Report of Independent Auditors
and Financial Statements with
Required Supplementary Information
and Supplemental Information for

Seattle Public Utilities - Water Fund
(An Enterprise Fund of the City of Seattle)

December 31, 2012 and 2011

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Director of Seattle Public Utilities
Water Fund
Seattle, Washington

Report on Financial Statements

We have audited the accompanying financial statements of Seattle Public Utilities - Water Fund (the Fund), which comprise the statement of net position as of December 31, 2012 and 2011, 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 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 - Water Fund as of December 31, 2012 and 2011, 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 Matter

The accompanying management discussion and analysis is not part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. This information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The supplemental information following the financial statements is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental information following the financial statements has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Moss Adams LLP

Seattle, Washington
May 29, 2013

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 Water Fund (the "Fund") for the fiscal years ended December 31, 2012 and 2011. The revenues, expenses, assets, and liabilities of Seattle's water system are recorded in the Water Fund, the functions of which are primarily supported by user fees and charges charged 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 12 of this report and are comprised of three components: (1) Statement of Net Position, (2) Statements of Revenues, Expenses, and Changes in Net Position, and (3) Statements of Cash Flows.

The Statement of Net Position present information, as of December 31, 2012 and 2011, on all of the Fund's assets and liabilities, with the difference between the two reported as net position. They also provide information about the nature and amounts of investments in resources (assets), obligations to the Fund's creditors (liabilities), 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, 2012 and 2011. 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, 2012 and 2011. 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.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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 17 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, 2012 and 2011, the Fund's assets exceeded liabilities, resulting in surpluses in total net position of $333.3 million and $312.7 million, respectively. During these years, the Fund's overall position improved, with increases in net position of $20.7 million (6.6%) and $1.8 million (0.6%) during 2012 and 2011, respectively. The following summary statement of net position present the assets of the Fund and show the mix of liabilities and net position used to acquire these assets:

SUMMARY STATEMENT OF NET POSITION

	2012	2011	2010
ASSETS			
Current assets	$ 45,470,922	$ 38,558,607	$ 40,383,090
Capital assets, net	1,205,023,587	1,203,705,381	1,204,705,000
Other	125,531,271	140,023,920	170,315,553
Total assets	1,376,025,780	1,382,287,908	1,415,403,643
LIABILITIES			
Current liabilities	68,411,477	66,665,963	67,597,206
Revenue bonds	929,593,458	961,925,299	993,907,949
Other	44,676,546	41,018,801	43,017,248
Total liabilities	1,042,681,481	1,069,610,063	1,104,522,403
NET POSITION			
Net invested in capital assets	303,630,160	290,541,426	275,465,946
Restricted	27,551,558	27,646,433	25,143,871
Unrestricted accumulated surplus (deficit)	2,162,581	(5,510,014)	10,271,423
TOTAL NET POSITION	$ 333,344,299	$ 312,677,845	$ 310,881,240

FINANCIAL ANALYSIS (CONTINUED)

2012 Compared to 2011

Assets - Current assets increased $6.9 million (17.9%) from 2011. This increase was due to increase in operating cash of $5.2 million, accounts receivable net of allowance for doubtful accounts of $1.5 million, unbilled revenues of $0.6 million and materials and supplies inventory of $0.3 million. The increase was offset by a decrease in due from other City funds of $0.7 million.

Other assets decreased $14.5 million (10.4%) from 2011. The largest portion of the change was due to reductions in the construction fund of $17.4 million and other charges of $7.0 million. These decreases were offset by increases in conservation costs of $6.5 million and revenue stabilization account of $3.4 million.

Liabilities - Current liabilities increased $1.7 million (2.6%) from 2011. Most notable increases were due to increases in the current portion of bonds payable of $1.2 million, accounts payable of $0.6 million, and Habitat Conservation Plan (HCP) liabilities of $0.6 million. These increases were offset by a $0.7 million decrease in interest payable.

Other liabilities increased $3.7 million (8.9%). The most significant factors affecting this were increases in the revenue stabilization account of $3.4 million, and Habitat Conservation Plan of $1.2 million. This increase was offset by a decrease in loans payable of $0.9 million.

Net Position - Net invested in capital assets was the largest portion of the Fund's net position ($303.6 million or 91.1%). This amount reflects the Fund's investment in capital assets such as land, buildings, and equipment, less 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 2012, net assets invested in capital assets increased $13.1 million from 2011 primarily from a reduction in debt allocated to capital assets.

The Fund's restricted net position ($27.6 million or 8.3%) represent resources that are subject to restrictions on how they may be used. Restricted net position decreased $0.1 million primarily due to the decrease in restrictions in conservation costs.

The Fund's unrestricted net position ($2.2 million or 0.6%) represent resources that are not subject to external restrictions and may be used to meet the Fund's obligations to creditors. This portion increased $7.7 million in 2012.

FINANCIAL ANALYSIS (CONTINUED)

2011 Compared to 2010

Assets - Current assets decreased $1.8 million (4.5%) from 2010. This decrease was due to decreases in operating cash of $1.2 million, due from other City funds of $0.7 million, due from other governments of $0.3 million and inventory of $0.03 million. The decrease was offset by an increase in unbilled revenues of $0.7 million.

Other assets decreased $30.3 million (17.8%) over 2010. The largest portion of the change was due to reductions in the construction fund of $38.6 million and the revenue stabilization account of $1.4 million. These decreases were offset by increases in other charges of $9.2 million, mostly due to charges for the Morse Lake Pump Plant, and in notes and contracts receivable of $0.5 million.

Liabilities - Current liabilities decreased $0.9 million (1.4%) from 2010. Most notable decreases were due to other City funds for $2.4 million, interest payable of $0.4 million, and other current liabilities and other credits of $0.3 million. These decreases were offset by a $2.3 million increase in the current portion of bonds payable.

Other liabilities decreased $2.0 million (4.6%). The most significant factors affecting this were decreases in other credits for the revenue stabilization account of $1.4 million, noncurrent loans payable of $0.9 million, and other noncurrent liabilities of $0.7 million. This decrease was offset by increases in Habitat Conservation Plan ("HCP") liability of $0.7 million and other postemployment benefits of $0.5 million.

Net Position - Net invested in capital assets was the largest portion of the Fund's net assets ($290.5 million or 92.9%). This amount reflects the Fund's investment in capital assets such as land, buildings, and equipment, less 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 2011, net assets invested in capital assets increased $15.1 million from 2010 primarily from a decrease in debt offset by an increase in other charges.

The Fund's restricted net position ($27.6 million or 8.8%) represent resources that are subject to restrictions on how they may be used. Restricted net position increased $2.5 million primarily due to the restriction of other charges.

The Fund's unrestricted net deficit ($5.5 million deficit or 1.8%) represent resources that are not subject to external restrictions and may be used to meet the Fund's obligations to creditors. This portion decreased $15.8 million in 2011.

