	18,456
	$ 126,048

Note 6 – Postemployment Benefit Plans

Deferred compensation – The City offers all of its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code (IRC) Section 457. The Plan permits employees to defer a portion of their salaries until future years. The deferred compensation is paid to employees upon termination, retirement, death, or unforeseen emergency.

The Plan is an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Plan shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries. The Plan is not reported in the financial statements of the City or the Fund.

It is the opinion of the City's legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making the selection, participants accept and assume all risks inherent in the Plan and its administration.

Other postemployment benefits – Health care plans for active and retired employees are administered by the City as single-employer defined benefit public employee health care plans.

Eligible retirees (younger than age 65) may contribute to the medical plan and any additional health care programs contemplated or amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020.

The Seattle City Council authorizes the obligations of the plan members and the City as employer by passing ordinances and amendments regarding contributions to the plans. Eligible retirees self-pay 100% of the premiums based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The plan is financed on a pay-as-you-go basis, and the City was required to contribute $2.3 million in 2017 and $2.0 million in 2016.

The table below summarizes the City's annual cost, expected contributions to the plan, and changes in the net other post-employment benefit obligation (OPEB) for fiscal years ended December 31, 2017, 2016, and 2015. These calculations are based on the most recent actuarial valuation data available, dated January 1, 2016. The Fund has accrued $2,758,485 to the plan as of December 31, 2017, as a reasonable estimate of the expected contributions.

Note 6 – Postemployment Benefit Plans (continued)

	2017	2016	2015
Annual required contribution	$ 8,090,000	$ 7,733,000	$ 4,605,000
Interest on net OPEB obligation	1,671,000	1,526,000	1,630,000
Adjustment to annual required contribution	(2,791,000)	(2,549,000)	(2,540,000)
Annual OPEB cost (expense)	6,970,000	6,710,000	3,695,000
Contribution (employer-paid benefits)	(2,289,000)	(2,018,000)	(1,141,000)
Increase in net OPEB obligation	4,681,000	4,692,000	2,554,000
Net OPEB obligation, beginning of year	54,074,000	49,382,000	46,828,000
Net OPEB obligation, end of year	$ 58,755,000	$ 54,074,000	$ 49,382,000
Fund's allocated share of city liability	$ 2,758,485	$ 2,781,526	$ 2,580,253

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially-determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial calculations are based on the types of benefits provided under the terms of the plan and on the pattern of shared costs between the employer and plan members, at the time of each valuation. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Note 6 – Postemployment Benefit Plans (continued)

Significant methods and assumptions are as follows:

Actuarial data and assumptions	
Valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years, open
Discount rate	3.09%
Health care cost trend rates – medical	Medical: 6.25%, decreasing by 0.25% & 0.21% for two years; 5.79% in year 2018 and decreasing to 5.57% in 2019 Vendor Rx Report: 10.0% in 2016, decreasing by 0.5%, 0.71%, & 0.72% respectively for the next three years.
Participation	40% of Active Employees who retire participate.
Mortality	General Service Actives based on the RP-2000 Employees Tables for Males and Females, with ages set back six years and General Service Retirees based on the RP-2000 Combined Healthy Males with ages set back two years and Females, with ages set back one year.
Marital status	45% of members electing coverage are assumed to be married or to have a registered domestic partner. Male spouses are assumed to be two years older than their female spouses.
Other considerations	Active employees with current spousal and/or dependent coverage and are under Group Health Standard or Group Health Deductible are assumed to elect same plan and coverage after retirement. Of those under City of Seattle Traditional or City of Seattle Preventative, 50% are assumed to switch to the Group Health Standard Plan, while the other 50% will continue coverage under the same plan.

Note 6 – Postemployment Benefit Plans (continued)

Schedules of funding progress are as follows (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) Entry Age[1] (b)	Unfunded AAL (UAAL)[2] (b-a)	Funded Ratio (a/b)	Covered Payroll[3] (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2015	$ -	$ 44.4	$ 44.4	0.0%	$ 1,037.9	4.3%
January 1, 2016	$ -	$ 65.7	$ 65.7	0.0%	$ 1,125.7	5.8%
January 1, 2017	$ -	$ 70.1	$ 70.1	0.0%	$ 1,153.8	6.1%

The Health Care Subfund of the General Fund is reported in the City's Comprehensive Annual Financial Report which can be obtained by writing the Department of Finance, City of Seattle, PO Box 94747, Seattle, WA 98124-4747 or www.seattle.gov/cafrs/.

