

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

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

December 31, 2025 and 2024



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Report of Independent Auditors

The Director of Seattle Public Utilities
Water Fund
Seattle, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Seattle Public Utilities – Water Fund (the Fund), which comprise the statements of net position as of December 31, 2025 and 2024, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Seattle Public Utilities – Water Fund as of December 31, 2025 and 2024, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Financial Reporting Entity

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of City of Seattle, Washington, as of December 31, 2025 and 2024, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the water fund debt service coverage calculation, water system operating statistics, major retail water customers, and water rates, but does not include the basic financial statements and our auditor’s report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2026, on our consideration of the Fund’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund’s internal control over financial reporting and compliance.

Baker Tilly US, LLP

Seattle, Washington
April 30, 2026

Management's Discussion and Analysis

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, 2025 and 2024. The revenues, expenses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the City of Seattle’s water system are recorded in the Fund, the functions of which are primarily supported by user fees and charges to customers. The financial situation of other aspects of Seattle City government, including other utility services and general government operations, are reported elsewhere.

Overview of the Financial Statements

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

Basic financial statements – The basic financial statements of the Fund report information similar to the presentation used by private sector companies. These statements offer short-term and long-term financial information about its activities. The basic financial statements begin on page 15 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, 2025 and 2024, on all 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, 2025 and 2024. 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 creditworthiness and its ability to 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, 2025 and 2024, to provide answers to questions about sources, uses, and impacts on cash. These statements report on cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities for the reporting period.

Notes to the financial statements – The notes are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the data provided in the financial statements, such as for certain estimates and financing details. The notes to the financial statements begin on page 20 of this report.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Management’s Discussion and Analysis

Financial Analysis

Increases or decreases in net position may serve over time as a useful indicator of whether the Fund’s financial position is improving or deteriorating. At December 31, 2025 and 2024, the Fund’s assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources, resulting in a net position of \$903.4 million and \$868.5 million, respectively. In 2025, the Fund’s overall net position increased \$34.9 million (4.0%), as compared to an increase of \$47.7 million (5.8%) in 2024. The following summary statements of net position presents the assets and deferred outflows of resources of the Fund and shows the mix of liabilities, deferred inflows of resources, and net position used to acquire these assets and deferred outflows of resources:

Summary Statements of Net Position

	2025	2024	2023
ASSETS			
Current assets	\$ 193,086,137	\$ 169,676,653	\$ 160,766,155
Capital assets, net	1,498,722,735	1,422,203,198	1,390,326,431
Other	135,143,957	178,713,625	144,663,677
Total assets	1,826,952,829	1,770,593,476	1,695,756,263
DEFERRED OUTFLOWS OF RESOURCES	28,775,979	32,880,313	40,818,824
Total assets and deferred outflows of resources	\$ 1,855,728,808	\$ 1,803,473,789	\$ 1,736,575,087
LIABILITIES			
Current liabilities	\$ 117,128,498	\$ 84,807,647	\$ 83,414,972
Revenue bonds	624,825,000	629,225,000	604,485,000
Other	153,849,723	156,140,549	167,918,288
Total liabilities	895,803,221	870,173,196	855,818,260
DEFERRED INFLOWS OF RESOURCES			
Revenue stabilization fund	36,765,716	52,578,875	47,549,791
Deferred inflows - other	19,769,624	12,216,179	12,385,749
Total deferred inflows of resources	56,535,340	64,795,054	59,935,540
NET POSITION			
Net investment in capital assets	834,289,684	788,539,953	753,677,215
Restricted	21,342,856	20,506,595	20,943,954
Unrestricted	47,757,707	59,458,991	46,200,118
TOTAL NET POSITION	903,390,247	868,505,539	820,821,287
Total liabilities, deferred inflows of resources and net position	\$ 1,855,728,808	\$ 1,803,473,789	\$ 1,736,575,087

Seattle Public Utilities – Water Fund (An Enterprise Fund of the City of Seattle) Management’s Discussion and Analysis

2025 Compared to 2024

Assets – Current assets increased \$23.4 million (13.8%) from the prior year, primarily due to an increase in operating cash and equity in pooled investments of \$19.2 million, an increase of unbilled revenue of \$2.4 million, an increase in due from other funds of \$2.6 million, and an increase of \$1.6 million in materials and supplies inventory. This is offset by a decrease in net accounts receivable of \$1.0 million and a decrease in due from other governments of \$0.8 million. The change in operating cash is primarily due to the rate increase of 2% as well as increase of 3.3% in consumption.

Capital assets increased \$76.5 million (5.4%) from the prior year, mainly due to current year capital spending (see Capital Assets discussion starting on page 10). The capital asset increase was offset by a \$42.0 million increase in accumulated depreciation and amortization (Note 3).

Other assets decreased \$43.6 million (-24.4%) from the prior year, this is mostly attributable to \$46.2 million decrease in restricted cash, which is due to a reduction of debt service reserve fund of \$22 million (as a result of the issuance of the 2025 bonds, see note 4), a reduction of \$9 million in construction cash, and a reduction in the revenue stabilization account (RSA) of \$15.6 million (consisting of \$25 million for the Wholesale refund for over-collected payments (see note 10), which was offset by a deposit of \$7.4 million for 2025).

Deferred outflows of resources – Deferred outflows of resources decreased by \$4.1 million (-12.5%) from the prior year. This is mostly due to a decrease of \$6.8 million in unamortized refunding loss, as a result of the refunding of the 2010 and 2015 bonds (see note 4). This is offset by an increase of \$2.7 million attributed to changes in assumptions related to pension accounting and differences in expected and actual experience in other post-employment benefits.

Liabilities – Current liabilities increased \$32.3 million (38.1%) from the prior year. This is mostly attributable to an increase of \$25.5 million in due to other governments for a refund to Wholesale Customers for over-collected payments (see note 10 for details), \$7.3 in accounts payable and \$3.4 million due to other funds. These were offset by decrease in revenue bonds due within one year of \$2.9 million, and \$1.6 million in interest payable.

Noncurrent liabilities decreased \$6.7 million (-0.9%) from the prior year. This is mostly attributable to a decrease in bond premium of \$7.4 million, a decrease of \$4.4 million in revenue bonds, and a decrease of \$1.8 million in loans payable. These decreases were offset by an increase of \$2.9 million of bonds payable in one year, an increase of \$2.0 million in net pension liability, an increase of \$1.5 million in Habitat Conservation Program (HCP), and an increase of \$1.2 million in claims payable.

Deferred inflows of resources – Deferred inflows of resources decreased by \$8.3 million (-12.7%) from the prior year. This decrease is due to the decrease of the RSA of \$15.8 million (consisting of \$25 million for the Wholesale refund for over-collected payments (see note 10) and a deposit of \$7.4 million for 2025). This is offset by an increase of \$8.0 million in unamortized gain on refunded debt, due to the issuance of the 2025 bonds (see note 4).

Seattle Public Utilities – Water Fund (An Enterprise Fund of the City of Seattle) Management’s Discussion and Analysis

Net position – Net position increased \$34.9 million (4.0%) from the prior year.

Net investment in capital assets was the largest portion of the Fund’s net position \$834.3 million or (92.3%). This amount reflects the Fund’s net investment in capital assets such as land, buildings, and equipment, less accumulated depreciation and amortization, and any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund’s investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2025, net investment in capital assets increased \$45.7 million from the prior year primarily from an increase in construction in progress.

The Fund’s restricted net position of \$21.3 million (2.4%) represents resources that are subject to restrictions on how they may be used. Restricted net position increased by \$0.8 million.

