



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

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

December 31, 2013 and 2012

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

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

Report on Financial Statements

We have audited the accompanying financial statements of Seattle Public Utilities - Water Fund (the Fund), which comprise the statement of net position as of December 31, 2013 and 2012, 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.

Emphasis of Matter

As discussed in Note 13 to the financial statements, the Fund adopted the accounting requirements of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which resulted in the restatement of previously reported amounts for the year ended December 31, 2012. Our opinion is not modified with respect to this matter.

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, 2013 and 2012, 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

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.

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

Moss Adams LLP

Seattle, Washington
April 29, 2014

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, 2013 and 2012. 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 charged to customers. The financial situation of other aspects of Seattle City government, including other utility services and general government operations, are reported elsewhere.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements - The basic financial statements of the Fund report information similar to the presentation used by private sector companies. These statements offer short-term and long-term financial information about its activities. The basic financial statements begin on page 12 of this report and are comprised of three components: (1) 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, 2013 and 2012, 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, 2013 and 2012. 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, 2013 and 2012. 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.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Notes to the Financial Statements - The notes are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the data provided in the financial statements, such as for certain estimates and financing details. The notes to the financial statements begin on page 17 of this report.

FINANCIAL ANALYSIS

Increases or decreases in net position may serve over time as a useful indicator of whether the Fund's financial position is improving or deteriorating. At December 31, 2013 and 2012, the Fund's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources, resulting in surpluses in total net position of \$361.5 million and \$333.3 million, respectively. During these years, the Fund's overall position improved, with increases in net position of \$28.2 million (8.5%) and \$20.7 million (6.6%) during 2013 and 2012, 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

	<u>2013</u>	<u>2012</u> (As Restated)	<u>2011</u> (As Restated)
ASSETS			
Current assets	\$ 65,148,012	\$ 45,542,515	\$ 38,636,727
Capital assets, net	1,196,848,221	1,205,023,587	1,203,705,381
Other	116,079,264	126,876,329	139,945,800
Total assets	<u>1,378,075,497</u>	<u>1,377,442,431</u>	<u>1,382,287,908</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>20,164,950</u>	<u>21,415,616</u>	<u>14,759,390</u>
Total assets and deferred outflows of resources	<u>\$ 1,398,240,447</u>	<u>\$ 1,398,858,047</u>	<u>\$ 1,397,047,298</u>
LIABILITIES			
Current liabilities	\$ 69,099,335	\$ 68,411,477	\$ 66,665,963
Revenue bonds	915,557,268	952,425,725	976,684,689
Other	32,630,286	32,244,024	32,011,539
Total liabilities	<u>1,017,286,889</u>	<u>1,053,081,226</u>	<u>1,075,362,191</u>
DEFERRED INFLOWS OF RESOURCES			
Regulatory liability - revenue stabilization fund	<u>19,418,011</u>	<u>12,432,522</u>	<u>9,007,262</u>
NET POSITION			
Net invested in capital assets	327,186,569	317,266,743	304,415,800
Restricted	12,174,403	11,276,394	10,793,852
Unrestricted	<u>22,174,575</u>	<u>4,801,162</u>	<u>(2,531,807)</u>
TOTAL NET POSITION	<u>361,535,547</u>	<u>333,344,299</u>	<u>312,677,845</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,398,240,447</u>	<u>\$ 1,398,858,047</u>	<u>\$ 1,397,047,298</u>

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

FINANCIAL ANALYSIS (CONTINUED)

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 Outflows 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

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.

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 (\$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.

2012 Compared to 2011

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

Other assets decreased \$13.1 million (9.3%) from 2011. The largest portion of the change was due to reductions in restricted cash and equity in pooled investments of \$13.8 million and other charges of \$6.0 million. These decreases were offset by increase in conservation costs of \$6.5 million.

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

Other liabilities increased \$0.2 million (0.7%) over 2011. The most significant factors affecting this were increases in the HCP liability of \$1.2 million offset by a decrease in current loan payable of \$0.9 million.

Deferred Outflows of Resources - Rate stabilization account increased by \$3.4 million (38.0%) due to a cash transfer from operating fund and interest earned in 2012.

Net Position - Net investment in capital assets was the largest portion of the Fund's net position (\$317.3 million or 95.2%). This amount reflects the Fund's investment in capital assets such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2012, net invested in capital assets increased \$12.8 million from 2011 primarily from a reduction in debt allocated to capital assets.

The Fund's restricted net position (\$11.3 million or 3.4%) represent resources that are subject to restrictions on how they may be used. Restricted net position increased \$0.5 million from 2011.

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 (\$4.8 million or 1.4%) represent resources that are not subject to external restrictions and may be used to meet the Fund's obligations to creditors. This portion increased \$7.3 million in 2012.

