



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

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

December 31, 2014 and 2013

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

CONTENTS

	PAGE
REPORT OF INDEPENDENT AUDITORS	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-11
FINANCIAL STATEMENTS	
Statements of Net Position	12-13
Statements of Revenues, Expenses, and Changes in Net Position	14
Statements of Cash Flows	15-16
Notes to Financial Statements	17-39
OTHER INFORMATION (UNAUDITED)	
Water System Operating Statistics	40
Major Retail Water Customers	41
Water Rates	42

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 statements of net position as of December 31, 2014 and 2013, 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, 2014 and 2013, 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

The accompanying management discussion and analysis is not part of the 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 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 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The other information presented on pages 40-42 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.

Mess Adams LLP

Seattle, Washington

April 30, 2015, except as to Note 13, which is as of July 2, 2015

SEATTLE PUBLIC UTILITIES - WATER FUND

(An Enterprise Fund of the City of Seattle)

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2014 and 2013. The revenues, expenses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of Seattle's water system are recorded in the Water 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 12 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, 2014 and 2013, 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, 2014 and 2013. 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, 2014 and 2013. 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 17 of this report.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2014 and 2013, the Fund's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources, resulting in surpluses in total net position of \$393.0 million and \$361.5 million, respectively. During these years, the Fund's overall position improved, with increases in net position of \$31.5 million (8.7%) and \$28.2 million (8.5%) during 2014 and 2013, respectively. The following summary statement 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:

SUMMARY STATEMENT OF NET POSITION

	2014	2013	2012
ASSETS			
Current assets	\$ 78,293,752	\$ 65,148,012	\$ 45,542,515
Capital assets, net	1,205,241,887	1,196,848,221	1,205,023,587
Other	104,355,153	116,079,264	126,876,329
Total assets	<u>1,387,890,792</u>	<u>1,378,075,497</u>	<u>1,377,442,431</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>18,914,284</u>	<u>20,164,950</u>	<u>21,415,616</u>
Total assets and deferred outflows of resources	<u>\$ 1,406,805,076</u>	<u>\$ 1,398,240,447</u>	<u>\$ 1,398,858,047</u>
LIABILITIES			
Current liabilities	\$ 75,570,277	\$ 69,099,335	\$ 68,411,477
Revenue bonds	877,255,855	915,557,268	952,425,725
Other	33,062,990	32,630,286	32,244,024
Total liabilities	<u>985,889,122</u>	<u>1,017,286,889</u>	<u>1,053,081,226</u>
DEFERRED INFLOWS OF RESOURCES			
Regulatory liability - revenue stabilization fund	<u>27,875,563</u>	<u>19,418,011</u>	<u>12,432,522</u>
NET POSITION			
Net investment in capital assets	351,175,275	327,186,569	317,266,743
Restricted	11,790,073	12,174,403	11,276,394
Unrestricted	<u>30,075,043</u>	<u>22,174,575</u>	<u>4,801,162</u>
TOTAL NET POSITION	<u>393,040,391</u>	<u>361,535,547</u>	<u>333,344,299</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,406,805,076</u>	<u>\$ 1,398,240,447</u>	<u>\$ 1,398,858,047</u>

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS (CONTINUED)

2014 Compared to 2013

Assets - Current assets increased \$13.1 million (20.2%) from 2013. This is primarily due to increase in operating cash of \$14.7 million as a result of construction fund transfer. This increase was offset by decreases in accounts receivable, net of allowance for doubtful accounts of \$0.4 million, unbilled revenues of \$0.3 million and due from other governments of \$0.9 million.

Other assets decreased \$11.7 million (10.1%) from 2013. The largest portion of the change was due to reductions in restricted cash and equity in pooled investments of \$9.1 million as a result of construction fund transfer, regulatory assets of \$1.2 million, other charges of \$0.9 million and conservation cost of \$0.5 million.

Deferred Outflows of Resources - Deferred loss on advanced refunding of bonds decreased by \$1.3 million due to scheduled amortization.

Liabilities - Current liabilities increased \$6.5 million (9.4%) from 2013. This is mainly attributable to increases in accounts payable of \$2.1 million and other current liabilities of \$1.7 million as a result of deposits received for services to be delivered in the future. Other increases include \$1.5 million in current portion of bonds payable, \$1.1 million in due to other funds, \$0.3 million in Habitat Conservation Plan ("HCP") liability and \$0.4 million in salaries, benefits, and payroll taxes payable. These increases were offset by a \$0.6 million decrease in interest payable.

Other liabilities increased \$0.4 million (1.3%) over 2013 mainly due to the increase in compensated absences payable.

Deferred Inflows of Resources - Rate stabilization account increased by \$8.5 million (43.6%) due to a cash transfer from the operating fund and interest earned in 2014.

Net Position - Net investment in capital assets was the largest portion of the Fund's net position (\$351.2 million or 89.3%). 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 2014, net investment in capital assets increased \$24.0 million from 2013 primarily from a reduction in debt allocated to capital assets.

The Fund's restricted net position (\$11.8 million or 3.0%) represent resources that are subject to restrictions on how they may be used. Restricted net position decreased \$0.4 million primarily due to the decreases in restrictions in conservation and other costs.

SEATTLE PUBLIC UTILITIES - WATER FUND

(An Enterprise Fund of the City of Seattle)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS (CONTINUED)

The Fund's unrestricted net position (\$30.1 million or 7.7%) represent resources that are not subject to external restrictions and may be used to meet the Fund's obligations to creditors. This portion increased \$7.9 million in 2014.

2013 Compared to 2012

Assets - Current assets increased \$19.6 million (43%) from 2012. This increase was due to increase in operating cash of \$16.4 million, unbilled revenues of \$2.5 million, due from other City funds of \$0.5 million, due from other governments of \$0.8 million and materials and supplies inventory of \$0.9 million. The increase was offset by a decrease in accounts receivable net of allowance for doubtful accounts of \$1.1 million.

Other assets decreased \$10.8 million (8.5%) from 2012. The largest portion of the change was due to reductions in restricted cash and equity in pooled investments of \$7.2 million, conservation cost of \$4.4 million and regulatory assets of \$1.6 million. These decreases were offset by increase in other charges of \$2.6 million.