The Fund’s unrestricted net position of \$47.8 million (5.3%) represents resources that are not subject to external restrictions and may be used to meet the Fund’s obligations to creditors. This portion decreased \$11.7 million from the prior year primarily as a result of operations.

2024 Compared to 2023

Assets – Current assets increased \$8.9 million (5.5%) from the prior year. This is primarily due to an increase in net accounts receivable of \$4.9 million, an increase in operating cash of \$3.0 million, an increase of unbilled revenue of \$0.8 million, an increase in materials and supplies inventory of \$0.3 million, and an increase due from other governments of \$0.1 million. The change in operating cash is primarily due to the move of \$3.2 million to Rate Stabilization Account (RSA) in 2024.

Capital assets increased \$31.9 million (2.3%) from the prior year mainly due to capital spending in the current year. The capital asset increase was offset by a \$43.5 million increase in accumulated depreciation and amortization (Note 3).

Other assets increased \$34.0 million (23.5%) from the prior year. This is mostly attributable to the issuance of \$68.8 million in revenue bonds, with a premium of \$7 million, for construction; \$5.5 million of which is for bond reserves, \$3.2 million transferred from operating to the rate stabilization account, and \$1.9 million of investment income on restricted cash. This was offset by a transfer to operating cash of \$48 million for construction projects.

Deferred outflows of resources – Deferred outflows of resources decreased by \$8.0 million (-19.4%) from the prior year. This change resulted mainly from assumptions related to pension accounting and differences in expected and actual experience in other post-employment benefits.

Liabilities – Current liabilities decreased \$1.4 million (-1.7%) from the prior year. The change mostly resulted from increases of \$3.2 million in revenue bonds due within one year, and \$3.5 million in due to other funds. This was offset by decreases of accounts payable of \$2.9 million and a decrease of \$2.3 million in salaries payable.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Management’s Discussion and Analysis

Noncurrent liabilities increased \$13 million (1.7%) from the prior year. This is mainly from an increase of \$21.6 million in revenue bonds as a result of 2024 bonds issuance, an increase of \$2 million in premiums, an increase of \$1.8 million in unfunded other post-retirement benefits, an increase of \$1.4 million in compensated absences, and an increase of \$1.1 million in Habitat Conservation Program (HCP) liability. This was offset by a decrease of \$12.8 million in net pension liability and a decrease of \$2 million in loans.

Deferred inflows of resources – Deferred inflows of resources increased by \$4.9 million (8.1%) from the prior year. This increase is mainly due to an increase of \$5.0 million in the rate stabilization account.

Net position – Net position increased \$47.7 million (5.8%) from the prior year.

Net investment in capital assets was the largest portion of the Fund’s net position of \$788.5 million (90.8%). This amount reflects the Fund’s net investment in capital assets such as land, buildings, and equipment, less accumulated depreciation and amortization, and any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund’s investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2024, net investment in capital assets increased \$34.9 million from 2023 primarily from an increase in utility plant and construction in progress.

The Fund’s restricted net position \$20.5 million or (2.4%) represents resources that are subject to restrictions on how they may be used. Restricted net position decreased by \$0.4 million.

The Fund’s unrestricted net position \$59.5 million or (6.8%) represents resources that are not subject to external restrictions and may be used to meet the Fund’s obligations to creditors. This portion increased \$13.3 million from the prior year primarily as a result of operations.

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

	2025	2024	2023
Operating revenues	\$ 337,565,364	\$ 307,819,615	\$ 301,496,010
Operating expenses	(301,305,966)	(262,906,611)	(257,879,079)
Net operating income	36,259,398	44,913,004	43,616,931
Other expenses, net of other revenues	(10,638,022)	(9,238,240)	(3,926,795)
Fees, contributions, and grants	9,263,332	12,009,488	9,820,366
Change in net position	<u>\$ 34,884,708</u>	<u>\$ 47,684,252</u>	<u>\$ 49,510,502</u>

Seattle Public Utilities – Water Fund (An Enterprise Fund of the City of Seattle) Management’s Discussion and Analysis

2025 Compared to 2024

Operating revenues increased by \$29.7 million (9.7%) from the prior year. The change was mainly driven by increases in utility services revenue of \$30.7 million (from a rate increase of 2% and in increase in consumption of 3.3%), an increase of \$1.9 million in other operating revenues, offset by a decrease of \$2.9 million in wholesale water sales, which was due to the fact that in 2024 SPU received a non-reoccurring payment from Cascade of \$5 million, in consideration for entering into the 2nd amendment to their contract, which was offset by an increase in consumption in 2025 of 4.0%.

Operating expenses increased, \$38.4 million (14.6%) from the prior year. Notable factors affecting this change include increases of \$29.9 million in services, due mostly to the wholesale refund of \$25 million for over-collected payments (see note 10), and an increase of \$8.0 million in salaries and benefits (this is driven by an increase of \$2 million in salaries, an increase of \$3.4 million in insurance premiums, and an increase of \$2.1 million in pension expense).

Total nonoperating expenses increased by \$1.4 million (15.2%) from the prior year. The change was primarily due to a decrease in other net revenue/(expenses) of \$7.3 million, mostly from the gain/loss on disposal of fixed assets, offset by decrease in interest expense of \$3.2 million and an increase in investment income of \$2.7 million.

Capital contributions and grants decreased by \$2.7 million (22.9%) from the prior year. The main factor for the change is a decrease of \$3.3 million in other private contributions offset by increase of \$1.2 million in capital contributions.

2024 Compared to 2023

Operating revenues increased approximately \$6.3 million (2.1%) from the prior year. The change was mainly driven by increases in utility services revenue of \$5.6 million, which was due to a 2% rate increase, and wholesale commercial services of \$5.9 million offset by a decrease of \$5.2 million other operating revenue.

Operating expenses increased \$5.0 million (1.9%) from the prior year. Notable factors affecting this change include increases of \$4.3 million in services, \$3.5 million in salaries, and were offset by a decrease of \$4.1 million in personnel benefits.

Nonoperating revenues net of expenses decreased by \$7.3 million (185.7%) from the prior year. The change was primarily due to a decrease in investment income realized and unrealized of \$3 million, and a decrease in recoveries of \$5.2 million, which was offset by an increase in rent from operating property of \$0.5 million and an increase in other judgments and settlements of \$0.3 million.

Capital contributions and grants increased by \$4.2 million (42.5%) from the prior year. The main factor for the change is an increase of \$2.7 million in other private contributions and \$1.5 million in state grants.

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 and amortization, by major asset category as of December 31, 2025, 2024, and 2023:

Summary of Capital Assets, Net of Accumulated Depreciation and Amortization

	December 31,		
	2025	2024	2023
Land and land rights	\$ 54,511,249	\$ 54,511,259	\$ 54,511,259
Buildings	146,904,325	115,584,824	120,732,870
Infrastructure	1,062,702,512	919,763,199	889,663,148
Machinery and equipment	61,472,785	215,123,696	225,270,943
Computer systems	10,935,230	17,479,490	21,293,176
Construction in progress	158,578,469	95,835,366	75,185,263
Artwork	2,395,397	2,385,839	2,357,342
Intangible right-to-use	948,255	1,245,013	1,037,918
Property held for future use	274,514	274,512	274,512
Capital assets, net of accumulated depreciation and amortization	<u>\$ 1,498,722,736</u>	<u>\$ 1,422,203,198</u>	<u>\$ 1,390,326,431</u>

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

2025 Compared to 2024

The Fund’s capital assets, net of accumulated depreciation and amortization for the year ended December 31, 2025, were \$1.5 billion. This represents an increase of \$76.5 million (5.4%) compared to 2024.