FINANCIAL ANALYSIS (CONTINUED)

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

	2012	2011	2010
Operating revenues	$ 213,474,169	$ 194,572,652	$ 195,203,465
Operating expenses	(163,397,428)	(154,496,847)	(164,238,625)
Net operating income	50,076,741	40,075,805	30,964,840
Other expenses, net of other revenues	(37,793,532)	(41,375,513)	(42,438,947)
Fees, contributions, and grants	8,383,245	3,096,313	12,183,558
Change in net position	$ 20,666,454	$ 1,796,605	$ 709,451

2012 Compared to 2011

Operating revenue increased approximately $18.9 million (9.7%) over 2011. This change was driven by increases in direct service revenue of $15.2 million, wholesale revenue of $5.9 million, and $2.6 million for other ancillary services. The increase was offset by amounts deposited into the revenue stabilization account of $4.9 million.

Operating expenses increased $8.9 million (5.8%) from 2011. Notable factors affecting this change include increases in city taxes of $2.7 million related to the overall increase in revenues. Depreciation and amortization also increased by $2.4 million due to an increase in depreciable assets. Additional increases to expenses include $2.3 million in the general and administrative branch and $1.5 million in the field operations.

Other expenses, net of other revenues decreased by $3.6 million (8.7%) over 2011. The change was primarily due to a decrease in bond interest payments of $2.2 million and amortization of premiums of $0.8 million.

Fees, contributions and grants increased by $5.2 million (170.7%) over 2011 primarily due to contributions for water mains, meters and hydrants, and $3.5 million in donated assets.

FINANCIAL ANALYSIS (CONTINUED)

2011 Compared to 2010

Operating revenue decreased approximately $0.6 million (0.3%) over 2010. This change was driven by a $1.0 million decrease in wholesale water revenue and $1.5 million withdrawal from the revenue stabilization account. The decrease was offset by increases in direct service revenue of $0.9 million and other ancillary revenue of $0.9 million.

Operating expenses decreased by $9.7 million (5.9%) primarily due to the decrease in City taxes of $6.2 million due to the City tax rate decreasing from 19.87% to 15.54% as of January 1, 2011, and amortization of other charges decreasing $3.7 million primarily as a result of the fully amortized Lane settlement in 2010.

CAPITAL ASSETS

The following table summarizes capital assets, net of accumulated depreciation, by major asset category as of December 31, 2012, 2011, and 2010:

SUMMARY OF CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	2012	2011	2010
Land and land rights	$ 42,910,772	$ 41,554,148	$ 40,634,660
Buildings	136,592,014	139,390,553	133,716,122
Structures	246,440,010	207,894,613	211,678,140
Machinery and equipment	733,983,399	732,620,473	731,874,638
Computer systems	20,806,035	25,297,192	28,659,382
Construction in progress	23,358,521	56,020,194	57,228,686
Other property	932,836	928,208	913,372
Capital assets, net of accumulated depreciation	$ 1,205,023,587	$ 1,203,705,381	$ 1,204,705,000

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

CAPITAL ASSETS (CONTINUED)

2012 Compared to 2011

The Fund's investment in capital assets for the year ended December 31, 2012 was $1.2 billion, net of accumulated depreciation. This represents an increase of $1.3 million (0.1%) compared to 2011. Highlights of the Fund's major capital assets placed in service during 2012 include the following:

- Reservoir coverings and improvements totaling $45.5 million.
- Water infrastructure improvements and rehabilitation totaling $11.7 million.
- Bridges, water distribution system, water main, and water transmission pipelines improvements totaling $5.2 million.
- Technology infrastructure improvements totaling $2.1 million.
- Watershed road improvements and stream restoration totaling $1.4 million.

The Fund had $23.4 million in construction work in progress as of December 31, 2012. Projects under construction are the following:

- Business and technology infrastructure upgrades totaling $5.3 million.
- Water conservation projects totaling $4.1 million.
- South Lake Union project totaling $3.2 million.
- Operational, regional, and other facilities totaling $2.7 million.
- Rebuilding for Alaskan Way Viaduct & Seawall project totaling $2.1 million.

2011 Compared to 2010

The Fund's investment in capital assets for the year ended December 31, 2011, amounted to $1.2 billion, net of accumulated depreciation. This represents a net decrease of approximately $1.0 million (0.1%) for the current fiscal year. The decrease in 2011 as compared with 2010 was due mainly to fewer additions to projects in construction and retirements in computer systems and structures.

CAPITAL ASSETS (CONTINUED)

Highlights of the Fund's major capital assets placed in service during 2011 include the following:

- Improvements at the Cedar Watershed and emergency preparedness programs totaling $17.1 million.
- Distribution pipelines upgrades and replacements totaling $13.0 million.
- Water tank and pump station improvements totaling $4.4 million.
- Water pipeline replacements for operational facilities and other projects totaling $1.7 million.
- Water pipeline replacements for Alaskan Way and Spokane Street Viaduct project totaling $1.7 million.

The Fund had $56.0 million in construction work in progress as of December 31, 2011. Projects under construction are the following:

- Reservoir covering projects totaling $39.6 million.
- Business and technology infrastructure upgrades totaling $3.3 million.
- Water conservation projects totaling $2.6 million.
- Water system improvements and rehabilitation projects totaling $2.1 million.
- South Lake Union project totaling $1.8 million.
- Regional facility project totaling $1.3 million.
- Rebuilding for Alaskan Way Viaduct & Seawall project totaling $1.2 million.
- "One Percent for Art" program totaling $1.1 million.

DEBT ADMINISTRATION

The Fund's debt primarily consists of bonded debt and loans. Bonded debt is secured solely by water system revenues and provides financing for capital improvements. Loans issued by the Washington State Agencies for certain capital improvements are unsecured. The Fund's credit ratings on its bonds were Aa1 and AA+ by Moody's Investors Service, Inc. and Standard & Poor's Rating Services, respectively. Additional detail about the Fund's revenue bonds and loans are located in Notes 4 and 9 of this report.

2012 Compared to 2011

At December 31, 2012 the Fund had $919.6 million in bonded debt and $17.1 million in loans, as compared to $977.1 million and $17.6 million, respectively, at December 31, 2011. Bonded debt decreased $57.5 million, attributed primarily to the refunding of 2001 bonds and partially refunding 2003 and 2005 bonds as well as payments of debt principal on existing bonds. Loans decreased $0.6 million due to payment of principal on existing loans.

2011 Compared to 2010

At December 31, 2011 the Fund had $977.1 million in bonded debt and $17.6 million in public works trust and American Recovery and Reinvestment Act loans, as compared to $1,006.3 million and $18.5 million, respectively, at December 31, 2010. Bonded debt decreased $29.1 million, attributed primarily to the payment of debt principal on existing bonds. Loans decreased $0.9 million due to payment of principal on existing loans.