Liabilities - Current liabilities increased \$0.7 million (1.0%) from 2012. Most notable increases were due to increases in the current portion of bonds payable of \$0.9 million, accounts payable of \$1.0 million, and salaries, benefits, and payroll taxes payable of \$0.4 million. These increases were offset by a \$0.7 million decrease in interest payable, credits and other of \$0.6 million and Habitat Conservation Plan of \$0.4 million.

Other liabilities increased \$0.4 million (1.2%) over 2012 mainly due to the increase in unfunded other post retirement benefits.

Deferred Inflows of Resources - Rate stabilization account increased by \$7 million (56.2%) due to cash transfer from operating fund and interest earned in 2013.

Net Position - Net investment in capital assets was the largest portion of the Fund's net position (\$327.2 million or 90.5%). 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 2013, net invested in capital assets increased \$9.9 million from 2012 primarily from a reduction in debt allocated to capital assets.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS (CONTINUED)

The Fund's restricted net position (\$12.2 million or 3.4%) represent resources that are subject to restrictions on how they may be used. Restricted net position increased \$0.9 million primarily due to the increases in restrictions in conservation costs.

The Fund's unrestricted net position (\$22.2 million or 6.1%) represent resources that are not subject to external restrictions and may be used to meet the Fund's obligations to creditors. This portion increased \$17.4 million in 2013.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 242,946,509	\$ 235,593,735	\$ 213,474,169
Operating expenses	<u>(184,445,459)</u>	<u>(176,531,527)</u>	<u>(163,688,656)</u>
Net operating income	58,501,050	59,062,208	49,785,513
Other expenses, net of other revenues	(35,928,293)	(38,388,558)	(37,502,304)
Fees, contributions, and grants	<u>8,932,087</u>	<u>7,517,598</u>	<u>8,383,245</u>
Change in net position	<u>\$ 31,504,844</u>	<u>\$ 28,191,248</u>	<u>\$ 20,666,454</u>

2014 Compared to 2013

Operating revenues increased approximately \$7.4 million (3.1%) over 2013. This change was driven by an increase in direct service revenue of \$11.8 million resulting from an increase in rates. The increase was offset by decreases of \$2.4 million in wholesale revenue, \$0.9 million for other ancillary services and \$1.1 million in the revenue stabilization account.

Operating expenses increased \$7.9 million (4.5%) from 2013. Notable factors affecting this change include increases in city taxes of \$1.9 million related to the overall increase in revenues. Depreciation and amortization also increased by \$1.6 million due to an increase in depreciable assets. Additional increases to expenses include \$7.3 million in the general and administrative branch, \$0.7 million in the utility systems management and \$0.5 in other taxes. The increase was offset by decreases in field operations of \$2.7 million and customer service cost of \$1.4 million.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS (CONTINUED)

Other expenses, net of other revenues decreased by \$2.5 million (6.4%) over 2013. The change was primarily due to an increase in investment income of \$1.5 million, and other income of \$0.1 million. These increases were offset by decreases in interest payments of \$1.9 million, contributions and grants of \$0.6 million and loss on sale of capital assets of \$0.4 million.

Capital fees, contributions and grants increased by \$1.4 million (18.8%) over 2013 primarily due to increases in donated assets of \$2.8 million, \$0.4 million in connection charges and \$0.1 million in hydrants. These increases were offset by decreases in capital grants of \$0.8 million, agencies and interlocal services of \$0.5 million, capital contributions from private contract watermains of \$0.4 million and capital contributions for other meters and services of \$0.2 million.

2013 Compared to 2012

Operating revenue increased approximately \$22.1 million (10.4%) over 2012. This change was driven by increases in direct service revenue of \$15.5 million, wholesale revenue of \$6.1 million, and \$4.2 million for other ancillary services. The increase was offset by amounts deposited into the revenue stabilization account of \$3.6 million.

Operating expenses increased \$12.8 million (7.8%) from 2012. Notable factors affecting this change include increases in city taxes of \$2.8 million related to the overall increase in revenues. Depreciation and amortization also increased by \$1.2 million due to an increase in depreciable assets. Additional increases to expenses include \$2.0 million in the general and administrative branch and \$5.7 million in the field operations. The increase in general administrative branch is mainly due to \$0.9 million increase in interfund pension charges, \$0.5 million in interfund information technology charges and \$0.5 million increase in labor costs. The increase in field operations is attributed to increase of \$3.5 million in salaries and benefits due to more staffing as a result of reorganization.

Other expenses, net of other revenues decreased by \$0.9 million (2.4%) over 2012. The change was primarily due to a decrease in investment income of \$1.3 million, other income of \$1.1 million and loss on sale of capital assets of \$0.6 million offset by a decrease in interest payments of \$1.3 million and \$0.6 million in amortization of bond premiums and discounts.

Capital fees, contributions and grants decreased by \$0.9 million (10.3%) over 2012 primarily due to decreases in capital contributions for other meters and services of \$1.8 million and donated assets of \$1.6 million. These decreases were offset by increases in capital grants of \$0.6 million and capital contributions from private contract watermains, connection charges, and agencies/interlocal services totaling \$2.0 million.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

The following table summarizes capital assets, net of accumulated depreciation, by major asset category as of December 31, 2014, 2013, and 2012:

SUMMARY OF CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land and land rights	\$ 44,261,296	\$ 43,269,483	\$ 42,910,772
Buildings	129,734,770	132,995,939	136,592,014
Structures	237,889,257	239,710,769	246,440,010
Machinery and equipment	725,008,774	731,463,161	733,983,399
Computer systems	17,872,911	22,880,796	20,806,035
Construction in progress	48,906,371	25,343,136	23,358,521
Other property	<u>1,568,508</u>	<u>1,184,937</u>	<u>932,836</u>
Capital assets, net of accumulated depreciation	<u>\$ 1,205,241,887</u>	<u>\$ 1,196,848,221</u>	<u>\$ 1,205,023,587</u>