Note 7 – Claims Payable

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund's property. Liabilities for identified claims and claims incurred, but not reported have been recorded by the Fund.

For 2017 and 2016, liabilities for workers' compensation claims, as well as other claims, are discounted over a 15-year period at the City's rate of return on investments, 1.565% and 1.403%, respectively. Claims expected to be paid within one year are $3,132,172 and $3,172,153 as of December 31, 2017 and 2016, respectively. The schedules below present the changes in the liability for workers' compensation claims and other claims (risk financing liabilities) as of December 31:

	2017	2016
Beginning liability, discounted	$ 7,808,297	$ 6,720,762
Payments	(1,507,525)	(1,350,300)
Incurred claims and change in estimate	1,099,210	2,437,835
Ending liability, discounted	$ 7,399,982	$ 7,808,297

The Fund is involved in litigation from time to time as a result of operations.

Note 8 – Compensated Absences

The Fund has recorded a liability for earned but unused compensatory, merit, and vacation leave, as well as estimated sick leave payments calculated based on the termination payment method. The schedules below show the compensated absences activity during the years ended December 31, 2017 and 2016:

	2017	2016
Beginning liability	$ 4,858,092	$ 4,998,329
Additions	4,378,169	3,978,914
Reductions	(4,291,798)	(4,119,151)
Ending liability	$ 4,944,463	$ 4,858,092

Note 9 – Pension Benefit Plan

Plan description – The Seattle City Employees' Retirement System (the System) is a cost-sharing multiple employer pension plan covering employees of the City of Seattle and is administered in accordance with Chapter 4.36 of the Seattle Municipal Code.

The System is governed by the Retirement System Board of Administration (the Board). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Personnel Director, two active members and one retired member of the System who are elected by other System members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

System benefits – The System provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. All permanent Fund employees are eligible to participate in the System. Members are eligible for retirement benefits after 30 years of service; at age 52 after 20 years of service; at age 57 after ten years of service; and at age 62 after five years of service.

Member and employer contributions – Employees are required to contribute 10.03% of their annual base salaries to the System. The employer's contribution rate for the years ended December 31, 2017 and 2016, was 15.3% and 15.1%, respectively. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2017 and 2016, were $7,107,510 and $7,034,570, respectively.

Note 9 – Pension Benefit Plan (continued)

The System issues stand-alone financial statements, which may be obtained by writing to the Seattle City Employees' Retirement System, 720 Third Avenue, Suite 900, Seattle, Washington, 98104, and telephone: (206) 386-1293, or www.seattle.gov/retirement/annual_report.htm.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows related to pensions – At December 31, 2017 and 2016, the Fund reported a liability of $81,147,048 and $87,690,216, respectively, its proportionate share of the Systems' net pension liability. The net pension liability was measured as of December 31, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Fund's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating parties, actuarially determined. At December 31, 2017 and 2016, the Fund's proportion was 6.51% and 6.75%, respectively.

For the years ended December 31, 2017 and 2016, the Fund recognized pension expense of approximately $11,483,000 and $11,211,000, respectively.

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2017:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 82,099	$ 407,410
Net difference between projected and actual earnings	6,289,532	-
Contributions made subsequent to measurement date	7,107,510	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	6,756,953
Total	$ 13,479,141	$ 7,164,363

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2016:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 114,157	$ -
Net difference between projected and actual earnings	10,750,339	-
Contributions made subsequent to measurement date	7,034,570	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	2,278,901
Total	$ 17,899,066	$ 2,278,901

Note 9 – Pension Benefit Plan (continued)

Other amounts currently reported as deferred outflows and inflows of resources will be recognized in pension expense as follows for years ending December 31:

2018	$	823,799
2019	$	823,799
2020	$	265,258
2021	$	(1,658,335)
2022	$	(1,047,253)

Actuarial assumptions – The total pension liability as of December 31, 2017, was determined using the following actuarial assumptions:

Actuarial data and assumptions:	
Valuation date	January 1, 2016
Measurement date	December 31, 2016
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level Percent, Closed
Remaining amortization period	30 years as of January 1, 2013 valuation
Asset valuation method	5-Year Smoothing Method
Inflation	3.25%
Investment rate of return	7.5% compounded annually, net of expenses
Discount rate	7.5%
Projected general wage inflation	4.0%
Postretirement benefit increases	1.5%
Mortality	Various rates based on RP-2000 mortality tables and using generational projection of improvement using Projection Scale AA.