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, WA 98124-4018, telephone (206) 684-3000.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Operating cash and equity in pooled investments	$ 12,461,437	$ 7,297,606
Restricted cash and equity in pooled investments	10,000	68,000
Receivables		
Accounts, net of allowance	15,048,549	13,532,093
Interest and dividends	1,126,330	1,134,032
Unbilled revenues	11,499,729	10,947,286
Notes, and other contracts	114,619	16,118
Due from other funds	237,721	910,697
Due from other governments	742,377	755,085
Materials and supplies inventory	4,168,906	3,820,951
Prepayments and other current assets	61,254	76,739
Total current assets	45,470,922	38,558,607
NONCURRENT ASSETS		
Restricted cash and equity in pooled investments	72,929,481	86,762,135
Unamortized bond issue costs	4,594,736	4,918,240
Notes and contracts receivable	645,453	465,194
Conservation costs	36,382,434	29,905,009
Other charges	10,979,167	17,973,342
Capital assets		
Land and land rights	42,910,772	41,554,148
Plant in service, excluding land	1,741,104,574	1,664,690,270
Less accumulated depreciation	(603,283,116)	(559,487,439)
Construction in progress	23,358,521	56,020,194
Other property, net	932,836	928,208
Total noncurrent assets	1,330,554,858	1,343,729,301
TOTAL ASSETS	$ 1,376,025,780	$ 1,382,287,908

 See accompanying notes.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF NET POSITION (CONTINUED)
DECEMBER 31, 2012 AND 2011

LIABILITIES AND NET POSITION

	2012	2011
CURRENT LIABILITIES		
Accounts payable	$ 5,704,655	$ 5,126,658
Salaries, benefits, and payroll taxes payable	1,740,866	1,465,971
Taxes payable	610,443	523,314
Interest payable	17,446,364	18,172,161
Due to other funds	4,000,378	4,553,017
Claims payable	1,312,567	1,626,270
Compensated absences payable	405,118	401,748
HCP liability	1,163,960	533,222
Revenue bonds due within one year	32,630,000	31,425,000
Notes and contracts payable	1,187,747	858,293
Credits and other	2,209,379	1,980,309
Total current liabilities	68,411,477	66,665,963
NONCURRENT LIABILITIES		
Vendor deposits payable	17,959	-
Compensated absences payable	4,316,928	4,346,982
Unfunded other post retirement benefits	2,086,170	2,033,474
Loans	15,881,139	16,765,886
Claims payable	3,810,511	3,966,596
HCP liability	5,747,373	4,514,553
Credits - Revenue Stabilization Fund	12,432,522	9,007,262
Other noncurrent liabilities	383,944	384,048
Revenue bonds	919,640,000	977,160,000
Less bonds due within one year	(32,630,000)	(31,425,000)
Bond discount and premium, net	65,415,725	30,949,689
Loss on advanced refunding	(22,832,267)	(14,759,390)
Total noncurrent liabilities	974,270,004	1,002,944,100
Total liabilities	1,042,681,481	1,069,610,063
NET POSITION		
Net invested in capital assets	303,630,160	290,541,426
Restricted for:		
Debt service	16,739,494	16,684,236
Other charges	3,856,302	4,115,945
Conservation costs	3,428,243	3,600,912
Habitat conservation program	2,849,725	2,488,094
Bonneville power administration projects	447,762	463,295
Muckleshoot settlement	230,032	293,951
Unrestricted accumulated surplus (deficit)	2,162,581	(5,510,014)
Total net position	333,344,299	312,677,845
TOTAL LIABILITIES AND NET POSITION	$ 1,376,025,780	$ 1,382,287,908

See accompanying notes.

SEATTLE PUBLIC UTILITIES - WATER FUND

(An Enterprise Fund of the City of Seattle)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
OPERATING REVENUES		
Charges for services and other revenues	$ 213,474,169	$ 194,572,652
OPERATING EXPENSES		
Planning and development	1,038,075	1,330,792
Utility systems management	13,738,972	14,717,263
Field operations	24,331,536	22,836,313
Project delivery	4,864,682	4,311,408
Customer services	7,383,777	7,453,815
General and administrative	29,545,198	27,273,770
City business and occupation taxes	25,937,913	23,279,845
Other taxes	8,064,491	7,231,727
Depreciation and other amortization	48,492,784	46,061,914
Total operating expenses	163,397,428	154,496,847
OPERATING INCOME	50,076,741	40,075,805
NONOPERATING REVENUES (EXPENSES)		
Investment income	2,842,209	2,887,919
Interest expense	(44,654,896)	(46,589,417)
Amortization of bond premiums and discounts	2,719,357	1,906,975
Amortization of bond refunding loss	(1,314,825)	(1,349,325)
Amortization of debt expenses	(244,514)	(257,663)
Gain on sale of capital assets	272,771	543,577
Contributions and grants	544,391	434,981
Other, net	2,041,975	1,047,440
Total nonoperating revenues (expenses)	(37,793,532)	(41,375,513)
Income (loss) before capital contributions and grants, transfers, and special items	12,283,209	(1,299,708)
Capital contributions and grants	8,383,245	3,096,313
CHANGE IN NET POSITION	20,666,454	1,796,605
NET POSITION		
Beginning of year	312,677,845	310,881,240
End of year	$ 333,344,299	$ 312,677,845

See accompanying notes.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 218,394,168	$ 194,414,793
Cash paid to suppliers	(24,592,908)	(24,912,031)
Cash paid to employees	(57,022,476)	(54,453,769)
Cash paid for taxes	(33,572,676)	(31,107,892)
Net cash provided by operating activities	103,206,108	83,941,101
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	538,978	440,981
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of bonds and other long-term debt	284,588,451	-
Principal payments on long-term debt and refunding	(313,407,157)	(29,998,293)
Capital expenditures and other charges paid	(43,228,640)	(50,989,161)
Interest paid on long-term debt	(47,426,266)	(49,600,802)
Capital fees and grants received	5,159,536	1,738,807
Debt issuance costs	(1,384,374)	-
Proceeds from sale of capital assets	447,651	267,253
Net cash used in capital and related financing activities	(115,250,799)	(128,582,196)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	-	18,100,000
Interest received on investments	2,778,890	2,905,391
Net cash provided by investing activities	2,778,890	21,005,391
NET DECREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	(8,726,823)	(23,194,723)
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	94,127,741	117,322,464
End of year	$ 85,400,918	$ 94,127,741

See accompanying notes.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	$ 50,076,741	$ 40,075,805
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation and amortization	48,492,784	46,061,914
Nonoperating revenues and expenses	3,191,526	2,155,843
Changes in operating assets and liabilities		
Accounts receivable	(1,516,455)	86,166
Unbilled revenues	(552,443)	(748,499)
Other receivables	(278,760)	(459,914)
Due from other City funds	672,976	704,950
Due from other governments	(240,599)	572,356
Materials and supplies inventory	(347,955)	254,007
Accounts payable	577,997	(195,618)
Salaries, benefits, and payroll taxes payable	274,895	107,450
Compensated absences payable	(26,684)	(69,171)
Due to other City funds	(552,640)	(2,406,482)
Claims payable	(469,788)	(144,899)
Taxes payable	87,128	(17,732)
Deferred credits - Revenue Stabilization Fund	3,496,282	(1,436,689)
Other credits and liabilities	213,984	(829,005)
Other assets and liabilities	107,119	230,619
Total adjustments	53,129,367	43,865,296
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 103,206,108	$ 83,941,101
NONCASH TRANSACTIONS		
Change in fair value of investments	$ -	$ (8,142)
Contributed infrastructure	3,476,432	1,095,415
Total noncash transactions	$ 3,476,432	$ 1,087,273

See accompanying notes.