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

2014 Compared to 2013

The Fund's investment in capital assets for the year ended December 31, 2014 was \$1.2 billion, net of accumulated depreciation. This represents an increase of \$8.4 million (0.7%) compared to 2013. Highlights of the Fund's major capital assets placed in service during 2014 include the following:

- Water infrastructure improvements and rehabilitation totaling \$14.6 million.
- Technology infrastructure improvements totaling \$1.9 million.
- Water Conservation projects totaling \$1.9 million.
- Bridges, water distribution system, water main, and water transmission pipelines improvements totaling \$3.9 million.
- Watershed Road Improvements and Stream Restoration totaling \$1.1 million.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS (CONTINUED)

The Fund had \$48.9 million in construction work in progress as of December 31, 2014. Projects under construction are the following:

- Reservoir covering and improvement projects totaling \$18.2 million.
- Operational, regional, and other facilities totaling \$11.0 million.
- Alaskan Way Viaduct and Sea Wall \$7.2 million.
- Business and technology infrastructure upgrades totaling \$5.5 million.
- Water system improvements and rehabilitation totaling \$2.7 million.

2013 Compared to 2012

The Fund's investment in capital assets for the year ended December 31, 2013 was \$1.2 billion, net of accumulated depreciation. This represents a decrease of \$8.2 million (0.7%) compared to 2012. Highlights of the Fund's major capital assets placed in service during 2013 include the following:

- Water infrastructure improvements and rehabilitation totaling \$10.8 million.
- Technology infrastructure improvements totaling \$8.3 million.
- South Lake Union Project totaling \$4.1 million.
- Bridges, water distribution system, water main, and water transmission pipelines improvements totaling \$3.9 million.
- Reservoir coverings and improvements totaling \$1.3 million.

The Fund had \$25.3 million in construction work in progress as of December 31, 2013. Projects under construction are the following:

- Reservoir covering projects totaling \$9.2 million.
- Operational, regional, and other facilities totaling \$4.5 million.
- Meter replacements totaling \$2.8 million.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS (CONTINUED)

- Water system improvements & rehabilitation totaling \$2.6 million.
- Business and technology infrastructure upgrades totaling \$1.9 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.

2014 Compared to 2013

At December 31, 2014 the Fund had \$853.5 million in bonded debt and \$16.1 million in loans, as compared to \$887 million and \$17.2 million, respectively, at December 31, 2013. Bonded debt decreased \$33.5 million, attributed to scheduled payments of debt principal on existing bonds. Loans also decreased \$1.1 million due to scheduled principal payments on existing loans.

2013 Compared to 2012

At December 31, 2013 the Fund had \$887.0 million in bonded debt and \$17.2 million in loans, as compared to \$919.6 million and \$17.1 million, respectively, at December 31, 2012. Bonded debt decreased \$32.6 million, attributed to scheduled payments of debt principal on existing bonds. The Fund received \$1.4 million in new loan proceeds during the year for the Maple Leaf Reservoir. This increase was offset by \$1.2 million of principal payments 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,	
	2014	2013
ASSETS		
CURRENT ASSETS		
Operating cash and equity in pooled investments	\$ 43,553,317	\$ 28,900,545
Restricted cash and equity in pooled investments	-	10,000
Receivables		
Accounts, net of allowance	13,519,267	13,899,254
Interest and dividends	910,043	895,293
Unbilled revenues	13,650,679	13,965,425
Notes, and other contracts	107,206	119,747
Due from other funds	759,960	704,348
Due from other governments	582,866	1,509,609
Materials and supplies inventory	5,138,821	5,072,198
Prepayments and other current assets	71,593	71,593
Total current assets	<u>78,293,752</u>	<u>65,148,012</u>
NONCURRENT ASSETS		
Restricted cash and equity in pooled investments	56,623,220	65,688,715
Prepayments long-term	1,233,372	1,304,966
Notes and contracts receivable	413,501	520,706
Conservation costs	31,552,189	32,031,892
Regulatory assets	10,987,699	12,211,372
Other charges	3,545,172	4,321,613
Capital assets		
Land and land rights	44,261,296	43,269,483
Plant in service, excluding land	1,791,608,517	1,773,791,825
Less accumulated depreciation	(681,102,805)	(646,741,160)
Construction in progress	48,906,371	25,343,136
Other property, net	1,568,508	1,184,937
Total noncurrent assets	<u>1,309,597,040</u>	<u>1,312,927,485</u>
Total assets	1,387,890,792	1,378,075,497
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on advanced refunding	<u>18,914,284</u>	<u>20,164,950</u>
Total assets and deferred outflows of resources	<u>\$ 1,406,805,076</u>	<u>\$ 1,398,240,447</u>

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF NET POSITION (CONTINUED)

	December 31,	
	2014	2013
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 8,736,287	\$ 6,681,187
Salaries, benefits, and payroll taxes payable	2,542,577	2,100,688
Compensated absences payable	467,358	427,043
Due to other funds	5,146,325	4,092,785
Due to other governments	-	68,908
Interest payable	16,207,331	16,779,416
Taxes payable	706,876	704,664
Revenue bonds due within one year	35,015,000	33,545,000
Claims payable	1,195,990	1,203,071
HCP liability	1,138,306	804,625
Loans payable, due within one year	1,124,987	1,124,987
Other	3,289,240	1,566,961
Total current liabilities	75,570,277	69,099,335
NONCURRENT LIABILITIES		
Compensated absences payable	4,845,492	4,427,515
Claims payable	3,801,726	3,672,530
HCP liability	6,492,537	5,424,982
Loans	14,996,469	16,121,456
Vendor and other deposits payable	-	17,959
Unfunded other post retirement benefits	2,564,849	2,552,430
Other noncurrent liabilities	361,917	413,414
Revenue bonds	853,465,000	887,010,000
Less bonds due within one year	(35,015,000)	(33,545,000)
Bond discount and premium, net	58,805,855	62,092,268
Total noncurrent liabilities	910,318,845	948,187,554
Total liabilities	985,889,122	1,017,286,889
DEFERRED INFLOWS OF RESOURCES		
Regulatory liability - revenue stabilization fund	27,875,563	19,418,011
NET POSITION		
Net investment in capital assets	351,175,275	327,186,569
Restricted for:		
Other charges	4,725,537	5,017,614
Conservation costs	3,404,140	3,589,838
Habitat conservation program	3,660,396	3,566,951
Unrestricted	30,075,043	22,174,575
Total net position	393,040,391	361,535,547
Total liabilities, deferred inflows of resources and net position	\$ 1,406,805,076	\$ 1,398,240,447