The actuarial assumptions that determined the total pension liability as of the measurement date were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2013.

The discount rate used to measure the pension liability is based on a projection of cash flows assuming that plan member contributions will be made at the current contribution rate and that participating employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine total pension liability.

Note 9 – Pension Benefit Plan (continued)

The long-term expected rate of return assumption was based on the System's investments using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expect future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of December 31, 2016, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Equity: Public	4.99%
Equity: Private	6.25%
Fixed Income: Broad	0.62%
Fixed Income: Credit	3.79%
Real Assets: Real Estate	3.25%
Real Assets: Infrastructure	2.75%
Diversifying Strategies	3.25%

Sensitivity analysis – The following presents the Fund's proportionate share of the net pension liability calculated using the discounted rate of 7.5%, as well as what the employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate.

1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
$ 109,820,485	$ 81,147,048	$ 57,036,997

Note 10 – Environmental Liabilities

Following is a brief description of the significant sites that require environmental remediation:

Duwamish sites – The U.S. Environmental Protection Agency (EPA) has indicated that it will require the clean-up and remediation of certain Duwamish sites under its Superfund authority. In order to manage the liability, the City has worked with the EPA and other PRPs on a Remedial Investigation (RI) and Feasibility Study (FS) to evaluate the risk to human health and the environment within the six-mile superfund area, identify the possible early action clean-up sites, and generally evaluate the feasibility of clean-up options for use in the ultimate remedial actions that the EPA will require. The RI and FS are complete. On November 2, 2012, the EPA and Ecology approved the Lower Duwamish Waterway Group's FS which provides sufficient information to support selection of a remedy for this Site. The EPA announced their proposed cleanup plan in February 2013 for public comment. The remaining scope of cleanup by potentially responsible parties (PRPs) has been decided by the EPA in the 2014 Record of Decision. The Fund recorded an estimate of its share of the estimated total cost. Remedial design work is expected to begin in 2018.

Specific "early action sites" have been cleaned up separately under Administrative Orders on Consent (AOC). The Fund, together with other PRPs, has voluntarily agreed to clean-up two early action sites identified during the RI under EPA issued AOC: Slip 4 and T-117. Slip 4 cleanup is complete; T-117 was completed in 2017.

East Waterway Site – In 2006 the EPA issued an AOC for a Supplemental RI and FS for the East Waterway, an operable unit of the Harbor Island Superfund Site. The Port of Seattle (the Port) alone signed the AOC. Both the City and King County signed a Memorandum of Agreement with the Port to participate as cost share partners in the RI/FS work required by the EPA. The RI is complete and a draft final FS was submitted to EPA in October 2016. The FS identifies a range of alternatives for cleanup construction that range in cost from $256 million to $411 million. Once the FS is approved, EPA will then develop a Proposed Plan followed by a Record of Decision. The schedule for release of EPA's Proposed Plan is early 2018. The Record of Decision would follow possibly in late 2018 or 2019. Remedial design activities would start in late 2019 at the earliest. The Fund's policy is to record environmental liability remediation costs at the time the costs are estimable. During 2016, the Fund recorded their apportioned share of the East Waterway costs based on total remediation costs of $315 million.

Note 10 – Environmental Liabilities (continued)

Gas Works Park Sediment Site – In April 2002, the Department of Ecology (DOE) named the City and another party, Puget Sound Energy, as PRPs for contamination at the Gas Works Sediments Site in North Lake Union. The City and Puget Sound Energy signed an Agreed Order with the DOE in 2005 to initiate two RIs and FSs for the sediment site – one in the western portion of the site led by the City, and another in the eastern portion of the site led by Puget Sound Energy. Subsequently, in fall of 2012, the City and Puget Sound Energy entered into a Settlement, Release, and Cost Allocation Agreement that puts Puget Sound Energy in the lead for all additional cleanup work at the site; the east-west split is no longer in place. Based on the 2012 Agreement, the City pays for 20% of the Shared Costs incurred by Puget Sound Energy for the cleanup work. The RI and FS include an evaluation of the nature and extent of contamination on the site, an evaluation of multiple alternatives for remediating the sediments and a recommended preferred alternative. Puget Sound Energy collected additional environmental data in 2013 and the draft RI/FS was submitted to DOE in March 2016. A revised draft RI/FS is anticipated to be submitted to DOE in late 2018 or early 2019 and include a Clean-up Action Plan.