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>2013</u>	<u>2012</u> (As Restated)	<u>2011</u> (As Restated)
Operating revenues	\$ 235,593,735	\$ 213,474,169	\$ 194,572,652
Operating expenses	<u>(176,531,527)</u>	<u>(163,688,656)</u>	<u>(154,758,980)</u>
Net operating income	59,062,208	49,785,513	39,813,672
Other expenses, net of other revenues	(38,388,558)	(37,502,304)	(41,113,380)
Fees, contributions, and grants	<u>7,517,598</u>	<u>8,383,245</u>	<u>3,096,313</u>
Change in net position	<u>\$ 28,191,248</u>	<u>\$ 20,666,454</u>	<u>\$ 1,796,605</u>

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.

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 \$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 water mains, connection charges, and agencies/interlocal services totaling \$2.0 million.

2012 Compared to 2011

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

Operating expenses increased \$8.9 million (5.8%) from 2011. Notable factors affecting this change include increases in city taxes of \$2.7 million related to the overall increase in revenues. Depreciation and amortization also increased by \$2.5 million due to an increase in depreciable assets. Additional increases to expenses include \$2.3 million in the general and administrative branch and \$1.5 million in the field operations.

Other expenses, net of other revenues decreased by \$3.6 million (8.8%) over 2011. The change was primarily due to a decrease in bond interest payments of \$1.9 million and amortization of premiums of \$0.8 million.

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

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, 2013, 2012, and 2011:

SUMMARY OF CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land and land rights	\$ 43,269,483	\$ 42,910,772	\$ 41,554,148
Buildings	132,995,939	136,592,014	139,390,553
Structures	239,710,769	246,440,010	207,894,613
Machinery and equipment	731,463,161	733,983,399	732,620,473
Computer systems	22,880,796	20,806,035	25,297,192
Construction in progress	25,343,136	23,358,521	56,020,194
Other property	<u>1,184,937</u>	<u>932,836</u>	<u>928,208</u>
Capital assets, net of accumulated depreciation	<u>\$ 1,196,848,221</u>	<u>\$ 1,205,023,587</u>	<u>\$ 1,203,705,381</u>

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

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 (0.70%) 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.

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

CAPITAL ASSETS (CONTINUED)

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

2012 Compared to 2011

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

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

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

- Business and technology infrastructure upgrades totaling \$5.3 million.
- Water conservation projects totaling \$4.1 million.
- South Lake Union project totaling \$3.2 million.

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

CAPITAL ASSETS (CONTINUED)

- Operational, regional, and other facilities totaling \$2.7 million.
- Rebuilding for Alaskan Way Viaduct & Seawall project totaling \$2.1 million.

DEBT ADMINISTRATION

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

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.

2012 Compared to 2011

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

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,	
	2013	2012 (As Restated)
ASSETS		
CURRENT ASSETS		
Operating cash and equity in pooled investments	\$ 28,900,545	\$ 12,461,437
Restricted cash and equity in pooled investments	10,000	10,000
Receivables		
Accounts, net of allowance	13,899,254	15,048,549
Interest and dividends	895,293	1,126,330
Unbilled revenues	13,965,425	11,499,729
Notes, and other contracts	119,747	114,619
Due from other funds	704,348	237,721
Due from other governments	1,509,609	742,377
Materials and supplies inventory	5,072,198	4,168,906
Prepayments and other current assets	71,593	132,847
Total current assets	<u>65,148,012</u>	<u>45,542,515</u>
NONCURRENT ASSETS		
Restricted cash and equity in pooled investments	65,688,715	72,929,481
Prepayments long-term	1,304,966	1,376,557
Notes and contracts receivable	520,706	645,453
Conservation costs	32,031,892	36,382,434
Regulatory assets	12,211,372	13,801,962
Other charges	4,321,613	1,740,442
Capital assets		
Land and land rights	43,269,483	42,910,772
Plant in service, excluding land	1,773,791,825	1,741,104,574
Less accumulated depreciation	(646,741,160)	(603,283,116)
Construction in progress	25,343,136	23,358,521
Other property, net	1,184,937	932,836
Total noncurrent assets	<u>1,312,927,485</u>	<u>1,331,899,916</u>
Total assets	1,378,075,497	1,377,442,431
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on advanced refunding	<u>20,164,950</u>	<u>21,415,616</u>
Total assets and deferred outflows of resources	<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)
STATEMENTS OF NET POSITION (CONTINUED)