Note 1 - Operations and Summary of Significant Accounting Policies

Operations - The City of Seattle, Seattle Public Utilities - Water Fund (the “Fund”) is a public utility enterprise fund of the City of Seattle (the “City”). The Fund was established to account for activities of the water system operated by Seattle Public Utilities (“SPU”). The water system, established in 1890, provides water to the greater Seattle area through direct service to customers and through purveyors, such as suburban water districts and non-profit water associations. The activities of the water system include protection of available water supply, transmission of water to customers, development of water conservation programs, evaluation of new water sources, and management of the City’s water system assets, which include the Tolt and Cedar River Watersheds, water pipes, pumping stations, and aquifers.

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 some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally pays public utility tax to the City’s General Fund. During 2012 and 2011, the Fund paid $9,713,629 and $9,547,222, respectively, to the City for its share of general and administrative services. Additionally, the Fund paid $25,937,913 and $23,279,845 in 2012 and 2011, respectively, to the City for public utility taxes.

Water services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected $2,992,600 and $2,722,327 in 2012 and 2011, respectively, from the City for water services provided.

The utility billing function is co-managed by both SPU and Seattle City Light (“SCL”). SPU provides customer service through the call center and walk-in center. SCL operates and manages the billing system, Combined Customer Services System (“CCSS”). SPU and SCL billed and reimbursed each other for these services in 2012 and 2011. 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 $1,514,804 and $1,438,374 in 2012 and 2011, respectively. The Fund paid $311,141 and $396,012 for CCSS services in 2012 and 2011, respectively, which does not include reimbursements to SCL for the Fund’s share of capital costs to upgrade the CCSS system.

Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

The Fund is subject to regulation by the City and the state of Washington. Service rates are authorized by ordinances passed by the Seattle City Council ("City Council"). Accounting policies and financial reporting are regulated by the Washington State Auditor's Office, and conform 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.

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 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 to form a pool of cash that is managed by the City's Finance and Administration Services Department. Under the City's investment policy, the Finance and Administration Services Department invests all temporary cash surpluses either directly or through a "sweep account." 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. The Fund's share of the pool is included in the accompanying Statements of Net Position under the caption "cash and equity in pooled investments." The pool operates like a demand deposit account in that all City departments may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the Statements of Cash Flows reconcile to cash and equity in pooled investments. Cash and equity in pooled investments are reported at fair value. The restricted cash and equity in pooled investments are comprised of unexpended bond proceeds, a portion of which is scheduled to be spent in 2013.

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. Accounts Receivable is shown net of allowances for doubtful accounts. The Fund also accrues an estimated amount for services that have been provided but not billed. Notes and contracts receivable arise from written agreements or contracts with public organizations and private individuals.

Due from/to Other Funds and Governments - Activity between funds 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.

Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

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, 2012 and 2011, the Fund's allowance for doubtful accounts was $325,765 and $529,345, 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.

Unamortized Bond Issue Costs - Costs associated with the issuance of bonds are amortized to expense over the term of the related debt. Amortization expense is calculated under the straight-line method.

Revenue Stabilization Fund - The Revenue Stabilization Fund ("RSF") was established by the City Council to reduce year-to-year variation in rates. Amounts deposited into the RSF are excluded from the Statement of Revenues, Expenses, and Changes in Net Position and treated as a credit in accordance with Accounting Standards Codification ("ASC") 980. There was a deposit to the RSF of $3.4 million in 2012 and no deposits to the RSF other than interest earnings of $0.1 million in 2011. The RSF is included in the "Revenue Stabilization Account" identified in the Fund's bond covenants. These covenants provide that withdrawals and deposits from the "Revenue Stabilization Account" shall augment or reduce adjusted net revenue available for the payment of debt service. During 2012 and 2011, $-0- million and $1.5 million, respectively, were withdrawn from the Revenue Stabilization Fund as authorized by City ordinance 122841.

Conservation Costs - Conservation program costs that result in long-term benefits and reduce or postpone other capital expenditures or have a legal requirement are included in noncurrent assets and amortized over their expected useful lives, commencing when each program is in place. The conservation program costs are amortized over their expected useful lives of ten years. Certain costs related to the Habitat Conservation Plan ("HCP") are included in the noncurrent assets and amortized through 2050, the year in which the plan expires. An incidental take permit was issued to the City by the federal government approving the HCP for 50 years. Costs of administering the conservation and HCP programs are expensed as incurred.

Other Charges - Other charges include costs such as the Water System Plan, leasehold improvements, the hydrant settlement, Morse Lake Pump Plant, and payments to the Muckleshoot Indian Tribe. The Fund amortizes these charges over a 2 to 33 year period.

Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

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 capitalize assets with a cost of $5,000 or more. The Fund receives donated assets such as water mains from developers and other governmental agencies.

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

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
Earthen source of supply developments	100 years
Transmission and distribution pipelines, reservoirs, and tanks	15 to 100 years
Water mains	33 to 57 years
Pumps, wells, and treatment equipment	10 to 50 years
Machinery and equipment	3 to 20 years
Computer systems	3 to 10 years

Composite rates based on year of addition are used for depreciating the transmission and distribution pipelines, water mains asset group, reservoirs, and tanks. 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.

Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

BPA Account - In 2003, the Bonneville Power Administration ("BPA") purchased an easement in the amount of $6.0 million from the Fund to construct a power transmission line through the Cedar River Watershed. This amount was included in gain on sale of land rights and timber in the 2003 Statement of Revenues, Expenses, and Changes in Net Position. This $6.0 million, together with $657,149 in timber sales related to the easement, were deposited into the BPA account and classified as restricted assets. At December 31, 2012 and 2011, the cash balance in the BPA account was $447,762 and $463,294, respectively. Monies in the BPA account are considered a portion of the "Revenue Stabilization Account" described in bond covenants, and therefore shall augment or reduce adjusted net revenue available for the payment of debt service. The Fund will recognize the revenues deposited in the BPA account in the calculation of adjusted net revenues available for the payment of debt service as they are withdrawn to fund certain activities in the Cedar River Watershed.

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. The Fund records a liability for estimated sick leave payments.

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.

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.

Operating Revenues - The Fund provides water service to wholesale and retail customers and recognizes revenue when such service is provided. Wholesale customers ("Purveyors") are under contract with the Fund, and rates are set based on cost allocation criteria stipulated in the contracts.

Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

Service rates for all customers are authorized by ordinances passed by the City Council. Service revenues are recorded through cycle billings rendered to customers monthly or bimonthly. The Fund accrues and records unbilled water service revenues in the financial statements for services provided from the date of the last billing to year end.

Operating Expenses - Certain expenses of the Fund are reported on the Statements of Revenues, Expenses, and Changes 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 water system.

- 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.

Taxes - The Fund is charged a public utility tax by the City at a rate of 15.54% of Fund revenues, net of certain credits and certain revenues. In addition, the Fund paid a 5.029% public utility tax to the State on a certain portion of revenues identified as utility revenues. The Fund also paid business and occupation tax to the State at the rate of 1.8% on certain other non-utility revenues.

Other 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 utility and are of a recurring nature. Major items are investment and interest income, interest expense, gains or losses on the sale of assets, and amortization of debt expenses.

Net Position - The Statement of Net Position reports all financial and capital resources. The difference between assets and liabilities is net position. There are three components of net position: net invested in capital assets, restricted, and unrestricted.

Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

Net invested in capital assets, consists of capital assets, less 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, 2012 are related to the BPA and RSF accounts, bond debt reserve funds, and certain other charges.