Highlights of the Fund’s major capital assets placed in service during 2025 include the following:

- \$63.7 million for water infrastructure, improvements, and rehabilitation
- \$6.9 million for heavy equipment

Seattle Public Utilities – Water Fund (An Enterprise Fund of the City of Seattle) Management’s Discussion and Analysis

As of December 31, 2025, the Fund had \$158.6 million in construction in progress. Major projects under construction are the following:

- \$83.6 million for water infrastructure improvements and rehabilitation
- \$38.5 million for Cedar and Tolt infrastructure and facility improvements
- \$14.4 million for pump station improvements
- \$7.8 million for reservoir improvements
- \$7.1 million for software upgrades
- \$6.6 million for structure and leasehold improvements

2024 Compared to 2023

The Fund’s capital assets, net of accumulated depreciation and amortization for the year ended December 31, 2024, was \$1.4 billion. This represents an increase of \$31.9 million (2.3%) compared to 2023.

Highlights of the Fund’s major capital assets placed in service during 2024 include the following:

- \$50.2 million for water infrastructure improvements and rehabilitation
- \$7.8 million for heavy equipment
- \$2.6 million for infrastructure software

As of December 31, 2024, the Fund had \$95.8 million in construction in progress. Major projects under construction are the following:

- \$47.4 million for water system improvements and rehabilitation
- \$23.8 million for Cedar and Tolt infrastructure and facility improvements
- \$6.3 million for pump station improvements
- \$5.8 million for reservoir improvements
- \$5.2 million for structure and leasehold improvements
- \$4.0 million for software upgrades

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Management’s Discussion and Analysis

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 Washington State agencies for certain capital improvements are unsecured. The Fund’s credit ratings on its bonds were AAA and AA+/stable by Moody’s Investors Service Inc. and Standard & Poor’s Rating Services, respectively. Additional details about the Fund’s revenue bonds and loans are in notes 4 and 9 of this report.

2025 Compared to 2024

At December 31, 2025, the Fund had \$624.8 million in bonded debt and \$14.5 million in loans, as compared to \$629.2 million and \$16.6 million, respectively, at December 31, 2024. Bonded debt decreased a net \$4.4 million, attributed to \$192 million in refunding’s and \$38.7 million in new debt along with \$43.1 million in scheduled payments of debt principal. Loans decreased by \$2.0 million due to scheduled principal payments on existing loans.

2024 Compared to 2023

At December 31, 2024, the Fund had \$629.2 million in bonded debt and \$16.6 million in loans, as compared to \$604.5 million and \$18.6 million, respectively, at December 31, 2023. Bonded debt increased a net \$24.7 million, attributed to the issuance of \$68.8 million in bonds, offset by \$44 million in scheduled payments of debt principal. Loans decreased by \$2.0 million due to scheduled principal payments on existing loans.

Requests for Information

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

Financial Statements

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Statements of Net Position
December 31, 2025 and 2024

	2025	2024
ASSETS		
CURRENT ASSETS		
Operating cash and equity in pooled investments	\$ 128,428,808	\$ 109,254,735
Receivables		
Accounts, net of allowance	25,816,409	26,786,383
Interest and dividends	90,635	728,624
Unbilled revenues	20,177,170	17,754,139
Due from other funds	3,271,537	676,053
Due from other governments	2,002,021	2,759,087
Materials and supplies inventory	13,227,964	11,646,039
Prepayments and other current assets	71,593	71,593
Total current assets	193,086,137	169,676,653
NONCURRENT ASSETS		
Restricted cash and equity in pooled investments	87,151,409	133,354,313
Prepayments long-term	445,854	517,447
Conservation costs	30,361,819	27,406,806
Regulatory assets	5,002,352	4,677,986
Other charges	12,182,522	12,757,073
Capital assets		
Land and land rights	54,511,249	54,511,259
Plant in service, excluding land	2,404,431,068	2,348,684,681
Less accumulated depreciation	(1,121,467,959)	(1,079,488,459)
Construction in progress	158,578,469	95,835,366
Other property, net	2,669,909	2,660,351
Total noncurrent assets	1,633,866,692	1,600,916,823
Total assets	1,826,952,829	1,770,593,476
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunded debt	2,973,503	9,776,550
Pension and OPEB contributions and changes in assumptions	25,802,476	23,103,763
Total deferred outflow of resources	28,775,979	32,880,313
Total assets and deferred outflows of resources	\$ 1,855,728,808	\$ 1,803,473,789

See accompanying notes.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Statements of Net Position
December 31, 2025 and 2024

	2025	2024
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 20,337,891	\$ 13,055,125
Salaries, benefits, and payroll taxes payable	-	917
Compensated absences payable	1,616,421	361,187
Due to other funds	6,857,041	3,452,941
Due to other governments	25,546,733	-
Interest payable	8,112,773	9,668,101
Taxes payable	1,008,207	811,902
Revenue bonds due within one year	44,335,000	47,205,000
Claims payable	2,102,998	2,179,465
Habitat conservation program liability	455,463	545,328
Loans payable, due within one year	1,825,490	2,049,935
Lease and subscription liabilities, due within one year	369,854	351,030
Other	4,560,627	5,126,716
Total current liabilities	117,128,498	84,807,647
NONCURRENT LIABILITIES		
Compensated absences payable	6,976,636	6,862,546
Revenue bonds	624,825,000	629,225,000
Less bonds due within one year	(44,335,000)	(47,205,000)
Bond premiums	73,140,410	80,534,573
Claims payable	6,053,477	4,902,705
Habitat conservation program liability	10,448,140	8,996,070
Loans payable, net of current portion	12,701,524	14,527,014
Total OPEB liability	4,257,452	4,209,176
Net pension liability	83,440,426	81,396,454
Lease and subscription liabilities, net of current portion	657,231	986,741
Other noncurrent liabilities	509,427	930,270
Total noncurrent liabilities	778,674,723	785,365,549
Total liabilities	895,803,221	870,173,196
DEFERRED INFLOWS OF RESOURCES		
Unamortized gain on refunded debt	15,347,972	7,321,388
Rate stabilization account	36,765,716	52,578,875
Deferred inflows-pension and OPEB	4,421,652	4,894,791
Total deferred inflows of resources	56,535,340	64,795,054
NET POSITION		
Net investment in capital assets	834,289,684	788,539,953
Restricted for		
Conservation costs	2,877,645	2,996,955
Habitat conservation program	8,095,367	7,064,127
Other charges	10,369,844	10,445,513
Unrestricted	47,757,707	59,458,991
Total net position	903,390,247	868,505,539
Total liabilities, deferred inflows of resources and net position	\$ 1,855,728,808	\$ 1,803,473,789

See accompanying notes.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2025 and 2024

	2025	2024
OPERATING REVENUES		
Charges for services and other revenues	\$ 337,565,364	\$ 307,819,615
OPERATING EXPENSES		
Salaries, wages, and personnel benefits	82,246,704	74,288,524
Supplies	10,187,818	8,121,243
Services	92,854,732	62,964,892
Intergovernmental payments	54,940,227	52,439,037
Depreciation and amortization	61,791,482	60,002,064
Other operating (revenue)/expenses	(714,997)	5,090,851
Total operating expenses	301,305,966	262,906,611
OPERATING INCOME	36,259,398	44,913,004
NONOPERATING REVENUES (EXPENSES)		
Investment income	11,335,917	8,597,048
Interest expense	(19,081,289)	(22,231,524)
Contributions and grants	1,953,392	1,982,571
Other, net	(4,846,042)	2,413,665
Total nonoperating expenses	(10,638,022)	(9,238,240)
Income before capital contributions and grants	25,621,376	35,674,764
Capital contributions and grants	9,263,332	12,009,488
CHANGE IN NET POSITION	34,884,708	47,684,252
NET POSITION		
Beginning of year	868,505,539	820,821,287
End of year	\$ 903,390,247	\$ 868,505,539