	December 31,	
	2013	2012
		(As Restated)
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 6,681,187	\$ 5,704,655
Salaries, benefits, and payroll taxes payable	2,100,688	1,740,866
Taxes payable	704,664	610,443
Interest payable	16,779,416	17,446,364
Due to other funds	4,092,785	4,000,378
Due to other governments	68,908	-
Claims payable	1,203,071	1,312,567
Compensated absences payable	427,043	405,118
HCP liability	804,625	1,163,960
Revenue bonds due within one year	33,545,000	32,630,000
Notes and contracts payable	1,124,987	1,187,747
Other current liabilities	1,566,961	2,209,379
Total current liabilities	69,099,335	68,411,477
NONCURRENT LIABILITIES		
Vendor deposits payable	17,959	17,959
Compensated absences payable	4,427,515	4,316,928
Unfunded other post retirement benefits	2,552,430	2,086,170
Loans	16,121,456	15,881,139
Claims payable	3,672,530	3,810,511
HCP liability	5,424,982	5,747,373
Other noncurrent liabilities	413,414	383,944
Revenue bonds	887,010,000	919,640,000
Less bonds due within one year	(33,545,000)	(32,630,000)
Bond discount and premium, net	62,092,268	65,415,725
Total noncurrent liabilities	948,187,554	984,669,749
Total liabilities	1,017,286,889	1,053,081,226
DEFERRED INFLOWS OF RESOURCES		
Regulatory liability - revenue stabilization fund	19,418,011	12,432,522
NET POSITION		
Net invested in capital assets	327,186,569	317,266,743
Restricted for:		
Other charges	4,408,339	4,028,346
Conservation costs	3,589,838	3,582,212
Habitat conservation program	3,566,951	2,977,711
Bonneville power administration projects	442,853	447,762
Muckleshoot settlement	166,422	240,363
Unrestricted	22,174,575	4,801,162
Total net position	361,535,547	333,344,299
Total liabilities, deferred inflows of resources and net position	\$ 1,398,240,447	\$ 1,398,858,047

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,	
	2013	2012 (As Restated)
OPERATING REVENUES		
Charges for services and other revenues	\$ 235,593,735	\$ 213,474,169
OPERATING EXPENSES		
Planning and development	1,085,180	1,038,075
Utility systems management	13,888,947	13,738,972
Field operations	30,007,140	24,331,536
Project delivery	4,562,667	4,864,682
Customer services	7,609,154	7,383,777
General and administrative	31,657,360	29,623,318
City business and occupation taxes	28,776,311	25,937,913
Other taxes	9,035,669	8,064,491
Depreciation and other amortization	49,909,099	48,705,892
Total operating expenses	176,531,527	163,688,656
OPERATING INCOME	59,062,208	49,785,513
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,535,841	2,842,209
Interest expense	(43,396,224)	(44,650,426)
Amortization of bond premiums and discounts	3,323,457	2,719,357
Amortization of bond refunding loss	(1,250,666)	(1,272,581)
Gain (loss) on sale of capital assets	(309,582)	272,771
Contributions and grants	803,255	544,391
Other, net	905,361	2,041,975
Total nonoperating revenues (expenses)	(38,388,558)	(37,502,304)
Income before capital contributions and grants	20,673,650	12,283,209
Capital contributions and grants	7,517,598	8,383,245
CHANGE IN NET POSITION	28,191,248	20,666,454
NET POSITION		
Beginning of year	333,344,299	312,677,845
End of year	\$ 361,535,547	\$ 333,344,299

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

	Years Ended December 31,	
	2013	2012
		(As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 240,903,794	\$ 218,394,168
Cash paid to suppliers	(29,818,371)	(24,592,910)
Cash paid to employees	(56,625,419)	(57,022,474)
Cash paid for taxes	(37,631,417)	(33,572,676)
Net cash provided by operating activities	116,828,587	103,206,108
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	833,178	538,978
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of bonds and other long-term debt	1,413,208	284,588,451
Principal payments on long-term debt and refunding	(33,873,204)	(313,407,157)
Capital expenditures and other charges paid	(38,279,031)	(43,228,640)
Interest paid on long-term debt	(45,171,328)	(47,426,266)
Build America Bonds Federal Interest Subsidy	2,042,448	2,135,335
Capital fees and grants received	5,392,852	5,159,536
Debt issuance costs	-	(1,384,374)
Proceeds from sale of capital assets	287,202	447,651
Net cash used in capital and related financing activities	(108,187,853)	(113,115,464)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	(275,570)	643,556
 NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS	9,198,342	(8,726,823)
 CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	85,400,918	94,127,741
End of year	\$ 94,599,260	\$ 85,400,918
 CASH AT THE END OF THE YEAR CONSISTS OF		
Operating cash and equity in pooled investments	\$ 28,900,545	\$ 12,461,437
Noncurrent restricted cash and equity in pooled investments	65,698,715	72,939,481
Total cash at the end of the year	\$ 94,599,260	\$ 85,400,918