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

7th Avenue South Pump Station – The City acquired land in the South Park area of Seattle to construct the 7th Ave South Pump Station. The land was determined to be contaminated subsequent to the purchase. The Fund has voluntarily agreed to clean up the contamination in order to continue with the planned construction of the pump station. The cleanup was completed in 2012; however, the Fund has ongoing monitoring activities it must perform.

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

Note 10 – Environmental Liabilities (continued)

The Fund is aggressively pursuing other third parties that may have contributed to the contamination of the sites noted. The Fund's estimate for not yet realized recoveries from other parties for their share of remediation work that offset the Fund's estimated environmental liability was $2.1 million as of December 31, 2017 and $2.1 million as of December 31, 2016.

The following changes in the provision for environmental liabilities at December 31 are:

	2017	2016
Beginning environmental liability, net of recovery	$ 134,273,130	$ 71,010,561
Payments or amortization	(4,987,026)	(2,399,973)
Incurred environmental liability	9,520,371	65,662,542
Ending environmental liability, net of recovery	$ 138,806,475	$ 134,273,130

The following table represents the current and long term portions for the environmental liabilities:

	2017	2016
Environmental liability, current	$ 1,805,786	$ 1,931,411
Environmental liability, noncurrent	137,000,689	132,341,719
Ending liability	$ 138,806,475	$ 134,273,130

Note 11 – Loans

The Fund has various construction projects that are financed by low interest loans issued by the State of Washington. The loan agreements require that the Fund finance a portion of these projects from other sources. These loans have been used to enhance the drainage system.

In 2017, The Fund entered into a loan agreement with the Washington State Department of Ecology to borrow up to $39.4 million to support the construction and improvements for the Henderson North Combined Sewer Overflow. Amounts borrowed under this agreement accrue interest at the rate of 2.4% per annum and are to be repaid by August of 2037. As of December 31, 2017, the Fund had drawn $31,969,127 on the loan. The final draw of $3,768,809 was completed on February 26, 2018, bringing the final loan balance to $35,737,926.

Note 11 – Loans (continued)

Loans outstanding as of December 31, 2017 and 2016, are as follows:

Description	Maturity Years	Interest Rate	Amount Borrowed	Loans Outstanding 2017	Loans Outstanding 2016
Midvale	2013-2031	0.25%	$ 4,000,000	$ 2,964,790	$ 3,176,561
Thornton Creek Natural Drainage Systems	2006-2024	0.50%	3,700,000	1,371,176	1,567,059
High Point Natural Drainage Systems	2010-2029	1.50%	2,679,413	1,661,667	1,793,075
South Park Flood Control and Local Drainage Program	2007-2025	0.50%	3,400,000	1,576,982	1,774,105
Ballard Green Streets ARRA Project	2011-2020	2.90%	603,209	207,656	272,960
Thornton Creek Water Quality Project	2011-2030	1.50%	6,983,021	4,724,984	5,066,109
Capital Hill Water Quality Project	2014-2033	2.60%	1,880,598	1,622,765	1,703,517
Henderson CSO	2018-2037	2.40%	31,969,127	31,969,127	-
			$ 55,215,368	$ 46,099,147	$ 15,353,386

Minimum debt service requirements to maturity on long term loans are as follows:

Years Ending December 31,	Principal	Interest	Total
2018	$ 2,761,144	$ 1,213,263	$ 3,974,407
2019	2,526,139	876,624	3,402,763
2020	2,568,830	831,439	3,400,269
2021	2,539,178	785,801	3,324,979
2022	2,581,704	740,781	3,322,485
2023-2027	12,599,175	2,997,864	15,597,039
2028-2032	11,001,289	1,785,930	12,787,219
2033-2037	9,521,688	637,078	10,158,766
	$ 46,099,147	$ 9,868,780	$ 55,967,927