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,	
	2014	2013
OPERATING REVENUES		
Charges for services and other revenues	\$ 242,946,509	\$ 235,593,735
OPERATING EXPENSES		
Planning and development	1,446,621	1,085,180
Utility systems management	14,576,410	13,888,947
Field operations	27,314,986	30,007,140
Project delivery	4,331,978	4,562,667
Customer services	6,252,340	7,609,154
General and administrative	38,916,393	31,657,360
City business and occupation taxes	30,656,984	28,776,311
Other taxes	9,483,508	9,035,669
Depreciation and other amortization	51,466,239	49,909,099
Total operating expenses	<u>184,445,459</u>	<u>176,531,527</u>
OPERATING INCOME	<u>58,501,050</u>	<u>59,062,208</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	3,082,424	1,535,841
Interest expense	(41,524,740)	(43,396,224)
Amortization of bond premiums and discounts	3,286,413	3,323,457
Amortization of bond refunding loss	(1,250,666)	(1,250,666)
Loss on sale of capital assets	(720,309)	(309,582)
Contributions and grants	181,620	803,255
Other, net	1,016,965	905,361
Total nonoperating revenues (expenses)	<u>(35,928,293)</u>	<u>(38,388,558)</u>
Income before capital contributions and grants	22,572,757	20,673,650
Capital contributions and grants	<u>8,932,087</u>	<u>7,517,598</u>
CHANGE IN NET POSITION	31,504,844	28,191,248
NET POSITION		
Beginning of year	<u>361,535,547</u>	<u>333,344,299</u>
End of year	<u>\$ 393,040,391</u>	<u>\$ 361,535,547</u>

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 256,195,188	\$ 240,903,794
Cash paid to suppliers	(25,846,287)	(29,818,371)
Cash paid to employees	(62,565,567)	(56,625,419)
Cash paid for taxes	(39,862,648)	(37,631,417)
Net cash provided by operating activities	<u>127,920,686</u>	<u>116,828,587</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	<u>201,721</u>	<u>833,178</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of bonds and other long-term debt	-	1,413,208
Principal payments on long-term debt and refunding	(34,669,988)	(33,873,204)
Capital expenditures and other charges paid	(51,926,099)	(38,279,031)
Interest paid on long-term debt	(43,601,148)	(45,171,328)
Build America Bonds Federal Interest Subsidy	1,981,591	2,042,448
Capital fees and grants received	4,388,114	5,392,852
Proceeds from sale of capital assets	196,317	287,202
Net cash used in capital and related financing activities	<u>(123,631,213)</u>	<u>(108,187,853)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	<u>1,086,083</u>	<u>(275,570)</u>
NET INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	5,577,277	9,198,342
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	<u>94,599,260</u>	<u>85,400,918</u>
End of year	<u>\$ 100,176,537</u>	<u>\$ 94,599,260</u>
CASH AT THE END OF THE YEAR CONSISTS OF		
Operating cash and equity in pooled investments	\$ 43,553,317	\$ 28,900,545
Noncurrent restricted cash and equity in pooled investments	<u>56,623,220</u>	<u>65,698,715</u>
Total cash at the end of the year	<u>\$ 100,176,537</u>	<u>\$ 94,599,260</u>

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS (CONTINUED)

	Years Ended December 31,	
	2014	2013
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$ 58,501,050	\$ 59,062,208
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation and amortization	51,466,239	49,909,099
Other receipts and payments	2,221,709	2,548,673
Changes in operating assets and liabilities		
Accounts receivable	379,987	1,149,294
Unbilled revenues	314,746	(2,465,696)
Due from other funds	(55,612)	(466,627)
Due from other governments	780,816	(578,544)
Materials and supplies inventory	(66,623)	(903,292)
Accounts payable	2,055,100	976,532
Salaries, benefits, and payroll taxes payable	441,890	359,821
Compensated absences payable	458,291	132,513
Due to other funds	1,053,540	92,407
Due to other governments	(68,908)	68,908
Claims payable	122,115	(247,477)
Taxes payable	2,211	94,222
Regulatory liability - revenue stabilization fund	8,457,552	6,985,489
Credits and other	1,665,243	(141,409)
Other assets and liabilities	191,340	252,466
Total adjustments	<u>69,419,636</u>	<u>57,766,379</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 127,920,686</u>	<u>\$ 116,828,587</u>
NONCASH TRANSACTIONS		
Contributed infrastructure	<u>\$ 4,669,799</u>	<u>\$ 1,900,854</u>

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

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 municipalities. 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 treatment plants.

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 2014 and 2013, the Fund paid \$11,275,015 and \$11,142,057, respectively, to the City for its share of general and administrative services. Additionally, the Fund paid \$30,656,984 and \$28,776,311 in 2014 and 2013, 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 \$4,039,071 and \$3,399,359 in 2014 and 2013, 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 2014 and 2013. 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 \$1,794,922 and \$1,653,497 in 2014 and 2013, respectively. The Fund paid \$163,355 and \$227,220 for CCSS services in 2014 and 2013, respectively, which does not include reimbursements to SCL for the Fund's share of capital costs to upgrade the CCSS system.

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"). 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.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

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, liabilities, and deferred inflows of resources 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, 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. 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.

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, 2014 and 2013, the Fund's allowance for doubtful accounts was \$314,932 and \$330,933, 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.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

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

Regulatory Assets - 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. In addition, the costs associated with the Morse Lake Pump Plant are also reported as a regulatory asset.

Revenue Stabilization Fund - The Revenue Stabilization Fund ("RSF") was established by City Ordinance 122841 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 GASB 62. There was a deposit to the RSF of \$8.2 million in 2014. 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 2014 and 2013, there were no withdrawals.