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

	Years Ended December 31,	
	2013	2012 (As Restated)
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$ 59,062,208	\$ 49,785,513
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation and amortization	49,909,099	48,705,892
Nonoperating revenues and expenses	2,548,673	3,191,526
Changes in operating assets and liabilities		
Accounts receivable	1,149,294	(1,516,455)
Unbilled revenues	(2,465,696)	(552,443)
Other receivables	-	(278,760)
Due from other funds	(466,627)	672,976
Due from other governments	(578,544)	(240,599)
Materials and supplies inventory	(903,292)	(347,955)
Accounts payable	976,532	577,997
Salaries, benefits, and payroll taxes payable	359,821	274,895
Compensated absences payable	132,513	(26,684)
Due to other funds	92,407	(552,640)
Due to other governments	68,908	-
Claims payable	(247,477)	(469,788)
Taxes payable	94,222	87,128
Regulatory liability - revenue stabilization fund	6,985,489	3,496,282
Credits and other	(141,409)	213,984
Other assets and liabilities	252,466	185,239
Total adjustments	<u>57,766,379</u>	<u>53,420,595</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 116,828,587</u>	<u>\$ 103,206,108</u>
NONCASH TRANSACTIONS		
Contributed infrastructure	<u>\$ 1,900,854</u>	<u>\$ 3,476,432</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 2013 and 2012, the Fund paid \$11,142,057 and \$9,713,629, respectively, to the City for its share of general and administrative services. Additionally, the Fund paid \$28,776,311 and \$25,937,913 in 2013 and 2012, 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 \$3,399,359 and \$2,992,600 in 2013 and 2012, 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 2013 and 2012. 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 \$1,653,497 and \$1,514,804 in 2013 and 2012, respectively. The Fund paid \$227,220 and \$311,141 for CCSS services in 2013 and 2012, 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, a portion of which is scheduled to be spent in 2014, 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, 2013 and 2012, the Fund's allowance for doubtful accounts was \$330,933 and \$325,765, 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 \$7.0 million in 2013. 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 2013 and 2012, 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.

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 amount was included in gain on sale of land rights and timber in the 2003 Statement of Revenues, Expenses, and Changes in Net Position. This \$6.0 million, together with \$657,149 in timber sales related to the easement, were deposited into the BPA account and classified as restricted assets. At December 31, 2013 and 2012, the cash balance in the BPA account was \$442,853 and \$447,762, 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.

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)

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

Operating Expenses - Certain expenses of the Fund are reported on the Statements of Revenues, Expenses, and Changes in Net Position by functional category. The types of work performed within each category are as follows:

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

Taxes - The Fund is charged a public utility tax by the City at a rate of 15.54% of Fund revenues, net of certain credits and certain revenues. In addition, the Fund paid a 5.029% public utility tax to the State on a certain portion of revenues identified as utility revenues. The Fund also paid business and occupation tax to the City at the rate of 0.215% and to the State at the rate of 1.8% from January through June 2013 and 1.5% thereafter 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.

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 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.

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, 2013 and 2012 are related to the BPA and RSF accounts and certain other charges.

Unrestricted net positions are those that are not "net invested in capital assets" or "restricted."

Arbitrage Rebate Requirement - The Fund is subject to the Internal Revenue Code ("IRC"), Section 148(f), related to its tax-exempt revenue bond. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed will be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had no liability for arbitrage as of December 31, 2013 and 2012.

Accounting Changes - GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The statement is effective for periods beginning after December 15, 2012. The financial statements reflect these changes for the periods presented, see Note 13 for additional information.

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.

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.

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)

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.

Reclassification - Reclassifications have been made to prior year balances to provide a presentation consistent with the current year.

Note 2 - Cash and Investments

Custodial Credit Risk - Deposits - As of December 31, 2013 and 2012, the City's pool contained cash on deposit with the City's custodial banks in the amounts of \$12,431,810 and \$18,082,491, respectively. The deposits in excess of \$250,000 in 2013 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.

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

Note 2 - Cash and Investments (Continued)

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

	2013		2012	
	City Pool	Weighted Average Maturity (Days)	City Pool	Weighted Average Maturity (Days)
U.S. Government Agencies	\$ 853,631,386	1141	\$ 803,856,889	851
U.S. Government Obligations	227,659,850	902	67,448,440	482
State and Local Governments	156,812,737	818	182,163,719	549
Commercial Paper	154,962,668	47	176,955,311	40
Repurchase Agreements	44,756,478	2	162,390,595	2
Total	\$ 1,437,823,119		\$ 1,392,814,954	
Portfolio Weighted Average Maturity		914		592

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

	2013	2012
Cash and equity in pooled investments	\$ 28,900,545	\$ 12,461,437
Restricted cash and equity in pooled investments	65,698,714	72,939,481
Total	\$ 94,599,259	\$ 85,400,918
Balance as a percentage of City Pool cash and investments	6.6%	6.1%

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, 2013, the City's investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 to A-1+ by Standard & Poor's Rating Service.