The following table shows the loan activity during the years ended December 31:

	2017	2016
Net loans, beginning of year	$ 15,353,386	$ 16,565,787
Loan proceeds	31,969,127	-
Principal payments	(1,223,366)	(1,212,401)
Net loans, end of year	$ 46,099,147	$ 15,353,386
Loans due within one year	$ 2,761,144	$ 1,223,366
Loans, noncurrent	$ 43,338,003	$ 14,130,020

Note 12 – Notes and Contracts Receivable

The Fund has an agreement with the Seattle Housing Authority for the recovery of the remaining unreimbursed cost of the Fund's contributions of public infrastructure to the New Holly redevelopment project. In May 2017, the Seattle Housing Authority paid off the note receivable.

In addition, the Fund has an agreement with private individuals for a sewer connection charge contract. The receivable was $3,302 at December 31, 2017.

Notes and contracts receivable are composed of the following as of December 31:

	2017	2016
Seattle Housing Authority receivable	$ -	$ 1,100,951
Dalcerro receivable	3,302	4,311
Total notes and contracts receivable	3,302	1,105,262
Due within one year	(1,012)	(56,394)
Total noncurrent notes and contracts receivable	$ 2,290	$ 1,048,868

Note 13 – Wastewater Disposal Agreement

The Fund has a wastewater disposal agreement with the King County Department of Natural Resources Wastewater Treatment Division (the Division), which expires in 2036. The monthly wastewater disposal charge paid to the Division is based on the Division's budgeted cost for providing the service. The charges are determined by water consumption and the number of single-family residences as reported by SPU and other component agencies. Payments made by the Fund were $157,042,506 and $153,393,833 for fiscal years 2017 and 2016, respectively.

Required Supplementary Information

Schedule of Seattle Public Utilities' Proportionate Share of the Net Pension Liability

	2017	2016	2015
Employer's proportion of the net pension liability	15.13%	16.37%	16.96%
Employer's proportionate share of the net pension liability	$ 197,454,529	$ 212,671,200	$ 187,919,945
Employer's covered payroll	$ 106,696,535	$ 105,031,141	$ 102,783,473
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	185.06%	202.48%	182.83%
Plan fiduciary net position as a percentage of the total pension liability	65.60%	64.03%	67.70%

Schedule of Seattle Public Utilities' Contributions

	2017	2016	2015
Contractually required employer contribution	$ 16,354,089	$ 16,487,154	$ 15,170,276
Contributions in relation to the contractually required employer contribution	(16,354,089)	(16,487,154)	(15,170,276)
Employer contribution deficiency (excess)	$ -	$ -	$ -
Employer's covered payroll	$ 106,696,535	$ 105,031,141	$ 102,783,473
Employer contributions as a percental of covered payroll	15.33%	15.70%	14.76%

Other Information (Unaudited)

Drainage Wastewater Debt Service Coverage Calculation 2017

Operating Revenues	
Wastewater	$ 273,892,064
Drainage	119,614,689
Other	6,777,526
Total Operating Revenue	400,284,279
Operating Expense	
Wastewater Treatment Contract	162,758,338
Other Operations & Maintenance	98,275,880
City Taxes	46,724,003
Other Taxes	5,230,421
Total Operating Expenses Before Debt Service	312,988,642
Net Operating Income	87,295,637
Adjustments	
Less: Claim Expense	(1,099,210)
Add: City Taxes	46,724,003
Add: Investment Interest	4,613,574
Less: DSRF Earnings	(436,064)
Add: BAB's Subsidy	1,749,474
Add (Less): Net Other Nonoperating Revenues/(Expenses)	1,916,128
Add: Proceeds from Sale of Assets	347,600
Total Adjustments	53,815,505
Net Revenue Available for Debt Service	$ 141,111,142
Net Revenue Available for Debt Service (w/o City Taxes)	$ 94,387,140
Annual Debt Service	$ 52,504,303
Less: DSRF Earnings	(436,064)
Adjusted Annual Debt Service	$ 52,068,239
Coverage	2.71
Coverage without taxes	1.81