See accompanying notes.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Statements of Cash Flows
Years Ended December 31, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 319,374,897	\$ 309,214,870
Cash paid to suppliers	(78,249,152)	(77,720,552)
Cash paid to employees	(84,742,509)	(80,209,104)
Cash paid for taxes	(51,828,958)	(50,033,672)
Net cash provided by operating activities	104,554,278	101,251,542
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	1,953,392	1,982,571
Net cash flows from noncapital financing activities	1,953,392	1,982,571
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the sales of bonds and other long-term debt	247,743,679	75,824,988
Principal payments on long-term debt	(237,259,935)	(46,074,935)
Capital expenditures and other charges	(133,631,433)	(82,198,394)
Interest paid on long-term debt	(29,665,500)	(29,324,213)
Build America Bonds Federal Interest Subsidy	283,983	1,619,191
Capital fees and grants received	7,428,030	6,890,487
Proceeds from the sales of capital assets	512,741	622,722
Net cash used in capital and related financing activities	(144,588,435)	(72,640,154)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change on investment	11,051,934	6,977,855
NET CHANGE IN CASH AND EQUITY IN POOLED INVESTMENTS	(27,028,831)	37,571,814
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	242,609,048	205,037,234
End of year	\$ 215,580,217	\$ 242,609,048
CASH AT THE END OF THE YEAR CONSISTS OF		
Operating cash and equity in pooled investments	\$ 128,428,808	\$ 109,254,735
Noncurrent restricted cash and equity in pooled investments	87,151,409	133,354,313
Total cash and equity in pooled investments at the end of the year	\$ 215,580,217	\$ 242,609,048

See accompanying notes.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Statements of Cash Flows
Years Ended December 31, 2025 and 2024

	2025	2024
RECONCILIATION OF NET OPERATING INCOME TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$ 36,259,398	\$ 44,913,004
Adjustments to reconcile net operating income to net cash provided by operating activities		
Adjustment for net pension liability	(1,127,879)	(5,403,101)
Gain/(Loss) on disposal of assets	(11,346,976)	-
Depreciation and amortization	61,791,482	60,002,064
Other cash receipts	1,659,258	1,659,257
Accounts receivable	890,049	(4,949,271)
Unbilled revenues	(2,343,106)	(782,588)
Due from other funds	(2,595,483)	165,780
Due from other governments	757,066	(117,576)
Materials and supplies inventory	(1,581,925)	(317,307)
Prepayments and other assets	71,593	71,592
Accounts payable	7,282,764	(2,866,890)
Salaries, benefits, and payroll taxes payable	(917)	(2,298,962)
Compensated absences payable	1,369,325	1,497,536
Due to other funds	3,404,099	3,452,941
Due to other governments	25,546,733	(132,765)
Claims payable	1,074,305	268,423
Taxes payable	196,305	(76,037)
Regulatory liability - revenue stabilization account	(15,813,159)	5,029,084
Lease and subscription, unfunded OPEB liabilities, other liabilities	(938,654)	1,136,358
Total adjustments	68,294,880	56,338,538
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 104,554,278	\$ 101,251,542
NONCASH TRANSACTIONS		
Contributed infrastructure	\$ 1,835,303	\$ 5,119,002

See accompanying notes.

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 information technology and others that are normally considered to be general and administrative. The Fund is charged a share of these costs and during 2025 and 2024, paid \$28,410,990 and \$28,485,935, respectively, to the City for its share of these services. Additionally, the Fund pays a business and occupation utility tax to the City's General Fund. The Fund paid \$39,874,947 and \$38,369,410 for these taxes in 2025 and 2024, respectively. These amounts are recorded within intergovernmental payments on the accompanying statements of revenues, expenses, and changes in net position.

The utility billing function is co-managed by SPU, Seattle City Light (SCL), and the Seattle Information Technology Department (ITD). SPU provides customer service through the call center and walk-in center. ITD maintains the Customer Information System (CIS). SPU and SCL bill and reimburse each other for these services. SPU reimburses ITD for the information technology services mentioned above. Within SPU, the costs and reimbursements were shared among its three utility funds (Water, Drainage and Wastewater, and Solid Waste). The Fund received reimbursements related to the call center and walk-in center of \$2,624,701 and \$2,325,185 in 2025 and 2024, respectively.

Water services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected \$4,817,170 and \$4,214,355 in 2025 and 2024, respectively, from the City for water services provided.

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 (U.S. GAAP) 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**

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 in the statements of net position. The operating statements present increases (revenues) and decreases (expenses) in total net position.

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

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

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

Allowance for doubtful accounts – A reserve has been established for uncollectible accounts receivable based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. As of December 31, 2025 and 2024, the Fund’s allowance for doubtful accounts was \$1,640,125 and \$1,274,828, 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**

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 and loan 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. The Fund uses regulatory accounting for interest costs incurred during the construction of capital assets because these costs are included in the rate structure and, as such, will continue to be amortized over the life of the associated capital assets. GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, would have required these costs to be recognized as an expense in the period incurred if the Fund had not utilized regulatory accounting for these costs.

Revenue Stabilization Account – The Revenue Stabilization Account (RSA) was established by City Ordinance 122841 to reduce year-to-year variation in rates. Amounts deposited into the RSA are excluded from the statements of revenues, expenses, and changes in net position and treated as a credit in accordance with GASB Statement No. 62. The RSA 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. \$7.4 million and \$3.2 million were deposited into the RSA in 2025 and 2024, respectively. In addition, \$25 million was withdrawn from the RSA to refund the wholesale customers for over-collected payments (see note 10)

BPA account – In 2003, the Bonneville Power Administration (BPA) purchased an easement in the amount of \$6.0 million from the Fund to construct a power transmission line through the Cedar River Watershed. This \$6.0 million, together with \$657,149 in timber sales related to the easement, were deposited into the BPA account and classified as restricted assets. At December 31, 2025 and 2024, the cash balance in the BPA account was \$499,097 and \$480,721, 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.

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 the Tolt Levee modification. The Fund amortizes these charges over a 2 to 33-year period.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Capital assets – Capital assets are stated at cost or, if contributed, at fair value on 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 are capitalized. SPU’s policy is to capitalize assets with a cost of \$10,000 or more. The Fund received donated assets, such as water mains, from developers and other governmental agencies. These donated assets are treated as capital contributions and grants in the statements of revenues, expenses, and changes in net position.

Construction in progress – Capitalizable costs incurred on projects that are not in service or ready for service 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

Asset depreciation begins in the month the asset is placed in service.

Deferred outflows/inflows of resources – In addition to assets, the statements 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 had a 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. The Fund has also recorded deferred outflows/inflows of resources for certain pension and other post-employment benefit (OPEB) activities including, the difference between projected and actual experience, the difference between projected and actual earnings on investments, and contributions made subsequent to the measurement date (Notes 5 and 8).

Seattle Public Utilities – Water Fund (An Enterprise Fund of the City of Seattle) Notes to Financial Statements

In addition to liabilities, the statements 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 deferred gain/loss on refunding debt, which qualifies for reporting in this category. A deferred gain/loss on refunding debt 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. The Fund has also recorded deferred inflows of resources for the changes between employer contributions and proportionate share of contributions (Notes 5 and 8). The Fund has a revenue stabilization account that qualifies for reporting in this category.