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 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, 2013, these investments were rated Aaa by Moody's Investors Service and AA+ by Standard & Poor's Rating Service. As of December 31, 2012, these investments were rated Aaa, and Aa1 by Moody's Investors Service and AAA and AA+ by Standard & Poor's Rating Service.

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

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

Issuer	2013		2012	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal National Mortgage Association	\$ 329,389,682	23%	\$ 243,725,925	18%
Federal Home Loan Mortgage Corp	\$ 285,535,430	20%	\$ 126,065,840	9%
United States Government	\$ 227,659,850	16%	\$ 67,448,440	5%
Freddie Mac Multifamily Securities	\$ 107,594,143	7%	\$ 80,726,450	6%
Federal Home Loan Bank	\$ 86,497,845	6%	\$ 258,633,251	19%
Wells Fargo	\$ 44,756,478	3%	\$ 162,390,595	12%

Note 3 - Capital Assets

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	1,741,104,574	35,401,415	(2,714,164)	1,773,791,825
Less accumulated depreciation	(603,283,116)	(45,084,576)	1,626,532	(646,741,160)
	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	932,836	252,101	-	1,184,937
Capital assets, net	\$ 1,205,023,587	\$ 28,760,531	\$ (36,935,897)	\$ 1,196,848,221

SEATTLE PUBLIC UTILITIES - WATER FUND
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NOTES TO FINANCIAL STATEMENTS

Note 3 - Capital Assets (Continued)

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

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

During 2013 and 2012, the Fund capitalized interest costs relating to construction of \$1,108,155 and \$2,050,043, 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 \$16,622,699 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, 2013 and 2012 were \$887,010,000 and \$919,640,000, 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, 2013 and 2012 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, 2013</u>	<u>Bonds Outstanding, 2012</u>
2003 parity, refunding bonds	5/12/03	2003-2033	4.0-6.0%	\$ 271,320,000	\$ 16,220,000	\$ 25,485,000
2004 parity bonds	10/25/04	2005-2034	3.0-5.0%	84,750,000	1,960,000	3,830,000
2005 parity, refunding bonds	12/28/05	2006-2029	4.0-5.0%	138,040,000	113,130,000	118,180,000
2006 parity, refunding bonds	10/23/06	2008-2037	4.0-5.0%	189,970,000	168,150,000	173,015,000
2008 parity, refunding bonds	12/15/08	2009-2038	4.0-5.25%	205,080,000	180,015,000	185,205,000
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	63,390,000	68,520,000
2012 parity, refunding bonds	5/30/12	2012-2034	2.0-5.0%	238,770,000	235,065,000	236,325,000
				<u>\$ 1,318,770,000</u>	<u>\$ 887,010,000</u>	<u>\$ 919,640,000</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>
2014	\$ 33,545,000	\$ 43,368,881	\$ 76,913,881
2015	35,015,000	41,835,556	76,850,556
2016	36,700,000	40,125,906	76,825,906
2017	38,450,000	38,333,506	76,783,506
2018	40,315,000	36,454,956	76,769,956
2019 - 2023	228,295,000	150,520,588	378,815,588
2024 - 2028	212,460,000	93,715,398	306,175,398
2029 - 2033	156,465,000	47,512,172	203,977,172
2034 - 2038	91,845,000	16,435,257	108,280,257
2039 - 2042	13,920,000	1,237,489	15,157,489
	<u>\$ 887,010,000</u>	<u>\$ 509,539,709</u>	<u>\$ 1,396,549,709</u>

SEATTLE PUBLIC UTILITIES - WATER FUND
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NOTES TO FINANCIAL STATEMENTS

Note 4 - Revenue Bonds (Continued)

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	<u>65,415,725</u>	<u>-</u>	<u>(3,323,457)</u>	<u>62,092,268</u>	<u>-</u>
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>

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	\$ 977,160,000	\$ 238,770,000	\$ (296,290,000)	\$ 919,640,000	\$ 32,630,000
Add (deduct) deferred amounts:					
Issuance premiums	<u>30,949,689</u>	<u>45,515,451</u>	<u>(11,049,415)</u>	<u>65,415,725</u>	<u>-</u>
Total bonds payable	<u>\$ 1,008,109,689</u>	<u>\$ 284,285,451</u>	<u>\$ (307,339,415)</u>	<u>\$ 985,055,725</u>	<u>\$ 32,630,000</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, 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				
2001 Parity	\$ -	\$ -	\$ -	\$ -
2003 Parity				
Refunding	151,340,000	-	(151,340,000)	-
2004 Parity	<u>68,125,000</u>	<u>-</u>	<u>-</u>	<u>68,125,000</u>
	<u>\$ 219,465,000</u>	<u>\$ -</u>	<u>\$ (151,340,000)</u>	<u>\$ 68,125,000</u>