Statistics Required for Revenue Bond Continuing Disclosure

Wastewater System Operating Statistics

	2013	2014	2015	2016	2017
Population Served	626,600	640,500	662,400	686,800	713,700
Billed Wastewater Revenues ($1,000's)	$ 244,476	$ 242,844	$ 257,092	$ 262,006	$ 272,085
Billed Wastewater Volume (Thousand CCF)					
Residential	7,594	7,408	7,546	7,694	7,699
Commercial	13,218	13,243	13,872	14,127	13,584
Total	20,812	20,651	21,418	21,821	21,283
Gallons Used Per Day Per Capita	68.02	66.03	66.22	65.07	61.07

Drainage and Wastewater – 2017 Accounts and Billed Revenues

	Drainage	Wastewater
Customer Accounts		
Residential	151,323	152,632
Commercial	65,607	19,530
Total	216,930	172,162

	Drainage	Wastewater
Billed Revenue		
Residential	$ 62,054,967	$ 92,706,038
Commercial	58,793,992	179,378,712
Total	$ 120,848,959	$ 272,084,750

Major Wastewater Customers - 2017 Annual Billed Revenues and Percentage of Revenue

Name	Revenue	% of Total Revenue
University of Washington	$ 8,569,350	3.2%
Seattle Housing Authority	4,818,013	1.8%
City of Seattle	3,372,156	1.2%
Marriott International Inc.	2,489,376	0.9%
Equity Residential Prop.	2,023,333	0.7%
King County	1,574,702	0.6%
Port of Seattle	1,375,778	0.5%
Harborview Medical Center	1,310,957	0.5%
Darigold	1,168,740	0.4%
Seattle Tunnel Partners	1,163,245	0.4%

Major Drainage Customers - 2017 Annual Billed Revenues and Percentage of Revenue

Name	Revenue	% of Total Revenue
City of Seattle	$ 7,815,062	6.5%
King County	2,479,863	2.1%
Seattle Public Schools	2,459,642	2.0%
University of Washington	1,985,749	1.6%
BNSF	1,871,204	1.5%
Federal Government	921,191	0.8%
Seattle Housing Authority	781,700	0.6%
Union Pacific	735,582	0.6%
CCAS	468,260	0.4%
Seattle Community Colleges	454,364	0.4%

Wastewater Rates

Note: 1 CCF equals 748 gallons. Wastewater rate increased 5.4% and 3.6% in 2017 and 2016, respectively.

Drainage Rates

Flat Rate per Parcel	**2014**	**2015**	**2016**	**2017**	**2018**	**% Impervious Space**
Single Family Residential*						
0-1,999 sq. ft.			$ 123.81	$ 140.46	$ 159.68	
2,000 - 2,999 sq. ft.	$ 180.96	$ 198.83	$ 206.93	$ 231.47	$ 259.68	
3,000 - 4,999 sq. ft.	$ 234.87	$ 258.06	$ 286.63	$ 319.05	$ 356.15	
5,000 - 6,999 sq. ft.	$ 318.92	$ 350.40	$ 390.03	$ 432.45	$ 480.86	
7,000 - 9,999 sq. ft.	$ 403.70	$ 443.55	$ 491.40	$ 543.98	$ 603.90	
Rate per 1,000 sq. ft.						
Undeveloped						0 - 15%
Regular	$ 25.71	$ 28.25	$ 31.24	$ 34.76	$ 38.78	
Low Impact	$ 15.06	$ 16.54	$ 18.57	$ 20.67	$ 23.06	
Light						16 - 35%
Regular	$ 39.76	$ 43.69	$ 48.52	$ 53.54	$ 59.24	
Low Impact	$ 31.27	$ 34.36	$ 38.31	$ 42.26	$ 46.74	
Medium						36 - 65%
Regular	$ 57.75	$ 63.45	$ 70.67	$ 77.60	$ 85.45	
Low Impact	$ 46.45	$ 51.04	$ 57.21	$ 62.86	$ 69.28	
High	$ 77.48	$ 85.12	$ 93.56	$ 102.48	$ 112.57	66 - 85%
Very High	$ 91.65	$ 100.69	$ 112.38	$ 122.94	$ 134.85	86 - 100%

* SFR parcels more than 10,000 sq. ft. are billed under the commercial rate structure.

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