Compensated absences – Employees earn vacation based upon their date of hire and years of service and may accumulate vested vacation up to a maximum of 480 hours. Unused vacation at retirement or upon leaving city employment, is payable to the employee, in cash or a noncash settlement, such as conversion to defined postemployment benefits. Earned but unused vacation is accrued as a liability of the Fund using the employees' current pay rate. Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit.

Employees who submit the required documentation when 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. The Fund records a liability for estimated sick leave based on an analysis of the amount management deems is more likely than not to be used or settled in cash or noncash means.

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

Postemployment Benefits Other Than Pensions (OPEB) – For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the benefit have been determined on the same basis as they are reported by the City. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

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**

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 – The Fund’s operating expenses include the cost of sales and services, administrative expenses, depreciation on capital assets and amortization of deferred assets.

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 5.03% 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 0.22% and to the state at the rate of 1.75% for certain other non-utility revenues.

Nonoperating revenues and expenses – The Fund’s nonoperating revenues and expenses 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, amortization of debt expenses, amortization of debt discounts, premiums, and refunding losses, gain or loss on the sale of assets, and amortization of debt expenses.

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

Net investment in capital assets consists of capital assets, less accumulated depreciation and amortization, 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 relates to conservation costs, HCP and certain other charges.

Unrestricted net positions are those that are not “net investment in capital assets” or “restricted.”

Arbitrage rebate requirement – The Fund is subject to the Internal Revenue Code (IRC), Section 148(f), related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are more than 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 an arbitrage liability of \$324,286 and \$0 as of December 31, 2025 and 2024, respectively.

Accounting standard changes – In December 2023, GASB issued Statement No. 102 (GASB 102), *Certain Risk Disclosures*, and it was effective for reporting periods beginning after June 15, 2024. This standard prescribes the disclosure of certain concentrations or constraints that may limit our ability to acquire resources or control spending. The adoption of this standard had no impact to the Fund.

Seattle Public Utilities – Water Fund (An Enterprise Fund of the City of Seattle) Notes to Financial Statements

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

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

Reclassifications – Certain reclassifications have been made to the financial statements and related footnote presentations. These reclassifications had no effect on the operating results or net position of the Fund.

Note 2 – Cash and Equity in Pooled Investments

Per Seattle Municipal Code, SMC 5.06.010 Investment Authority, the City's Director of Finance and Office of City Finance (OCF) is authorized to invest all moneys in the City Treasury. 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 Department of FAS. Under the City's investment policy, all temporary cash surpluses in the pool are invested. The Fund's share of the pool is included in the statements of net position as cash and equity in pooled investments or as restricted assets. The pool operates like a demand deposit account in that all departments, including the Fund may deposit or withdraw cash at any time, from the pool, up to the amount of the Fund's balance, without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments.

Custodial credit risk – deposits – Custodial credit risk of deposits is the risk that in the event of bank failure for one of the City's depository institutions, the City's deposits or related collateral securities may not be returned in a timely manner.

As of December 31, 2025 and 2024, the City did not have custodial credit risk. The City's deposits are covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA) as well as protection provided by the Washington State Public Deposit Protection Commission (PDPC) as established in RCW 39.58 Public Funds. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks, credit unions, and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC or NCUA by requiring banks, credit unions, and thrifts to pledge securities as collateral.

Seattle Public Utilities – Water Fund (An Enterprise Fund of the City of Seattle) Notes to Financial Statements

As of December 31, 2025 and 2024, the City held sufficient cash in its vault for operations. Additional small amounts of cash were held in departmental revolving fund accounts with the City's various custodial banks, all of which fell within the NCUA/FDIC's \$250,000 standard maximum deposit insurance amount. Any of the City's cash not held in its vault, or a local depository, was held in the City's operating fund (investment pool), and at the close of every business day, any cash remaining in the operating fund is swept into an overnight repurchase agreement that matures the next day.

Custodial credit risk – investments – Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the City will not have access to, or be able to recover, its investments or collateral securities that are in the possession of an outside party. The City mitigates custodial credit risk for its investments by having its investment securities held by the City's contractual custodial agent, Wells Fargo, rather than the trading counterparty or the trading counterparty's trust department or agent. The City mitigates counterparty risk by settling trades through its custodian on a delivery-versus-payment method.

By investment policy, the City maintains a list of approved securities dealers for transacting business. The City also conducts its own due diligence as to the financial wherewithal of its counterparties.

Foreign currency risk – The City's pooled investment does not include securities denominated in foreign currencies.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investments must adhere to state statutes. State statute and the City's Statement of Investment Policy do not stipulate credit quality requirements for U.S. Government or U.S. Government Agency Obligations but provide for minimum credit ratings for investments in municipal bonds, commercial paper, and corporate bonds. State statute limits the maximum maturity and percentage allocation of investments in commercial paper and corporate bonds but not for municipals. The City's investment policy limits the maximum percentage allocation that can be invested in municipal bonds, commercial paper, and corporate bonds. In addition, commercial paper and corporate bond purchases must adhere to the investment policies and procedures adopted by the Washington State Investment Board (Policy No. 2.05.500 adopted 3/16/95 and revised again 9/15/16) that includes the following credit and maximum maturity constraints:

- A commercial paper issuer must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Ratings Organizations (NRSROs), at the time of purchase (P-1, A-1+, A-1, F1+, F1, by Moody's, S&P and Fitch, respectively). If the commercial paper is rated by more than two NRSROs, it must have the highest rating from all of the organizations.
- Commercial Paper investments may not have maturities exceeding 270 days. Any Commercial Paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating at the time of purchase in one of the two highest rating categories of a NRSRO.
- Corporate bonds at the time of purchase must have a credit rating of not less than "A" by any nationally recognized rating agency and must mature within 5.5 years.
- Commercial paper and corporate bonds combined may not exceed 25% of the total portfolio.

Seattle Public Utilities – Water Fund (An Enterprise Fund of the City of Seattle) Notes to Financial Statements

- No single issuer of commercial paper may exceed 3% of the total portfolio.
- No single issuer of corporate bonds rated AA or better by all rating agencies may exceed 3% of the total portfolio.
- No single issuer of corporate bonds rated single A by all rating agencies may exceed 2% of the total portfolio.
- Investments in a single credit issuer, consisting of commercial paper and corporate bonds combined, may not exceed 3% of the total portfolio.

The City subscribes to public finance research from Fitch Ratings and all fixed income asset types from Standard & Poor's Ratings Direct. The City conducts internal due diligence of all investments with credit risk and maintains an "approved list" of issuers. Finally, the City monitors the credit worthiness of its investments over time until they mature or are potentially sold.

Interest rate risk – Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. To mitigate interest rate risk, the City intentionally immunizes its known and expected cash flow needs. To best accomplish meeting its investment objectives, the City has divided the Pool into two separate portfolios: Operating and Strategic.

The Operating Portfolio is invested to meet reasonably expected liquidity needs over a period of twelve to eighteen months. This portfolio has low duration and high liquidity. Consistent with this profile, and for the purpose of comparing earnings yield, its benchmark is the net earnings rate of the State of Washington's Local Government Investment Pool (LGIP).

The Strategic Portfolio consists of cash that is in excess of known and expected liquidity needs. Accordingly, this portfolio is invested in debt securities with longer maturities than the Operating Portfolio, which over a market cycle is expected to provide a higher return and greater investment income. Consistent with this profile, and for the purpose of comparing duration, yield and total return, the benchmark for the Strategic portfolio is the Barclays U.S. Government 1–7 year index. The duration of the Strategic Portfolio is targeted between 75% and 125% of the benchmark.