SEATTLE PUBLIC UTILITIES - WATER FUND
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NOTES TO FINANCIAL STATEMENTS

Note 4 - Revenue Bonds (Continued)

During 2012, \$263,785,000 bonds were defeased and \$44,320,000 of defeased bonds were redeemed, as shown below:

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

Debt Service Coverage - The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain adjusted net revenue available for debt service of not less than 125% of actual annual debt service. In 2013, adjusted net revenue available for debt service, as defined by the bond covenants was 189% of debt service. In 2012, adjusted net revenue available for debt service, as defined by the bond covenants was 172% of debt service. Net revenue available for debt service for the years ended December 31, 2013 is determined as follows:

Change in net assets	\$ 28,191,248
Add:	
City taxes	28,776,311
Depreciation and amortization	49,909,099
Interest paid on revenue bonds	44,504,380
Draws on BPA account	3,756
	<u>151,384,794</u>
Less:	
Donation of assets	1,900,854
Capitalized interest	1,108,155
Amortization of bond premiums and loss on refunding	2,072,791
Adjusted net revenue available for debt service	<u>\$ 146,302,994</u>
Debt service requirement (cash basis)	\$ 77,422,804
Coverage percentage	189%

SEATTLE PUBLIC UTILITIES - WATER FUND
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NOTES TO FINANCIAL STATEMENTS

Note 5 - Leases

The Fund has non-cancelable operating lease commitments for real and personal property with minimum payments of \$365,844 in 2013 and \$393,513 in 2012. 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
2014	\$ 367,474
2015	362,932
2016	314,742
2017	104,538
2018	104,538
2019 - 2023	243,742
2024 - 2028	57,777
2029	11,555
	\$ 1,567,298

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 single-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. 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, 2013, 2012, and 2011, were \$5,797,112, \$4,855,910, and \$3,892,675, 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.

SEATTLE PUBLIC UTILITIES - WATER FUND
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NOTES TO FINANCIAL STATEMENTS

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

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

Year Ended December 31,	City Required Contribution	City Actual Contribution	Percentage Contributed
2011	\$ 50.2	\$ 50.2	100%
2012	\$ 62.4	\$ 62.4	100%
2013	\$ 76.9	\$ 76.9	100%

Actuarial data and assumptions:

Valuation date	January 1, 2013
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	30 years, open
Asset valuation method	5-Year Smoothing Method
Investment rate of return	7.75%
Projected general wage inflation	4.0%
Postretirement benefit increases	1.5%

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) Entry Age ¹ (b)	Unfunded AAL (UAAL) ² (b-a)	Funded Ratio (a/b)	Covered Payroll ³ (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2011	\$ 2,013.7	\$ 2,709.0	\$ 695.4	74.3%	\$ 563.2	123.5%
January 1, 2012	\$ 1,954.3	\$ 2,859.3	\$ 905.0	68.3%	\$ 557.0	162.5%
January 1, 2013	\$ 1,920.1	\$ 3,025.3	\$ 1,105.2	63.5%	\$ 567.8	194.6%

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.

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)

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

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

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

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

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

The Seattle City Council authorizes the obligations of the plan members and the City as employer by passing ordinances and amendments regarding contributions to the plans. Eligible retirees self-pay 100% of the premiums based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The plan is financed on a pay-as-you-go basis, and the City was required to contribute \$2.4 million in 2012 and \$3.9 million in 2011.

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)

The table below summarizes the City's annual cost, expected contributions to the plan, and changes in the net OPEB obligation for fiscal years ended December 31, 2012 and 2011. These calculations are based on the most recent actuarial valuation data available, dated January 1, 2012. The Fund has accrued \$2,552,430 to the plan as of December 31, 2013, as a reasonable estimate of expected contributions.

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

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, 2012
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years, open
Discount rate	3.88%
Health care cost trend rates - Medical	Traditional and Preventive Plans: 9.0%, decreasing by 0.5% for each year for 4 years Group Health Standard and Deductible Plans: 8.5%, decreasing by 0.5% for each year for 7 years
Participation	40% of Active Employees who retire participate.
Mortality	General Service Actives based on the RP-2000 Employees Tables for Males and Females, with ages set back three years and General Service Retirees based on the RP-2000 Combined Healthy Males and Females, with ages set back one year.
Marital status	60% of members electing coverage are assumed to be married or to have a registered domestic partner. Male spouses two years older than their female spouses.
Morbidity factors	Morbidity rate ranges for ages 50 through 64: 87.09% to 172.99% for retirees, and 101.19% to 172.99% for spouses. Retirees' spouses pay a lower premium than retirees.
Other considerations	Active employees with current spousal and/or dependent coverage are assumed to elect same plan and coverage after retirement.