Unrestricted net positions are those that are not "net invested 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 bond. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed will 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, 2012 and 2011.

Accounting Changes - GASB has issued Statement No. 62, *Codification of Pre-November 30, 1989 FASB Pronouncements*. This statement combines the authoritative accounting and financial reporting of the FASB and the American Institute of Certified Public Accountants ("AICPA"). The statement eliminates the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments. This statement became effective for periods beginning after December 15, 2011 and did not have a significant impact on the Fund's financial statements for 2012 or 2011.

GASB has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The requirement of this statement standardizes the presentation of deferred inflows and outflows of resources, and their effects on a government's net position. This statement became effective for periods beginning after December 15, 2011. The implementation of this statement to the Fund is limited to renaming of "Net Assets" to "Net Position".

GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reports as assets and liabilities. The statement is effective for periods beginning after December 15, 2012. The Fund is evaluating the impact of this standard on the financial statements.

Note 1 - Operations and Summary of Significant Accounting Policies (Continued)

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement is effective for periods beginning after June 15, 2014. The Fund is evaluating the impact of this standard on the financial statements.

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, accrued sick leave, capitalized interest, depreciation, risk liabilities, 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, water conditions, weather and natural disaster-related disruptions, collective bargaining labor disputes, fish and other endangered species act issues, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance, and licensing of facilities.

Financial Statement Presentation - The Fund made presentation changes to the statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows to better correlate with the City of Seattle's Comprehensive Annual Financial Report ("CAFR"). The prior year balances did not change and had no overall effect on the total change in net position.

Note 2 - Cash and Investments

Custodial Credit Risk - Deposits - As of December 31, 2012 and 2011, the City's pool contained cash on deposit with the City's custodial banks in the amounts of $18,082,491 and $19,666,051, respectively. The deposits in excess of $250,000 in both 2012 and 2011 were uninsured and uncollateralized. As such, these deposits were exposed to custodial credit risk, which is the risk that the deposits may not be returned to the City in the event of a bank failure. The City attempts to minimize exposure to custodial credit risk for deposits by requiring the depository bank to have sufficient capital to support the activity of the City. In addition, banks having a deposit relationship with the City are required to provide financial statements for the City's use in reviewing the bank's financial condition.

Note 2 - Cash and Investments (Continued)

All deposits not covered by FDIC insurance are under the regulation of the Washington State Public Deposit Protection Commission (the "Commission") established in RCW 39.58 for public depository financial institutions. The Commission requires a pledge agreement and a trustee for each public depository financial institution. The trustee ensures eligible collateral defined as securities and designated for the benefit of public depositors, as described in RCW 39.58.050 (5) and (6), are segregated from all other assets. Eligible collateral is utilized by the trustee when the Commission has determined a loss, net of deposit insurance, has been incurred by a public depository financial institution.

Investments - As of December 31, the Fund's dedicated investments, the City's pooled investments, and dedicated investments of other funds were as follows:

	2012		2011	
	City Pool	Weighted Average Maturity (Days)	City Pool	Weighted Average Maturity (Days)
U.S. Government Agencies	$ 803,856,889	851	$ 991,128,738	974
State and Local Governments	182,163,719	549	105,403,511	513
Commercial Paper	176,955,311	40	77,494,937	10
Repurchase Agreements	162,390,595	2	66,785,435	3
U.S. Government Obligations	67,448,440	482	37,993,718	816
Total	$ 1,392,814,954		$ 1,278,806,339	
Portfolio Weighted Average Maturity		592		823

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

	2012	2011
Cash and equity in pooled investments	$ 12,461,437	$ 7,297,606
Restricted cash and equity in pooled investments	72,939,481	86,830,135
Total	$ 85,400,918	$ 94,127,741
Balance as a percentage of City Pool cash and investments	6.1%	7.2%

Note 2 - Cash and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity of the investment's 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.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with the City's investment policy, investments in commercial paper purchased on the secondary market are limited to those with maturities not longer than 180 days from purchase and with the highest rating by at least two nationally recognized statistical rating organizations ("NRSROs"). As of December 31, 2012, the City's investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 to A-1+ by Standard & Poor's Rating Service.

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, 2012, these investments were rated Aaa, and Aa1 by Moody's Investors Service and AAA and AA+ by Standard & Poor's Rating Service. As of December 31, 2011, these investments were rated Aaa and P-1 by Moody's Investors Service and AAA, AA+, and AA by Standard & Poor's Rating Service.

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 5% or more is invested in any single issuer as of December 31 are as follows:

	2012		2011	
Issuer	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal Home Loan Bank	$ 258,633,251	19%	$ 194,321,359	15%
Federal National Mortgage Association	$ 243,725,925	18%	$ 317,039,812	25%
Wells Fargo	$ 162,390,595	12%	$ 66,785,435	5%
Federal Home Loan Mortgage Corp.	$ 126,065,840	9%	$ 395,358,375	31%
Freddie Mac Multifamily Securities	$ 80,726,450	6%	$ -	0%
United States Government	$ 67,448,440	5%	$ 37,993,718	3%
Washington State	$ 33,378,424	2%	$ 68,388,721	5%
Federal Farm Credit Bank	$ 17,015,980	1%	$ 83,708,078	7%

Note 3 - Capital Assets

Capital asset activity consisted of the following for the year ended December 31, 2012:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 178,556,286	$ 1,014,362	$ -	$ 179,570,648
Structures	256,516,639	41,182,913	-	297,699,552
Machinery and equipment	1,132,938,813	32,933,801	(265,445)	1,165,607,169
Computer systems	96,678,532	1,548,673	-	98,227,205
Total capital assets - excluding land	1,664,690,270	76,679,749	(265,445)	1,741,104,574
Less accumulated depreciation	(559,487,439)	(44,026,188)	230,511	(603,283,116)
	1,105,202,831	32,653,561	(34,934)	1,137,821,458
Construction in progress	56,020,194	39,601,944	(72,263,617)	23,358,521
Land and land rights	41,554,148	1,499,073	(142,449)	42,910,772
Other property	928,208	4,628	-	932,836
Capital assets, net	$ 1,203,705,381	$ 73,759,206	$ (72,441,000)	$ 1,205,023,587

Capital asset activity consisted of the following for the year ended December 31, 2011:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	$ 169,430,642	$ 9,125,644	$ -	$ 178,556,286
Structures	255,588,246	928,393	-	256,516,639
Machinery and equipment	1,104,325,621	29,020,514	(407,322)	1,132,938,813
Computer systems	98,614,389	2,510,212	(4,446,069)	96,678,532
Total capital assets - excluding land	1,627,958,898	41,584,763	(4,853,391)	1,664,690,270
Less accumulated depreciation	(522,030,616)	(42,267,086)	4,810,263	(559,487,439)
	1,105,928,282	(682,323)	(43,128)	1,105,202,831
Construction in progress	57,228,686	53,193,633	(54,402,125)	56,020,194
Land and land rights	40,634,660	1,104,956	(185,468)	41,554,148
Other property	913,372	14,836	-	928,208
Capital assets, net	$ 1,204,705,000	$ 53,631,102	$ (54,630,721)	$ 1,203,705,381

During 2012 and 2011, the Fund capitalized interest costs relating to construction of $2,050,043 and $2,635,254, 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 set aside $16,739,494 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, 2012 and 2011 were $919,640,000 and $977,160,000, respectively.