To further mitigate interest rate risk, a minimum of 60% of the Operating Portfolio and 30% of the Strategic Portfolio must be invested in asset types with high liquidity, specifically U.S. Government obligations, U.S. Government Agency obligations, LGIP, Demand Accounts, Repo, Sweep, and Commercial Paper.

Seattle Public Utilities – Water Fund (An Enterprise Fund of the City of Seattle) Notes to Financial Statements

Investments – The Fund’s cash resources may be invested by FAS separate from the cash and investments pool. Investments are managed in accordance with the City’s Statement of Investment Policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Fund. As of December 31, 2025 and 2024, the Fund did not have any dedicated investments. The City’s Statement of Investment Policy was modified on January 1, 2018, with an effective date of March 8, 2018. There have been no subsequent changes to the policy.

The City has three objectives in managing its investments that define its risk profile and guide implementation of its investment strategy. In order of importance, they are Safety of Principal, Maintenance of Liquidity, and Return on Investment.

The City follows a set of standards of care when it comes to its investments that include the following:

- *Social policies* – A City social policy shall take precedence over furthering the City’s financial objectives when expressly authorized by City Council resolution, except where otherwise provided by law or trust principles.
- *Ethics and conflict of interest* – Investment officers shall comply with the City’s Ethics Code (SMC 4.16.080) and annually submit a Financial Interest Statement to the City’s Ethics & Elections Commission that identifies any potential financial interest that could be related to the performance of the City’s investment portfolio.

Delegation of authority – The City Finance Director and Office of City Finance has delegated management responsibility for the City’s investment program to the Director of Finance who has designated day to day management responsibility to investment officers under the supervision of the City’s Treasury Services Director. No person may engage in an investment transaction except as provided under the terms of the City Statement of Investment Policy and the procedures established therein.

Fair value of pooled investments – The City reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Fair value is defined in GASB Statement No. 72, *Fair Value Measurement and Application as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price)*. Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction amongst market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

Seattle Public Utilities – Water Fund (An Enterprise Fund of the City of Seattle) Notes to Financial Statements

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

As of December 31, 2025 and 2024, the City held \$572.8 million and \$468.3 million, respectfully on deposit in the Washington State Local Government Investment Pool (LGIP) managed by the Office of the Washington State Treasurer. The City's investments in the LGIP are reported at amortized cost, which approximates fair value. It is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee, and the Washington State Auditor's Office.

The City's overnight repurchase agreement with Wells Fargo Bank, N.A., is accounted for at cost.

The City is authorized by Seattle Municipal Code Section 5.06.010 and Chapter 43.250 of the Revised Code of Washington to participate in the State of Washington LGIP, which is managed and operated by the Washington State Treasurer. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP advisory Committee. Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The LGIP is invested in a manner that meets the maturity, quality, diversification, and liquidity requirements set forth by GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, or online at <http://www.tre.wa.gov>.

The remainder of City's investments are purchased in the over-the-counter U.S. bond market and accounted for at fair value.

The City uses market pricing for its over-the-counter investments as provided by its contractual custodial agent, Principal Financial Services Inc., and the City's third-party investment accounting vendor Clearwater Analytics LLC. Prices are obtained from the City's safekeeping bank, Principal. Principal's primary pricing vendor is Intercontinental Exchange (ICE).

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

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

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

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

The City’s investments in US Treasuries are valued as Level 1 assets. The City’s remaining investments are valued as Level 2 assets. The City does not invest in securities that require Level 3 assets.

As of December 31, 2025, the City’s pooled investments were categorized within the fair value hierarchy as follows (in thousands):

Investments	Fair Value as of December 31, 2025	Fair Value Measurements Using			Weighted Average Maturity (Days)
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
U.S. Government Agency Securities	\$ 839,244	\$ -	\$ 839,244	\$ -	2,000
U.S. Treasury and U.S. Government-Backed Securities	2,674,006	2,674,006	-	-	811
Local Government Investment Pool	572,847	572,847	-	-	-
Municipal Bonds	45,931	-	45,931	-	816
Corporate Bonds	34,359	-	34,359	-	180
International Bank for Reconstruction and Development	107,191	-	107,191	-	739
Repurchase Agreements	11,323	11,323	-	-	8,766
	<u>\$ 4,284,901</u>	<u>\$ 3,258,176</u>	<u>\$ 1,026,725</u>	<u>\$ -</u>	

Weighted Average Maturity of the City’s Pooled Investments 950

As of December 31, 2024, the City’s pooled investments were categorized within the fair value hierarchy as follows (in thousands):

Investments	Fair Value as of December 31, 2024	Fair Value Measurements Using			Weighted Average Maturity (Days)
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
U.S. Government Agency Securities	\$ 784,234	\$ -	\$ 784,234	\$ -	599
U.S. Treasury and U.S. Government-Backed Securities	1,924,517	1,924,517	-	-	710
Local Government Investment Pool	468,340	468,340	-	-	-
U.S. Government Agency Mortgage-Backed Securities	290,315	-	290,315	-	1,508
Municipal Bonds	94,385	-	94,385	-	591
Commercial Paper	48,995	-	48,995	-	164
Corporate Bonds	32,863	-	32,863	-	544
International Bank for Reconstruction and Development	130,251	-	130,251	-	942
Repurchase Agreements	11,256	11,256	-	-	9,131
	<u>\$ 3,785,156</u>	<u>\$ 2,404,113</u>	<u>\$ 1,381,043</u>	<u>\$ -</u>	

Weighted Average Maturity of the City’s Pooled Investments 682

Seattle Public Utilities – Water Fund
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The Fund's share of the City pool was as follows as of December 31:

	2025	2024
Cash and equity in pooled investments	\$ 128,428,808	\$ 109,254,735
Restricted cash and equity in pooled investments	87,151,409	133,354,313
Total	\$ 215,580,217	\$ 242,609,048
Balance as a percentage of City Pool cash and investments	5.0%	6.4%

Concentration of credit risk – Concentration risk is the risk of loss attributed to the magnitude of investments in a single issuer. State statute and the City's Statement of Investment Policy do not stipulate concentration limits for holdings of U.S. Government or U.S. Government Agency Obligations. However, as noted under credit risk, the City's Statement of Investment Policy outlines maximum percentage allocations for municipal securities, commercial paper as well as corporate bonds.

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

Issuer	2025		2024	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
United States Government	\$ 2,674,006	62%	\$ 1,924,517	51%
Federal Home Loan Bank	102,595	2%	193,947	5%
Local Government Investment Pool	572,847	13%	468,340	12%
Federal National Mortgage Association	258,636	6%	280,777	7%
Federal Farm Credit Bank	261,267	6%	219,703	6%
Federal Home Loan Mortgage Corp	94,273	2%	215,628	6%

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

Note 3 – Capital Assets

Capital asset activity for the year ended December 31, 2025, consisted of the following:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 213,651,660	\$ 429,052	\$ 79,744,785	\$ 293,825,497
Structures	1,433,178,339	64,351,434	356,458,086	1,853,987,859
Machinery and equipment	601,769,133	7,709,967	(448,869,156)	160,609,944
Computer systems	97,718,192	30,417	(4,207,889)	93,540,720
Intangible right-to-use	2,367,357	99,691	-	2,467,048
Total capital assets - excluding land	2,348,684,681	72,620,561	(16,874,174)	2,404,431,068
Less accumulated depreciation and amortization	(1,079,488,459)	(58,605,686)	16,626,186	(1,121,467,959)
	1,269,196,222	14,014,875	(247,988)	1,282,963,109
Construction in progress	95,835,366	134,615,534	(71,872,431)	158,578,469
Land and land rights	54,511,259	-	(10)	54,511,249
Artwork	2,385,839	9,558	-	2,395,397
Property held for future use	274,512	-	-	274,512
Capital assets, net	\$ 1,422,203,198	\$ 148,639,967	\$ (72,120,429)	\$ 1,498,722,736