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 % of Covered Payroll ((b-a)/c)
January 1, 2010	\$ -	\$ 93.5	\$ 93.5	0.0%	\$ 869.1	10.8%
January 1, 2011	\$ -	\$ 99.4	\$ 99.4	0.0%	\$ 866.2	11.5%
January 1, 2012	\$ -	\$ 74.7	\$ 74.7	0.0%	\$ 891.6	8.4%

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 2013 and 2012, 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, 0.674% and 0.784%, respectively. Claims expected to be paid within one year were \$1,203,071 and \$1,312,567 at December 31, 2013 and 2012, respectively. The table below presents the changes in the liability for workers' compensation claims and other claims (risk-financing liabilities) as of December 31:

	2013	2012
Beginning liability, undiscounted	\$ 5,280,853	\$ 5,742,091
Payments	(1,420,762)	(1,169,004)
Incurred claims and changes in estimate	1,149,619	707,766
Ending liability, undiscounted	\$ 5,009,710	\$ 5,280,853
Ending liability, discounted (recorded balance at December 31)	\$ 4,875,601	\$ 5,123,078

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>2013</u>	<u>2012</u>
Beginning liability	\$ 4,722,046	\$ 4,748,730
Additions	4,961,135	5,071,336
Reductions	<u>(4,828,622)</u>	<u>(5,098,020)</u>
Ending liability	<u>\$ 4,854,559</u>	<u>\$ 4,722,046</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, 2013 and 2012 are as follows:

<u>Description</u>	<u>Maturity Years</u>	<u>Interest Rate</u>	<u>Loan Amount</u>	<u>Loans Outstanding, 2013</u>	<u>Loans Outstanding, 2012</u>
Magnolia Manor Reservoir	1995-2013	1.0%	\$ 2,220,000	\$ -	\$ 118,217
Myrtle Reservoir	2008-2025	1.5%	4,040,000	2,693,333	2,917,778
Beacon Reservoir	2008-2026	1.5%	4,040,000	2,764,211	2,976,842
West Seattle Reservoir	2009-2027	1.5%	3,030,000	2,232,632	2,392,105
Maple Leaf	2011-2029	1.5%	3,030,000	2,581,597	2,742,947
Maple Leaf ARRA	2013-2031	1.0%	7,341,758	6,974,670	5,920,997
			<u>\$ 23,701,758</u>	<u>\$ 17,246,443</u>	<u>\$ 17,068,886</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>
2014	\$ 1,124,987	\$ 223,823	\$ 1,348,810
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 - 2023	5,624,938	592,738	6,217,676
2024 - 2028	4,366,868	230,044	4,596,912
2029 - 2033	1,629,702	39,129	1,668,831
	<u>\$ 17,246,443</u>	<u>\$ 1,830,634</u>	<u>\$ 19,077,077</u>

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

	<u>2013</u>	<u>2012</u>
Net loans, beginning of year	\$ 17,068,886	\$ 17,624,179
Loan proceeds	1,420,761	303,000
Principal payments	<u>(1,243,204)</u>	<u>(858,293)</u>
Net loans, end of year	<u>\$ 17,246,443</u>	<u>\$ 17,068,886</u>
Loans due within one year	<u>\$ 1,124,987</u>	<u>\$ 1,187,747</u>
Loans, noncurrent	<u>\$ 16,121,456</u>	<u>\$ 15,881,139</u>

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, 2013 the Seattle Housing Authority receivable was \$448,773.

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, 2013, King County Water District #49 receivable was \$191,669.

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

Note 10 - Notes and Contracts Receivable (Continued)

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

	2013	2012
Seattle Housing Authority receivable	\$ 448,773	\$ 465,194
King County Water District #49	191,669	294,866
Water main assessments	12	12
Total notes and contracts receivable	640,453	760,072
Due within one year	(119,747)	(114,619)
Total non-current notes and contracts receivable	\$ 520,706	\$ 645,453

Note 11 - Commitments

The Fund is required by the Washington State Department of Health (“DOH”) to complete a program to cover its open, above-ground distribution system reservoirs by the year 2020. The total cost of burying five reservoirs is expected to be approximately \$143.7 million through the year 2016; costs beyond 2016 are not estimable as of the date of this report. As of December 31, 2013 and 2012, total cumulative costs incurred were \$140.9 million and \$139.1 million, respectively.

Note 12 - Habitat Conservation Program Liability

SPU has prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan (“HCP”) is to protect all species of concern that may be affected by the operations of SPU and SCL in the Cedar River Watershed, while allowing the City to continue to provide high quality drinking water to the region. The federal government has accepted the HCP. The total cost of implementing the HCP is expected to be \$106.8 million (in 2013 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 2013 is \$76.2 million. The remaining \$30.6 million to complete the HCP is comprised of a \$6.2 million liability and an estimate of \$24.4 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.