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 and payments to the Muckleshoot Indian Tribe. The Fund amortizes these charges over a 2 to 33 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 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. These donated assets are treated as a special item under Capital Contributions and Grants in the Statements of Revenues, Expenses, and Changes in Net Position.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

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

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 11 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.

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.

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. The Fund has a revenue stabilization account which qualifies for reporting in this category.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

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 \$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, 2014 and 2013, the cash balance in the BPA account was \$449,561 and \$442,853, 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.

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.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

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

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 City at the rate of 0.215% and to the State at the rate of 1.5% for 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, deferred outflows of resources, 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, 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.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

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

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, 2014 and 2013 are related to the BPA and RSF accounts and certain other charges.

Unrestricted net positions are those that are 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 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, 2014 and 2013.

Accounting Changes - 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, but anticipates recording amounts for the unfunded portion of the pension plan. At this time, those amounts are not yet known.

GASB has issued Statement No. 72, *Fair Value Measurement and Application*, to provide guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The statement is effective for periods beginning after June 15, 2015. The Fund is evaluating the impact of this standard on the financial statement.

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.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 2 - Cash and Investments

Custodial Credit Risk - Deposits - As of December 31, 2014 and 2013, the City's pool contained cash on deposit with the City's custodial banks in the amounts of \$18,026,085 and \$12,431,810, respectively. The deposits in excess of \$250,000 in 2014 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.

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:

	2014		2013	
	City Pool	Weighted Average Maturity (Days)	City Pool	Weighted Average Maturity (Days)
U.S. Government Agencies	\$ 721,680,286	1408	\$ 853,631,386	1141
Commercial Paper	349,418,008	43	154,962,668	47
U.S. Government Obligations	252,188,265	800	227,659,850	902
State and Local Governments	227,247,608	976	156,812,737	818
Repurchase Agreements	73,811,651	2	44,756,478	2
Total	\$ 1,624,345,818		\$ 1,437,823,119	
Portfolio Weighted Average Maturity		896		914

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 2 - Cash and Investments (Continued)

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

	2014	2013
Cash and equity in pooled investments	\$ 43,553,317	\$ 28,900,545
Restricted cash and equity in pooled investments	56,623,220	65,698,715
Total	\$ 100,176,537	\$ 94,599,260
Balance as a percentage of City Pool cash and investments	6.2%	6.6%

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, 2014 and 2013, the City's investments in commercial paper were rated P-1 by Moody's Investors Service and AA+, A-1 or 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, 2014, these investments were rated Aaa by Moody's Investors Service and AAA or AA+ by Standard & Poor's Rating Service. As of December 31, 2013, these investments were rated Aaa by Moody's Investors Service 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.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 2 - Cash and Investments (Continued)

The City's investments in which 5% or more is invested in any single issuer as of December 31 are as follows:

Issuer	2014		2013	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
United States Government	\$ 252,188,265	16%	\$ 227,659,850	16%
Federal National Mortgage Association	\$ 249,771,922	15%	\$ 329,389,682	23%
Federal Home Loan Mortgage Corp	\$ 160,445,200	10%	\$ 285,535,430	20%
Federal Farm Credit Bank	\$ 121,677,087	7%	**	**
Freddie Mac Multifamily Securities	\$ 108,129,281	7%	\$ 107,594,143	7%
Federal Home Loan Bank	\$ 81,656,795	5%	\$ 86,497,845	6%
Wells Fargo	\$ 73,811,651	5%	**	**

** Investment did not represent 5% or more of investments as of December 31, 2013.

Note 3 - Capital Assets

Capital asset activity consisted of the following for the year ended December 31, 2014:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 179,809,619	\$ 599,543	\$ (96,638)	\$ 180,312,524
Structures	298,785,630	3,991,105	(80,867)	302,695,868
Machinery and equipment	1,189,449,329	26,693,237	(10,058,948)	1,206,083,618
Computer systems	105,747,247	1,797,265	(5,028,005)	102,516,507
Total capital assets - excluding land	1,773,791,825	33,081,150	(15,264,458)	1,791,608,517
Less accumulated depreciation	(646,741,160)	(46,445,074)	12,083,429	(681,102,805)
	1,127,050,665	(13,363,924)	(3,181,029)	1,110,505,712
Construction in progress	25,343,136	52,218,518	(28,655,283)	48,906,371
Land and land rights	43,269,483	991,813	-	44,261,296
Other property	1,184,937	383,571	-	1,568,508
Capital assets, net	\$ 1,196,848,221	\$ 40,229,978	\$ (31,836,312)	\$ 1,205,241,887

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 3 - Capital Assets (Continued)

Capital asset activity consisted of the following for the year ended December 31, 2013:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 179,570,648	\$ 238,971	\$ -	\$ 179,809,619
Structures	297,699,552	1,519,107	(433,029)	298,785,630
Machinery and equipment	1,165,607,169	25,439,158	(1,596,998)	1,189,449,329
Computer systems	98,227,205	8,204,179	(684,137)	105,747,247
Total capital assets - excluding land	<u>1,741,104,574</u>	<u>35,401,415</u>	<u>(2,714,164)</u>	<u>1,773,791,825</u>
Less accumulated depreciation	<u>(603,283,116)</u>	<u>(45,084,576)</u>	<u>1,626,532</u>	<u>(646,741,160)</u>
	1,137,821,458	(9,683,161)	(1,087,632)	1,127,050,665
Construction in progress	23,358,521	37,832,880	(35,848,265)	25,343,136
Land and land rights	42,910,772	358,711	-	43,269,483
Other property	<u>932,836</u>	<u>252,101</u>	<u>-</u>	<u>1,184,937</u>
Capital assets, net	<u>\$ 1,205,023,587</u>	<u>\$ 28,760,531</u>	<u>\$ (36,935,897)</u>	<u>\$ 1,196,848,221</u>

During 2014 and 2013, the Fund capitalized interest costs relating to construction of \$1,504,324 and \$1,108,155, 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 \$16,684,623 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, 2014 and 2013 were \$853,465,000 and \$887,010,000, respectively.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 4 - Revenue Bonds (Continued)