Note 4 - Revenue Bonds (Continued)

In May 2012, the Fund issued $238,770,000 of Water System Refunding Revenue Bonds with varying annual principal payments due beginning 2012 and ending in 2034, at interest rates ranging from 2.0% and 5.0%. A portion of the proceeds were used to fully refund 2001 bonds and partially refund 2003 and 2005 bonds. As a result of the refunding, the Fund reduced total debt service requirements by $56.7 million resulting in an economic gain (difference between the present value of the debt service payments on the old and new debts) of $45.5 million.

Revenue bonds outstanding as of December 31, 2012 and 2011 consisted of the following Municipal Water bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding, 2012	Bonds Outstanding, 2011
2001 parity bonds	11/20/01	2005-2031	4.5-5.0%	$ 52,525,000	$ -	$ 44,320,000
2003 parity, refunding bonds	5/12/03	2003-2033	4.0-6.0%	271,320,000	25,485,000	185,725,000
2004 parity bonds	10/25/04	2005-2034	3.0-5.0%	84,750,000	3,830,000	73,735,000
2005 parity, refunding bonds	12/28/05	2006-2029	4.0-5.0%	138,040,000	118,180,000	123,000,000
2006 parity, refunding bonds	10/23/06	2008-2037	4.0-5.0%	189,970,000	173,015,000	177,655,000
2008 parity, refunding bonds	12/15/08	2009-2038	4.0-5.25%	205,080,000	185,205,000	190,145,000
2010A parity, revenue bonds	1/21/10	2019-2040	4.67-5.89%	109,080,000	109,080,000	109,080,000
2010B parity, refunding revenue bonds	1/21/10	2010-2027	3.0-5.0%	81,760,000	68,520,000	73,500,000
2012 parity, refunding bonds	5/30/12	2012-2034	2.0-5.0%	238,770,000	236,325,000	-
				$ 1,371,295,000	$ 919,640,000	$ 977,160,000

Note 4 - Revenue Bonds (Continued)

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

Years Ending December 31,	Principal	Interest	Total
2013	$ 32,630,000	$ 44,792,806	$ 77,422,806
2014	33,545,000	43,368,881	76,913,881
2015	35,015,000	41,835,556	76,850,556
2016	36,700,000	40,125,906	76,825,906
2017	38,450,000	38,333,506	76,783,506
2018 - 2022	219,315,000	161,416,749	380,731,749
2023 - 2027	222,345,000	104,762,781	327,107,781
2028 - 2032	169,805,000	55,463,900	225,268,900
2033 - 2037	104,430,000	21,606,071	126,036,071
2038 - 2041	27,405,000	2,626,359	30,031,359
	$ 919,640,000	$ 554,332,515	$ 1,473,972,515

The following table shows the revenue bond activity during the year ended December 31, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 977,160,000	$ 238,770,000	$ (296,290,000)	$ 919,640,000	$ 32,630,000
Add (deduct) deferred amounts:					
Issuance premiums	30,949,689	45,515,451	(11,049,415)	65,415,725	-
Loss on refunding	(14,759,390)	(13,108,127)	5,035,250	(22,832,267)	-
Total bonds payable	$ 993,350,299	$ 271,177,324	$ (302,304,165)	$ 962,223,458	$ 32,630,000

The following table shows the revenue bond activity during the year ended December 31, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	$ 1,006,300,000	$ -	$ (29,140,000)	$ 977,160,000	$ 31,425,000
Add (deduct) deferred amounts:					
Issuance premiums	32,856,664	-	(1,906,975)	30,949,689	-
Loss on refunding	(16,108,715)	-	1,349,325	(14,759,390)	-
Total bonds payable	$ 1,023,047,949	$ -	$ (29,697,650)	$ 993,350,299	$ 31,425,000

Note 4 - Revenue Bonds (Continued)

Defeasance of Debt - The Fund defeased 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. During 2012, $263,785,000 bonds were defeased and $44,320,000 of defeased bonds were redeemed, as shown below:

	Amount Outstanding at December 31, 2011	Additions	Redemptions	Amount Outstanding at December 31, 2012
Bonds issued				
2001 Parity	$ -	$ 44,320,000	$ (44,320,000)	$ -
2003 Parity Refunding	-	151,340,000	-	151,340,000
2004 Parity	-	68,125,000	-	68,125,000
	$ -	$ 263,785,000	$ (44,320,000)	$ 219,465,000

Debt Service Coverage - The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain adjusted net revenue available for debt service of not less than 125% of actual annual debt service. In 2012, adjusted net revenue available for debt service, as defined by the bond covenants was 172% of debt service. For 2011, adjusted net revenue available for debt service was 148%. Net revenue available for debt service for the years ended December 31 is determined as follows:

	2012	2011
Change in net assets	$ 20,666,454	$ 1,796,605
Add:		
City taxes	25,937,913	23,279,845
Depreciation and amortization	48,492,784	46,061,914
Interest paid on revenue bonds	46,704,940	49,224,670
Draws on BPA account	18,912	100,000
	141,821,003	120,463,034
Less:		
Donation of assets	3,476,432	1,095,415
Capitalized interest	2,050,043	2,635,254
Amortization of bond premiums, debt expenses, and loss on refunding	1,160,018	299,987
Adjusted net revenue available for debt service	$ 135,134,510	$ 116,432,378
Debt service requirement (cash basis)	$ 78,670,140	$ 78,552,207
Coverage percentage	172%	148%

Note 5 - Leases

The Fund has non-cancelable operating lease commitments for real and personal property with minimum payments of $393,513 in 2012 and $384,595 in 2011. Rents are paid as they become due and payable. Minimum payments under the leases as of December 31, 2012 are shown below:

	Minimum Payments
2013	$ 275,474
2014	248,677
2015	256,814
2016	221,554
2017	11,350
2018 - 2022	56,750
2023 - 2027	56,750
2028 - 2029	22,700
	$ 1,150,069

Note 6 - Retirement and Other Postemployment Benefit Plans

Pension Costs - All permanent Fund employees are eligible to participate in the Seattle City Employees' Retirement System (the "System"), a cost-sharing public employee retirement system operated by the City. Benefits vest after five years of covered service. City employees may retire after 30 years of service regardless of age; after age 52, with 20 or more years of service; after age 57, with ten or more years of service; and after age 62, with five or more years of service. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by City ordinances.

City employees are required to contribute 9.03% of their annual base salaries to System. 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, 2012, 2011, and 2010, were $4,855,910, $3,892,675 and $3,601,358, respectively. The Fund's contribution in 2011 represents its full liability to the System.

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, telephone: (206) 386-1293, or www.seattle.gov/retirement/annual_report.htm.