SEATTLE PUBLIC UTILITIES - WATER FUND
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NOTES TO FINANCIAL STATEMENTS

Note 13 - Adoption of New Accounting Pronouncement

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is effective for financial statement periods beginning after December 15, 2012, with the effects of the accounting change to be applied retroactively by restating the financial statements. The Fund adopted this new pronouncement in the current year and, accordingly, has restated amounts of effected balances within the financial statements as of December 31, 2012. The amounts related to bond issue costs of \$4,479,708 have been included in our rate-setting structure and were reclassified into the regulatory asset account; as such, there is no impact to net position for 2012.

	2012 As Previously Reported	2012 As Restated	Effect of Restatement
Statement of Net Position			
<i>Assets</i>			
Prepayments and other current assets	\$ 61,254	\$ 132,847	\$ 71,593
Prepayments long-term	-	1,376,557	1,376,557
Unamortized bond issue costs	4,594,736	-	(4,594,736)
Regulatory assets	-	13,801,962	13,801,962
Other	10,979,167	1,740,442	(9,238,725)
<i>Deferred Outflows of Resources</i>			
Unamortized Loss on refunded debt	-	21,415,616	21,415,616
<i>Liabilities</i>			
Revenue stabilization fund	12,432,522	-	(12,432,522)
Loss on advanced refunding	(22,832,267)	-	22,832,267
<i>Deferred Inflows of Resources</i>			
Regulatory liability - revenue stabilization fund	-	12,432,522	12,432,522
<i>Net Position</i>			
Net invested in capital assets	303,630,160	317,266,743	13,636,583
Restricted	27,551,558	11,276,394	(16,275,164)
Unrestricted	2,162,581	4,801,162	2,638,581
Statement of Revenues, Expenses and Changes in Net Position			
General and administrative	29,545,198	29,623,318	78,120
Depreciation and other amortization	48,492,784	48,705,892	213,108
Interest expense	(44,654,896)	(44,650,426)	4,470
Amortization of bond refunding loss	(1,314,825)	(1,272,581)	42,244
Amortization of debt expenses	(244,514)	-	244,514
Statement of Cash Flows			
Net operating income	50,076,741	49,785,513	(291,228)
Depreciation and amortization	48,492,784	48,705,892	213,108
Other assets and liabilities	107,119	185,243	78,124

SUPPLEMENTAL INFORMATION

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

Water System Operating Statistics

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Population Served					
Retail	658,951	664,458	669,654	672,674	678,000
Wholesale ⁽¹⁾	<u>621,606</u>	<u>628,536</u>	<u>634,193</u>	<u>642,257</u>	<u>648,000</u>
Total Population Served	<u>1,280,557</u>	<u>1,292,994</u>	<u>1,303,847</u>	<u>1,314,931</u>	<u>1,326,000</u>
Water Sales Revenues (\$000) ⁽²⁾⁽³⁾					
Retail	\$130,272	\$136,443	\$137,382	\$152,606	\$168,126
Wholesale	<u>\$48,454</u>	<u>\$45,073</u>	<u>\$44,050</u>	<u>\$49,975</u>	<u>\$56,026</u>
Total Water Sales Revenues	<u>\$178,726</u>	<u>\$181,516</u>	<u>\$181,432</u>	<u>\$202,581</u>	<u>\$224,152</u>
Billed Water Consumption (MG) ⁽³⁾					
Retail	20,956	19,868	19,305	19,657	19,769
Wholesale	<u>23,554</u>	<u>20,437</u>	<u>20,922</u>	<u>21,236</u>	<u>21,405</u>
Total Billed Water Use	<u>44,510</u>	<u>40,305</u>	<u>40,227</u>	<u>40,893</u>	<u>41,174</u>
Operating Costs (\$ per MG) ⁽⁴⁾	\$3,679	\$4,075	\$3,841	\$3,996	\$4,287
Gallons Used per Day per Capita	95	85	85	85	85
Retail Meters in Use	188,102	188,332	188,754	189,204	190,289
Number of New Retail Meters	1070	230	422	450	1,085
Total Water Diversions (MGD)	129.5	118.4	117.9	120.5	120.9
Non-Revenue	7.5	8	7.7	8.5	8.1
% Non-Revenue	5.8	6.7	6.5	7.0	6.7

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

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

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

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

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

Major Retail Water Customers - 2013 Annual Revenues and Volumes

The Water System's ten largest retail water users in 2013 were: the University of Washington, the Port of Seattle, the City of Seattle, Seattle Steam Company, King County, Nucor Steel, Seattle Public Schools, Swedish Medical Center, Harborview Medical Center and Seattle Children's Hospital. In the aggregate, revenue from these customers was less than 8% of billed direct service revenues in 2013.

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

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	Partial
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
3/4 inch and less	\$13.75		\$13.75		\$15.70		\$15.70		\$16.70		\$16.70		(One Time) \$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