Capital asset activity for the year ended December 31, 2024, consisted of the following:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 213,597,224	\$ 107,247	\$ (52,811)	\$ 213,651,660
Structures	1,378,929,002	56,732,821	(2,483,484)	1,433,178,339
Machinery and equipment	596,940,953	8,554,184	(3,726,004)	601,769,133
Computer systems	102,348,370	2,556,101	(7,186,279)	97,718,192
Intangible right-to-use	1,673,522	693,835	-	2,367,357
Total capital assets - excluding land	2,293,489,071	68,644,188	(13,448,578)	2,348,684,681
Less accumulated depreciation and amortization	(1,035,491,014)	(57,038,209)	13,040,764	(1,079,488,459)
	1,257,998,057	11,605,979	(407,814)	1,269,196,222
Construction in progress	75,185,261	84,655,490	(64,005,385)	95,835,366
Land and land rights	54,511,259	-	-	54,511,259
Artwork	2,357,342	159,609	(131,112)	2,385,839
Property held for future use	274,512	-	-	274,512
Capital assets, net	\$ 1,390,326,431	\$ 96,421,078	\$ (64,544,311)	\$ 1,422,203,198

During 2025 and 2024, the Fund capitalized interest costs as a regulatory asset relating to construction of \$3,816,187 and \$2,728,965, respectively.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Notes to Financial Statements

The Fund, as lessee, has entered into various leases for building and equipment with lease terms expiring between 2025 and 2030. Leases that have a maximum possible lease term that are non-cancelable by both lessee and lessor, have a term of more than 12 months, and a present value greater than \$5,000 are considered to be “right to use” assets. Unless explicitly stated in the lease agreement, the discount rate used to calculate lease right-of-use assets and liabilities in which the Fund acts as lessee is the City’s incremental borrowing rate based on the expiring date. The discount rate used for these leases was 0.38%.

The Fund has two software-based information technology arrangements (SBITAs) with terms expiring in 2027. Any subscription-based information technology arrangement (SBITA) that is negotiated by Seattle IT that is for the benefit of multiple departments, will be accounted for at the City level by Seattle IT and is excluded by the Fund. The discount rate used for the software arrangement was 2.70%.

Minimum payments under the leases and SBITA’s are as follows:

Years Ending December 31,	Principal	Interest	Total
2026	\$ 363,795	\$ 9,594	\$ 373,389
2027	257,196	3,792	260,988
2028	184,312	1,146	185,458
2029	185,018	440	185,458
2030	30,649	5	30,654
	<u>\$ 1,020,970</u>	<u>\$ 14,977</u>	<u>\$ 1,035,947</u>

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 \$4,590,479 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, 2025 and 2024, were \$624,825,000 and \$629,225,000, respectively.

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Revenue bonds outstanding as of December 31, 2025 and 2024, consisted of the following Municipal Water bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding	
					2025	2024
2010 Improvement, Series A ^a (Taxable)	1/21/10	2019-2040	4.67-5.89%	\$ 109,080,000	\$ -	\$ 87,220,000
2012 Refunding	5/30/12	2012-2034	2.0-5.0%	238,770,000	10,750,000	10,750,000
2015 Improvement and Refunding	6/10/15	2015-2045	2.0-5.0%	340,840,000	41,395,000	168,375,000
2017 Improvement and Refunding	1/25/17	2017-2046	4.0-5.0%	194,685,000	148,060,000	154,935,000
2021 Improvement and Refunding	6/14/21	2022-2034	4.0-5.0%	82,220,000	69,245,000	73,015,000
2022 Improvement and Refunding	7/28/22	2022-2052	5.0%	93,260,000	56,835,000	66,165,000
2024 Improvement and Refunding	6/6/24	2025-2054	5.0%	68,765,000	67,730,000	68,765,000
2025 Improvement and Refunding	5/19/25	2025-2055	5.0%	230,810,000	230,810,000	-
				<u>\$ 1,358,430,000</u>	<u>\$ 624,825,000</u>	<u>\$ 629,225,000</u>

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

Years Ending December 31,	Principal	Interest	Total
2026	44,335,000	28,666,100	73,001,100
2027	42,670,000	26,507,350	69,177,350
2028	40,850,000	24,346,725	65,196,725
2029	41,330,000	22,636,725	63,966,725
2030	34,260,000	21,005,100	55,265,100
2031 - 2035	149,445,000	80,381,450	229,826,450
2036 - 2040	109,740,000	50,574,325	160,314,325
2041 - 2045	72,005,000	31,614,175	103,619,175
2046 - 2050	48,500,000	16,872,775	65,372,775
2051 - 2055	41,690,000	5,114,875	46,804,875
	<u>624,825,000</u>	<u>307,719,600</u>	<u>932,544,600</u>

The following table shows the revenue bond activity during the year ended December 31, 2025:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	\$ 629,225,000	\$ 230,810,000	\$ (235,210,000)	\$ 624,825,000	\$ 44,335,000
Add (deduct) deferred amounts					
Issuance premiums	80,534,573	16,933,679	(24,327,842)	73,140,410	-
Total bonds payable	<u>\$ 709,759,573</u>	<u>\$ 247,743,679</u>	<u>\$ (259,537,842)</u>	<u>\$ 697,965,410</u>	<u>\$ 44,335,000</u>

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The following table shows the revenue bond activity during the year ended December 31, 2024:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
Revenue bonds	\$ 604,485,000	\$ 68,765,000	\$ (44,025,000)	\$ 629,225,000	\$ 47,205,000
Add (deduct) deferred amounts					
Issuance premiums	78,586,937	7,059,988	(5,112,352)	80,534,573	-
Total bonds payable	<u>\$ 683,071,937</u>	<u>\$ 75,824,988</u>	<u>\$ (49,137,352)</u>	<u>\$ 709,759,573</u>	<u>\$ 47,205,000</u>

In May 2025, the Fund issued \$230,810,000 of Water System Improvement Revenue Bonds with varying annual principal payments due beginning 2026 and ending in 2055, at interest rate of 5.0%.

Financial covenants – The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain Reserve Subaccount at the lesser of (i) Maximum Annual Debt Service on all parity bonds outstanding at the time of calculation, or (ii) 1.25 times adjusted annual debt service on all parity bonds outstanding at the calculation. In no event shall the Reserve exceed the sum of 10% of the proceeds of each series of parity bonds then outstanding, determined as of the Issue Date of each such series. Management believes the Fund was in compliance with all debt covenants as of December 31, 2025. For more information, see Other Information (page 54).

Note 5 – Postemployment Benefit Plans

Deferred compensation – The City offers all of its employees a deferred compensation plan (the Plan) created in accordance with 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 plan description – Health care plans for active and retired employees are administered by the City as single-employer defined benefit public employee health care plans.

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Employees retiring under the City may continue their health insurance coverage under the City's health insurance plans for active employees. When a retired participant dies, the spouse remains fully covered until age 65 and covered by the Medicare supplement plan thereafter. Employees who retire with disability retirement under the City may continue their health coverage through the City with same coverage provisions as other retirees. Eligible retirees self-pay 100 percent of the premium based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The postemployment benefit provisions are established and may be amended by ordinance of the Seattle City Council and as provided in Seattle Municipal Code 4.50.020. The City provides an implicit subsidy of the post-retirement health insurance costs and funds the subsidy on a pay-as-you-go basis.

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. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. 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.