Note 6 - Retirement and Other Postemployment Benefit Plans (Continued)

Employer contributions for the City are as follows (dollars in millions):

Year Ended December 31,	City Required Contribution	City Actual Contribution	Percentage Contributed
2010	$ 45.2	$ 45.2	100%
2011	$ 50.2	$ 50.2	100%
2012	$ 62.4	$ 62.4	100%

Actuarial data and assumptions:	
Valuation date	January 1, 2012
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	30 years, open
Asset valuation method	5-Year Smoothing Method
Investment rate of return	7.75%
Projected general wage inflation	4.0%
Postretirement benefit increases	1.5%

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, 2010	$ 1,645.3	$ 2,653.8	$ 1,008.5	62.0%	$ 580.9	173.6%
January 1, 2011	$ 2,013.7	$ 2,709.0	$ 695.4	74.3%	$ 563.2	123.5%
January 1, 2012	$ 1,954.3	$ 2,859.3	$ 905.0	68.3%	$ 557.0	162.5%

1 Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.

2 Actuarial accrued liabilities less actuarial value of assets.

3 Covered payroll includes compensation paid to all active employees on which contributions are calculated.

Note 6 - Retirement and Other Postemployment Benefit Plans (Continued)

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 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 \$2.4 million in 2012 and \$3.9 million in 2011.

Note 6 - Retirement and Other Postemployment Benefit Plans (Continued)

The table below summarizes the City's annual cost, expected contributions to the plan, and changes in the net OPEB obligation for fiscal years ended December 31, 2012 and 2011. These calculations are based on the most recent actuarial valuation data available, dated January 1, 2012. The Fund has accrued $2,086,170 to the plan as of December 31, 2012, as a reasonable estimate of expected contributions.

	2012	2011
Annual required contribution	$ 8,064,000	$ 11,286,000
Interest on net OPEB obligation	1,340,000	1,212,000
Adjustment to annual required contribution	(1,969,000)	(1,673,000)
Annual OPEB cost (expense)	7,435,000	10,825,000
Expected contribution (employer-paid benefits)	(2,441,000)	(3,889,000)
Increase in net OPEB obligation	4,994,000	6,936,000
Net OPEB obligation, beginning of year	34,548,000	27,612,000
Net OPEB obligation, end of year	$ 39,542,000	$ 34,548,000
Fund's allocated share of city liability	$ 2,086,170	$ 2,033,474

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 - Retirement and Other Postemployment Benefit Plans (Continued)

Significant methods and assumptions are as follows:

Actuarial data and assumptions	
Valuation date	January 1, 2012
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years, open
Discount rate	3.88%
Health care cost trend rates - Medical	Traditional and Preventive Plans: 9.0%, decreasing by 0.5% for each year for 4 years Group Health Standard and Deductible Plans: 8.5%, decreasing by 0.5% for each year for 7 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 three years and General Service Retirees based on the RP-2000 Combined Healthy Males and Females, with ages set back one year.
Marital status	60% of members electing coverage are assumed to be married or to have a registered domestic partner. Male spouses two years older than their female spouses.
Morbidity factors	Morbidity rate ranges for ages 50 through 64: 87.09% to 172.99% for retirees, and 101.19% to 172.99% for spouses. Retirees' spouses pay a lower premium than retirees.
Other considerations	Active employees with current spousal and/or dependent coverage are assumed to elect same plan and coverage after retirement.

Note 6 - Retirement and Other Postemployment Benefit Plans (Continued)

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL Entry Age (b)	UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2010	$ -	$ 93.5	$ 93.5	0.0%	$ 869.1	10.8%
January 1, 2011	$ -	$ 99.4	$ 99.4	0.0%	$ 866.2	11.5%
January 1, 2012	$ -	$ 74.7	$ 74.7	0.0%	NA	NA

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 2012 and 2011, 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, 0.784% and 0.824%, respectively. Claims expected to be paid within one year were $1,312,567 and $1,626,270 at December 31, 2012 and 2011, respectively. The table below presents the changes in the liability for workers' compensation claims and other claims (risk-financing liabilities) as of December 31:

	2012	2011
Beginning liability, undiscounted	$ 5,742,091	$ 5,929,939
Payments	(1,169,004)	(947,194)
Incurred claims and changes in estimate	707,766	759,346
Ending liability, undiscounted	$ 5,280,853	$ 5,742,091
Ending liability, discounted (recorded balance at December 31)	$ 5,123,078	$ 5,592,866

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 holiday, compensatory, merit, and vacation leave, as well as estimated sick leave payments calculated based on the termination payment method. The schedule below presents the compensated absences activity during the years ended December 31:

	2012	2011
Beginning liability	$ 4,748,730	$ 4,817,901
Additions	3,313,901	3,675,559
Reductions	(3,340,585)	(3,744,730)
Ending liability	$ 4,722,046	$ 4,748,730

Note 9 - Loans

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

Loans outstanding as of December 31, 2012 and 2011 are as follows:

Description	Maturity Years	Interest Rate	Loan Amount	Loans Outstanding, 2012	Loans Outstanding, 2011
Magnolia Manor Reservoir	1995-2013	1.0%	$ 2,220,000	$ 118,217	$ 236,433
Myrtle Reservoir	2008-2025	1.5%	4,040,000	2,917,778	3,142,222
Beacon Reservoir	2008-2026	1.5%	4,040,000	2,976,842	3,189,474
West Seattle Reservoir	2009-2027	1.5%	3,030,000	2,392,105	2,551,579
Maple Leaf ARRA	2013-2031	1.0%	5,920,997	5,920,997	5,920,997
Maple Leaf	2011-2029	1.5%	3,030,000	2,742,947	2,583,474
			$ 22,280,997	$ 17,068,886	$ 17,624,179

Note 9 - Loans (Continued)

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

Years Ending December 31,	Principal	Interest	Total
2013	$ 1,187,747	$ 366,812	$ 1,554,559
2014	1,069,531	210,170	1,279,701
2015	1,069,531	195,685	1,265,216
2016	1,069,531	181,201	1,250,732
2017	1,069,531	166,716	1,236,247
2018 - 2022	5,347,655	616,307	5,963,962
2023 - 2027	4,686,134	257,553	4,943,687
2028 - 2032	1,569,226	38,424	1,607,650
	$ 17,068,886	$ 2,032,868	$ 19,101,754

The table below summarizes the activity for the loans for the years ended December 31:

	2012	2011
Net loans, beginning of year	$ 17,624,179	$ 18,482,472
Loan proceeds	303,000	-
Principal payments	(858,293)	(858,293)
Net loans, end of year	$ 17,068,886	$ 17,624,179
Loans due within one year	$ 1,187,747	$ 858,293
Loans, noncurrent	$ 15,881,139	$ 16,765,886

Note 10 - 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. As of December 31, 2012 the Seattle Housing Authority receivable was $465,194.

In addition, the Fund has a receivable with King County Water District #49 for amounts due from a prior water contract. The district and the Fund signed new water services agreements in 2011. As of December 31, 2012, King County Water District #49 receivable was $294,866.

Note 10 - Notes and Contracts Receivable (Continued)

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

	2012	2011
Seattle Housing Authority receivable	$ 465,194	$ 480,855
King County Water Disctrict #49	294,866	-
Water main assessments	12	457
Total notes and contracts receivable	760,072	481,312
Due within one year	(114,619)	(16,118)
Total non-current notes and contracts receivable	$ 645,453	$ 465,194

Note 11 - Commitments

The Fund is required by the Washington State Department of Health ("DOH") to complete a program to cover its open, above-ground distribution system reservoirs by the year 2020. The total cost of burying five reservoirs is expected to be approximately $143.7 million through the year 2016; costs beyond 2016 are not estimable as of the date of this report. As of December 31, 2012 and 2011, total cumulative costs incurred were $139.1 million and $112.4 million, respectively.