Revenue bonds outstanding as of December 31, 2014 and 2013 consisted of the following Municipal Water bonds:

<u>Name of Issue</u>	<u>Issuance Date</u>	<u>Maturity Years</u>	<u>Interest Rates</u>	<u>Original Issue Amount</u>	<u>Bonds Outstanding, 2014</u>	<u>Bonds Outstanding, 2013</u>
2003 parity, refunding bonds	5/12/03	2003-2033	4.0-6.0%	\$ 271,320,000	\$ 14,280,000	\$ 16,220,000
2004 parity bonds	10/25/04	2005-2034	3.0-5.0%	84,750,000	-	1,960,000
2005 parity, refunding bonds	12/28/05	2006-2029	4.0-5.0%	138,040,000	107,845,000	113,130,000
2006 parity, refunding bonds	10/23/06	2008-2037	4.0-5.0%	189,970,000	163,040,000	168,150,000
2008 parity, refunding bonds	12/15/08	2009-2038	4.0-5.25%	205,080,000	174,555,000	180,015,000
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	58,100,000	63,390,000
2012 parity, refunding bonds	5/30/12	2012-2034	2.0-5.0%	238,770,000	226,565,000	235,065,000
				<u>\$ 1,318,770,000</u>	<u>\$ 853,465,000</u>	<u>\$ 887,010,000</u>

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

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	40,315,000	36,454,956	76,769,956
2019	42,335,000	34,485,031	76,820,031
2020 - 2024	228,435,000	139,105,431	367,540,431
2025 - 2029	211,160,000	83,296,195	294,456,195
2030 - 2034	137,235,000	40,169,843	177,404,843
2035 - 2039	76,730,000	11,946,803	88,676,803
2040	7,090,000	417,601	7,507,601
	<u>\$ 853,465,000</u>	<u>\$ 466,170,828</u>	<u>\$ 1,319,635,828</u>

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 4 - Revenue Bonds (Continued)

The following table shows the revenue bond activity during the year ended December 31, 2014:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	\$ 887,010,000	\$ -	\$ (33,545,000)	\$ 853,465,000	\$ 35,015,000
Add (deduct) deferred amounts:					
Issuance premiums	62,092,268	-	(3,286,413)	58,805,855	-
Total bonds payable	<u>\$ 949,102,268</u>	<u>\$ -</u>	<u>\$ (36,831,413)</u>	<u>\$ 912,270,855</u>	<u>\$ 35,015,000</u>

The following table shows the revenue bond activity during the year ended December 31, 2013:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	\$ 919,640,000	\$ -	\$ (32,630,000)	\$ 887,010,000	\$ 33,545,000
Add (deduct) deferred amounts:					
Issuance premiums	65,415,725	-	(3,323,457)	62,092,268	-
Total bonds payable	<u>\$ 985,055,725</u>	<u>\$ -</u>	<u>\$ (35,953,457)</u>	<u>\$ 949,102,268</u>	<u>\$ 33,545,000</u>

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.

As of December 31, 2014, the balance of \$68,125,000 defeased bonds were redeemed as shown below:

	Amount Outstanding at December 31, 2013	Additions	Redemptions	Amount Outstanding at December 31, 2014
Bonds issued				
2004 Parity	\$ 68,125,000	\$ -	\$ (68,125,000)	\$ -

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 4 - Revenue Bonds (Continued)

As of December 31, 2013, of the \$219,465,000 defeased bonds, \$151,340,000 were redeemed as shown below:

	Amount Outstanding at December 31, 2012	Additions	Redemptions	Amount Outstanding at December 31, 2013
Bonds issued				
2003 Parity				
Refunding	\$ 151,340,000	\$ -	\$ (151,340,000)	\$ -
2004 Parity	68,125,000	-	-	68,125,000
	<u>\$ 219,465,000</u>	<u>\$ -</u>	<u>\$ (151,340,000)</u>	<u>\$ 68,125,000</u>

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 at least equal to 125% of average annual debt service. For 2014, net revenue available for debt service, as defined by the bond covenants, was 191% of annual debt service. The Fund was in compliance with all debt covenants as of December 31, 2014.

Note 5 - Leases

The Fund has non-cancelable operating lease commitments for real and personal property with minimum payments of \$367,701 in 2014 and \$365,844 in 2013. Rents are paid as they become due and payable. Minimum payments under the leases for the years ended December 31, are shown below:

	Minimum Payments
2015	\$ 363,159
2016	314,969
2017	104,765
2018	104,765
2019	104,765
2020 - 2024	74,409
2025 - 2029	58,912
	<u>\$ 1,125,744</u>

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

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. The System is a multiple-employer defined benefit plan in which 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 10.03% of their annual base salaries to the System. The City's contribution rate for the years ended December 31, 2014, 2013, and 2012 was 14.31%, 12.89%, and 11.01%, 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, 2014, 2013, and 2012 were \$6,664,614, \$5,797,112, and \$4,855,910, respectively.

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.

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

Year Ended December 31,	City Required Contribution	City Actual Contribution	Percentage Contributed
2012	\$ 62.4	\$ 62.4	100%
2013	\$ 76.9	\$ 76.9	100%
2014	\$ 89.8	\$ 89.8	100%

Actuarial data and assumptions

Valuation date	January 1, 2014
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	7.5%
Projected general wage inflation	4.0%
Postretirement benefit increases	1.5%

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

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)	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, 2012	\$ 1,954.3	\$ 2,859.3	\$ 905.0	68.3%	\$ 557.0	162.5%
January 1, 2013	\$ 1,920.1	\$ 3,025.3	\$ 1,105.2	63.5%	\$ 567.8	194.6%
January 1, 2014	\$ 2,094.3	\$ 3,260.1	\$ 1,165.8	64.2%	\$ 597.9	195.0%

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.

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.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

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

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 \$1.0 million in 2014 and \$3.0 million in 2013.

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, 2014 and 2013. These calculations are based on the most recent actuarial valuation data available, dated January 1, 2014. The Fund has accrued \$2,564,849 to the plan as of December 31, 2014, as a reasonable estimate of expected contributions.

	2014	2013
Annual required contribution	\$ 4,392,000	\$ 8,452,000
Interest on net OPEB obligation	1,542,000	1,534,000
Adjustment to annual required contribution	(2,403,000)	(2,253,000)
Annual OPEB cost (expense)	3,531,000	7,733,000
Contribution (employer-paid benefits)	(1,006,000)	(2,972,000)
Increase in net OPEB obligation	2,525,000	4,761,000
Net OPEB obligation, beginning of year	44,303,000	39,542,000
Net OPEB obligation, end of year	\$ 46,828,000	\$ 44,303,000
Fund's allocated share of city liability	\$ 2,564,849	\$ 2,552,430

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.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

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

Significant methods and assumptions are as follows:

Actuarial data and assumptions

Valuation date	January 1, 2014
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years, open
Discount rate	3.48%
Health care cost trend rates - medical	Traditional and Preventive Plans: 8%, decreasing by 0.5% for each year for two years; 16% in year 2017 and decreasing to 7.2% in 2018 Group Health Standard and Deductible Plans: 7.5%, decreasing by 0.5% 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, the other 50% will continue coverage under the same plan.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

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 Percent of Covered Payroll ((b-a)/c)
January 1, 2012	\$ -	\$ 74.7	\$ 74.7	0.0%	\$ 891.6	8.4%
January 1, 2013	\$ -	\$ 78.9	\$ 78.9	0.0%	\$ 942.0	8.4%
January 1, 2014	\$ -	\$ 41.8	\$ 41.8	0.0%	\$ 1,003.5	4.2%

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 2014 and 2013, 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, 0.931% and 0.674%, respectively. Claims expected to be paid within one year are \$1,195,990 and \$1,203,071 at December 31, 2014 and 2013, respectively. The table below presents the changes in the liability for workers' compensation claims and other claims (risk-financing liabilities) as of December 31:

	2014	2013
Beginning liability, undiscounted	\$ 5,009,711	\$ 5,280,854
Payments	(901,683)	(1,420,762)
Incurred claims and changes in estimate	1,064,378	1,149,619
Ending liability, undiscounted	<u>\$ 5,172,406</u>	<u>\$ 5,009,711</u>
Ending liability, discounted (recorded balance at December 31)	<u>\$ 4,997,716</u>	<u>\$ 4,875,601</u>

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

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

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 schedule below presents the compensated absences activity during the years ended December 31:

	<u>2014</u>	<u>2013</u>
Beginning liability	\$ 4,854,559	\$ 4,722,046
Additions	4,963,270	4,961,135
Reductions	<u>(4,504,979)</u>	<u>(4,828,622)</u>
Ending liability	<u>\$ 5,312,850</u>	<u>\$ 4,854,559</u>

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, 2014 and 2013 are as follows:

<u>Description</u>	<u>Maturity Years</u>	<u>Interest Rate</u>	<u>Loan Amount</u>	<u>Loans Outstanding, 2014</u>	<u>Loans Outstanding, 2013</u>
Myrtle Reservoir	2008-2025	1.5%	\$ 4,040,000	\$ 2,468,889	\$ 2,693,333
Beacon Reservoir	2008-2026	1.5%	4,040,000	2,551,579	2,764,211
West Seattle Reservoir	2009-2027	1.5%	3,030,000	2,073,158	2,232,632
Maple Leaf	2011-2029	1.5%	3,030,000	2,420,248	2,581,597
Maple Leaf ARRA	2013-2031	1.0%	<u>7,341,758</u>	<u>6,607,582</u>	<u>6,974,670</u>
			<u>\$ 21,481,758</u>	<u>\$ 16,121,456</u>	<u>\$ 17,246,443</u>

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 9 - Loans (Continued)

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

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,124,987	\$ 208,784	\$ 1,333,771
2016	1,124,987	193,745	1,318,732
2017	1,124,987	178,705	1,303,692
2018	1,124,987	163,666	1,288,653
2019	1,124,987	148,626	1,273,613
2020 - 2024	5,624,937	517,542	6,142,479
2025 - 2029	3,770,317	173,718	3,944,035
2030 - 2032	1,101,267	22,025	1,123,292
	<u>\$ 16,121,456</u>	<u>\$ 1,606,811</u>	<u>\$ 17,728,267</u>

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

	<u>2014</u>	<u>2013</u>
Net loans, beginning of year	\$ 17,246,443	\$ 17,068,886
Loan proceeds	-	1,420,761
Principal payments	<u>(1,124,987)</u>	<u>(1,243,204)</u>
Net loans, end of year	<u>\$ 16,121,456</u>	<u>\$ 17,246,443</u>
Loans due within one year	<u>\$ 1,124,987</u>	<u>\$ 1,124,987</u>
Loans, noncurrent	<u>\$ 14,996,469</u>	<u>\$ 16,121,456</u>

In 2014 the Fund received approval for a loan of \$12.1 million from the State of Washington for the Morse Lake Pump Plant Project. Accordingly the Fund invoices the State for expenditures incurred related to the project and receives reimbursement. In early 2015, the Fund received \$3.6 million as its first drawdown on the loan.

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, 2014 the Seattle Housing Authority receivable was \$431,555.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

Note 10 - Notes and Contracts Receivable (Continued)

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, 2014, King County Water District #49 receivable was \$89,152.

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

	<u>2014</u>	<u>2013</u>
Seattle Housing Authority receivable	\$ 431,555	\$ 448,773
King County Water District #49	89,152	191,669
Water main assessment	-	12
Total notes and contracts receivable	<u>520,707</u>	<u>640,453</u>
Due within one year	<u>(107,206)</u>	<u>(119,747)</u>
Total non-current notes and contracts receivable	<u>\$ 413,501</u>	<u>\$ 520,706</u>

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 four reservoirs is expected to be approximately \$155.8 million through the year 2018; costs beyond 2018 are not estimable as of the date of this report. As of December 31, 2014 and 2013, total cumulative costs incurred were \$146.8 million and \$140.9 million, respectively.