In 2011, Seattle signed new water supply contracts with eight wholesale customers whose contracts were to expire January 31, 2011. Six of the customers signed full or partial requirements contracts that are very similar to the full and partial requirements contracts already in place with the majority of the Fund's wholesale customers. These new full and partial requirements contracts do not change Seattle's obligation to supply water. All eight of these new contracts expire December 31, 2062.

Note 12 - Habitat Conservation Program Liability

SPU has prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan ("HCP") is to protect all species of concern that may be affected by the operations of SPU and SCL in the Cedar River Watershed, while allowing the City to continue to provide high quality drinking water to the region. The federal government has accepted the HCP. The total cost of implementing the HCP is expected to be $106.8 million (in 2012 dollars) over a period of 50 years (from the year 2000 through the year 2050).

Note 12 - Habitat Conservation Program Liability (Continued)

Expenditures are being funded from a combination of the Fund's operating revenues and issuance of revenue bonds. The total amount expended for the HCP through 2012 is $72.4 million. The remaining $34.4 million to complete the HCP is comprised of a $6.9 million liability and an estimate of $27.5 million for construction and operating commitments. The construction activities will add to the Fund's capital assets and the operating activities are mainly research, monitoring, and maintenance of the HCP Program that will be expenses as incurred.

SUPPLEMENTAL INFORMATION

Water System Operating Statistics

	2008	2009	2010	2011	2012
Population Served					
Retail	649,286	658,951	664,458	669,654	672,674
Wholesale[(1)]	616,592	621,606	628,536	634,193	642,257
Total Population Served	1,265,878	1,280,557	1,292,994	1,303,847	1,314,931
Water Sales Revenues ($000)[(2)(3)]					
Retail	$106,689	$130,272	$136,443	$137,382	$152,606
Wholesale	$42,884	$48,454	$45,073	$44,050	$49,975
Total Water Sales Revenues	$149,573	$178,726	$181,516	$181,432	$202,581
Billed Water Consumption (MG)[(3)]					
Retail	20,599	20,956	19,868	19,305	19,657
Wholesale	22,255	23,554	20,437	20,922	21,236
Total Billed Water Use	42,854	44,510	40,305	40,227	40,893
Operating Costs ($ per MG)[(4)]	$3,423	$3,679	$4,075	$3,841	$3,996
Gallons Used per Day per Capita	93	95	85	85	85
Retail Meters in Use	187,032	188,102	188,332	188,754	189,204
Number of New Retail Meters	1760	1070	230	422	450
Total Water Diversions (MGD)	125.1	129.5	118.4	117.9	120.5
Non-Revenue	8.0	7.5	8.0	7.7	8.5
% Non-Revenue	6.4	5.8	6.7	6.5	7.0

(1) This is the estimated total population served by SPU's water supply.

(2) Revenues represent payments from customers for service provided at published rates in each year. Revenues shown are not net of transfers to the Rate Stabilization Account or other credits or deferrals of income.

(3) Revenue increases have been a result of increases in rates, as retail consumption has steadily decreased due largely to conservation efforts. Variations in billed water use are primarily associated with year-to-year variations in temperature and precipitation in the summer irrigation period. There has been no change in the geographic area served or any appreciable change in the number or composition of retail customers.

(4) The increases in per unit operating costs in 2009 and 2010 are due in part to a temporary increase in the City's utility tax rate and increased amortization expense.

Major Retail Water Customers - 2012 Annual Revenues and Volumes

The Water System's ten largest retail water users in 2012 were: the Cascade Water Alliance, Northshore Utility District, Highline Water District, Soos Creek Water & Sewer District, Woodinville Water District, University of Washington, City of Seattle, King County Water District No. 20, Port of Seattle, and City of Mercer Island. In the aggregate, revenue from these customers was 23.1% of billed direct service revenues in 2012.

Water Rates - Effective January 1, 2013

Effective January 1, 2013

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
	Direct Service												Wholesale
RATE SCHEDULES	Inside City				Outside City				City of Shoreline / City of Lake Forest Park				Full and Partial
	Residential	MMRD*	Gen Svc	Fire Service	Residential	MMRD*	Gen Svc	Fire Service	Residential	MMRD*	Gen Svc	Fire Service	
Commodity Charge ($/100 Cubic Feet)													
Offpeak Usage (Sept 16-May 15)	$4.50	$4.50	$4.50		$5.13	$5.13	$5.13		$5.46	$5.46	$5.46		$1.53
Peak Usage (May 16-Sept 15)													
Up to 5 ccf**	$4.73	$4.73	$5.72		$5.39	$5.39	$6.52		$5.74	$5.74	$6.94		$2.26
Next 13 ccf**	$5.72	$5.72	$5.72		$6.52	$6.52	$6.52		$6.94	$6.94	$6.94		$2.26
Over 18 ccf**	$11.80	$11.80	$5.72		$13.45	$13.45	$6.52		$14.31	$14.31	$6.94		$2.26
Usage over base allowance				$20.00				$22.80				$24.30	
Utility Credit ($/month)	$18.19		$11.22		$18.19		$11.22		$18.19		$11.22		
Demand Charge ($/1000 gallons of deficient storage)													$22.00
Base Service Charge ($/month/meter)													New Srvc Fee (One Time)
3/4 inch and less	$13.50		$13.50		$15.40		$15.40		$16.35		$16.35		$783
1 inch	$13.90		$13.90		$15.85		$15.85		$16.85		$16.85		$1,566
1-1/2 inch	$21.45	$21.45	$21.45		$24.45	$24.45	$24.45		$26.00	$26.00	$26.00		$3,915
2 inch	$23.75	$23.75	$23.75	$15.40	$27.10	$27.10	$27.10	$18.00	$28.80	$28.80	$28.80	$19.00	$6,264
3 inch	$88.00	$88.00	$88.00	$20.00	$100.30	$100.30	$100.30	$23.00	$106.70	$106.70	$106.70	$24.00	$17,226
4 inch	$126.10	$126.10	$126.10	$37.00	$143.75	$143.75	$143.75	$42.00	$152.95	$152.95	$152.95	$45.00	$24,273
6 inch		$155.15	$155.15	$63.00		$176.85	$176.85	$72.00		$188.15	$188.15	$76.00	$51,678
8 inch		$199.00	$199.00	$100.00		$227.00	$227.00	$114.00		$241.00	$241.00	$121.00	$87,696
10 inch		$297.00	$297.00	$144.00		$339.00	$339.00	$164.00		$360.00	$360.00	$175.00	$132,327
12 inch		$402.00	$402.00	$210.00		$458.00	$458.00	$239.00		$488.00	$488.00	$255.00	$186,354
16 inch		$477.00	$477.00			$544.00	$544.00			$579.00	$579.00		$186,354
20 inch		$614.00	$614.00			$700.00	$700.00			$745.00	$745.00		$186,354
24 inch		$771.00	$771.00			$879.00	$879.00			$935.00	$935.00		$186,354