The City has wholesale contracts with Cascade Water Alliance (“CWA”) and twenty individual water districts and municipalities. Seventeen wholesale customers have full and partial requirements contracts which obligate the City to meet the wholesale customers’ demand that is not already met by their independent sources of supply. Two wholesale customers (including CWA) have block contracts which obligate the City to provide water up to a combined maximum of 41.85 MGD per year. Two other wholesale customers have emergency intertie agreements and do not purchase water from Seattle on a regular basis. CWA contract expires in 2063 while other wholesale contracts run through 2061.

The City also has a contract with the City of North Bend to provide untreated water supply up to an average annual amount of 1.1 MGD through 2066 for use in supplementing stream flows.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS

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 \$107.9 million (in 2014 dollars) over a period of 50 years (from the year 2000 through the year 2050).

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 2014 is \$78.6 million. The remaining \$29.3 million to complete the HCP is comprised of a \$7.6 million liability and an estimate of \$21.6 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.

Note 13 - Restatement of Financial Covenant

Subsequent to the original issuance on April 30, 2015 of the financial statements as of and for the years ended December 31, 2014 and 2013, an error was identified related to the disclosure of certain financial covenant information for the Fund. The calculation of net revenue available for debt service was revised as a result of a clarification of certain terms and information related to the underlying bond ordinance. In the previously issued financial statements, the Financial Covenant section of Note 4 disclosed a net revenue available for debt service of 193%, which has been revised to 191%.

OTHER INFORMATION (UNAUDITED)

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
OTHER INFORMATION (UNAUDITED)

Water Fund
Supplemental Information 2014

Water System Operating Statistics

	2010	2011	2012	2013	2014
Population Served					
Retail	664,458	669,654	672,674	678,000	682,000
Wholesale ⁽¹⁾	628,536	634,193	642,257	648,000	654,000
Total Population Served	1,292,994	1,303,847	1,314,931	1,326,000	1,336,000
Water Sales Revenues (\$000) ⁽²⁾⁽³⁾					
Retail	\$136,443	\$137,382	\$152,606	\$168,126	\$179,775
Wholesale	\$45,073	\$44,050	\$49,975	\$56,026	\$53,647
Total Water Sales Revenues	\$181,516	\$181,432	\$202,581	\$224,152	\$233,422
Billed Water Consumption (MG) ⁽³⁾					
Retail	19,868	19,305	19,657	19,769	19,575
Wholesale	20,437	20,922	21,236	21,405	21,986
Total Billed Water Use	40,305	40,227	40,893	41,174	41,561
Operating Costs (\$ per MG) ⁽⁴⁾	\$4,075	\$3,841	\$3,996	\$4,287	\$4,438
Gallons Used per Day per Capita	85	85	85	85	85
Retail Meters in Use	188,332	188,754	189,204	190,289	191,403
Number of New Retail Meters	230	422	450	1,085	1,114
Total Water Diversions (MGD)	118.4	117.9	120.5	120.9	121.5
Non-Revenue	8	7.7	8.5	8.1	7.6
% Non-Revenue	6.7	6.5	7.0	6.7	6.3

⁽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 nor any appreciable change in the number or composition of retail customers.

⁽⁴⁾ Per unit operating costs in 2009 and 2010 include a temporary increase in the City's utility tax rate and increased amortization expense, both due to Lane v. City of Seattle.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
OTHER INFORMATION (UNAUDITED)

Major Retail Water Customers - 2014 Annual Revenues and Volumes

The City of Seattle, The University of Washington, The Port of Seattle, Seattle Housing Authority, King County, Nucor Steel, Enwave Seattle (formerly Seattle Steam Company), Seattle Public Schools, CertainTeed Gypsum, Inc., and Swedish Medical Group. In aggregate, charges to these customers represented roughly 9% of total billed direct service revenue for the year.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
OTHER INFORMATION (UNAUDITED)

Water Rates - Effective January 1, 2014

Effective January 1, 2014

(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)	\$4.99	\$4.99	\$4.99		\$5.69	\$5.69	\$5.69		\$6.05	\$6.05	\$6.05		\$1.53
Peak Usage (May 16-Sept 15)													
Up to 5 ccf**	\$5.13	\$5.13	\$6.34		\$5.85	\$5.85	\$7.23		\$6.22	\$6.22	\$7.69		\$2.27
Next 13 ccf**	\$6.34	\$6.34	\$6.34		\$7.23	\$7.23	\$7.23		\$7.69	\$7.69	\$7.69		\$2.27
Over 18 ccf**	\$11.80	\$11.80	\$6.34		\$13.45	\$13.45	\$7.23		\$14.31	\$14.31	\$7.69		\$2.27
Usage over base allowance				\$20.00				\$22.80				\$24.30	
Utility Credit (\$/month)	\$19.46		\$12.38		\$19.46		\$12.38		\$19.46		\$12.38		
Demand Charge (\$/1000 gallons of deficient storage)													\$22.00
Base Service Charge (\$/month/meter)													New Srvc Fee
													(One Time)
3/4 inch and less	\$13.75		\$13.75		\$15.70		\$15.70		\$16.70		\$16.70		\$783
1 inch	\$14.20		\$14.20		\$16.20		\$16.20		\$17.20		\$17.20		\$1,566
1-1/2 inch	\$21.85	\$21.85	\$21.85		\$24.90	\$24.90	\$24.90		\$26.50	\$26.50	\$26.50		\$3,915
2 inch	\$24.20	\$24.20	\$24.20	\$15.40	\$27.60	\$27.60	\$27.60	\$18.00	\$29.35	\$29.35	\$29.35	\$19.00	\$6,264
3 inch	\$89.65	\$89.65	\$89.65	\$20.00	\$102.20	\$102.20	\$102.20	\$23.00	\$108.70	\$108.70	\$108.70	\$24.00	\$17,226
4 inch	\$128.45	\$128.45	\$128.45	\$37.00	\$146.45	\$146.45	\$146.45	\$42.00	\$155.80	\$155.80	\$155.80	\$45.00	\$24,273
6 inch		\$158.05	\$158.05	\$63.00		\$180.20	\$180.20	\$72.00		\$191.70	\$191.70	\$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

These rates will stay the same for 2015.