Based on the latest biennial actuarial valuation date, the significant methods and assumptions are as follows:

Actuarial data and assumptions – The demographic assumptions of mortality, termination, retirement, and disability are set equal to the assumptions used for City pension actuarial valuations based on a Seattle City Employees' Retirement System Experience Report for the period 2018–2021.

Actuarial data and assumptions	2025
Valuation date	January 1, 2025
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Discount rate	4.08%
Health care cost trend rates – medical	8.00% and decreasing by varying amounts until 2035 thereafter
Health care cost trend rates – Rx	13.00% and decreasing by varying amounts until 2035 thereafter
Participation	25% of active employees who retire participate

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Mortality

General Service (Actives)

PubG-2010 Employee Table multiplied by 95%

Rates are projected generationally using Scale MP-2021 ultimate rates

General Service (Retirees)

PubG-2010 Retired Mortality Table multiplied by 95%

Rates are projected generationally using Scale MP-2021 ultimate rates

Marital status – 25% of members electing coverage: married or have a registered domestic partner. Male spouses two years older than their female spouses.

Health care claims development – The sample per capita claim cost assumptions shown below by age, benefit, and plan represent the true underlying baseline experience estimated for the City’s sponsored postretirement benefits and costs.

Age	Pre-65 Medical, RX, and Admin Combined					
	Aetna Preventive Plan	Aetna Traditional	Aetna Medicare Pre65	Kaiser Standard	Kaiser Deductible	Kaiser MAPD Pre65
50	\$ 18,062	\$ 16,082	\$ 13,016	\$ 10,627	\$ 8,253	\$ 6,857
55	22,293	19,850	16,066	13,117	10,186	8,464
60	27,649	24,619	19,925	16,268	12,633	10,497

The average medical and prescription drug per capita claims costs were developed from 2025 calendar year self-funded premium rates. Premium-equivalent rates were provided by the City’s health pricing actuary. The average medical and prescription drug per capita “adult-equivalent” claims costs were based on the respective pre-65 enrollment weighted average of the 2025 four-tier rate structure including the add-on cost of dependent children and trended back from 2025 to 2024 to be centered at the mid-point of the annual period following the valuation date. Average medical/Rx per capita claims costs were then age-adjusted based on the demographics of the rating population, and the assumed health care aging factors shown in the table below.

Models are used to estimate underlying per capita medical and drug claims costs, subsequently utilized as assumption inputs for valuation models used to develop the liabilities for the 2026 and future valuations.

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Morbidity factors – The claim costs for medical and prescription drugs were assumed to increase with age according to the table below.

Age	Medical	Rx	Composite
40–44	3.0%	4.8%	3.3%
45–49	3.7%	4.7%	3.8%
50–54	4.2%	4.7%	4.3%
55–59	4.4%	4.6%	4.4%
60–64	3.7%	4.6%	3.8%

Other considerations – Active employees with current spouse and/or dependent coverage elect the same plan and coverage. After retirement, it is assumed that children will have aged off coverage and will have \$0 liability.

OPEB liability – The Fund reported an OPEB liability of approximately \$4.3 million in 2025 and \$4.2 million in 2024. The Fund's proportionate share of the OPEB liability was 4.90% and 4.89% for the years ended December 31, 2025 and 2024, respectively. Based on the actuarial valuation date of January 1, 2025, details regarding the Fund's Total OPEB Liability as of December 31, are shown below.

	Total OPEB Liability at December 31,	
	2025	2024
Changes recognized for the fiscal year:		
Service cost	\$ 277,036	\$ 126,538
Interest on the total OPEB liability	145,017	93,461
Differences between expected and actual experience	-	(59,643)
Changes of assumptions	(318,154)	1,756,835
Contributions from the employer	(164,959)	(120,028)
Other changes	109,335	(23,657)
Net Changes	48,275	1,773,506
Balance recognized at January 1	4,209,177	2,435,671
Balance recognized at December 31	\$ 4,257,452	\$ 4,209,177

The Fund recorded an expense for OPEB of \$387,253 in 2025 and \$218,976 in 2024. The Health Care Subfund of the General Fund is reported in The City's Annual Comprehensive Financial Report.

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Discount rate and healthcare cost trend rates – The discount rate used to measure the total OPEB liability is 4.08% for 2025 and 3.26% for 2024. The following tables present the sensitivity of total OPEB liability calculation to a 1% increase and a 1% decrease in the discount rate used to measure the total OPEB liability:

Discount Rate Sensitivity

	OPEB Liability at December 31,	
	2025	2024
Discount rate		
1% decrease	\$ 4,662,294	\$ 4,621,125
Current discount rate	4,257,452	4,209,176
1% increase	3,891,803	3,835,074

The following table presents the sensitivity of total Health Plan OPEB liability calculation to a 1% increase and a 1% decrease in the healthcare cost trend rates used to measure the total Health Plan OPEB liability:

Healthcare Cost Trend Rate Sensitivity

	OPEB Liability at December 31,	
	2025	2024
Discount rate		
1% decrease	\$ 3,758,861	\$ 3,723,402
Trend rate	4,257,452	4,209,176
1% increase	4,851,476	4,786,893

Deferred outflows of resources and deferred inflows of resources related to OPEB – The following table presents information about the OPEB-related deferred outflows of resources and deferred inflows of resources for the Fund at December 31, 2025.

	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	\$ 202,473	\$ 462,026
Assumption changes	1,488,815	893,445
Contributions made in 2025 after measurement date	185,793	-
Total	\$ 1,877,081	\$ 1,355,471

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The following table presents information about the OPEB-related deferred outflows of resources and deferred inflows of resources for the Fund at December 31, 2024.

	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	\$ 304,835	\$ 538,719
Assumption changes	1,658,352	819,401
Contributions made in 2024 after measurement date	<u>164,545</u>	<u>-</u>
Total	<u>\$ 2,127,732</u>	<u>\$ 1,358,120</u>

The Fund’s contributions made in 2025 in the amount of \$185,793 are reported as deferred outflows of resources and will be recognized as a reduction of the total OPEB liability in the year ending December 31, 2026. Other deferred inflows and outflows related to OPEB will be recognized in the future as shown in the following table. Note that additional future deferred outflows and inflows of resources may impact these amounts.

Year Ending December 31, <i>(in thousands)</i>	<u>Amortization</u>
2026	\$ (44,054)
2027	9,579
2028	34,156
2029	44,568
2030	30,684
Thereafter	<u>260,885</u>
Total	<u>\$ 335,817</u>

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

Seattle Public Utilities – Water Fund
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Note 6 – 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 2025 and 2024, 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 of 3.69% and 3.61%, respectively. Claims expected to be paid within one year are \$2,102,998 and \$2,179,465 at December 31, 2025 and 2024, respectively.

The table below presents the changes in the liability for workers’ compensation claims and other claims (risk-financing liabilities) as of December 31:

	2025	2024
Beginning liability, discounted	\$ 7,082,170	\$ 6,813,747
Payments	(2,728,870)	(2,509,399)
Incurred claims and changes in estimate	3,803,175	2,777,822
Ending liability, discounted	\$ 8,156,475	\$ 7,082,170

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

Note 7 – Compensated Absences

The Fund has recorded a liability for vested but unused compensatory and vacation leave, as well as estimated sick leave payments calculated based on the economic resources measurement focus for leave that is more likely than not to be settled by cash payments or noncash settlement, such as conversion to defined postemployment benefits. The schedules below show the compensated absences activity during the years ended December 31, 2025 and 2024:

	2025	2024
Beginning liability	\$ 7,223,733	\$ 5,726,197
Net additions/reductions	1,369,324	1,497,536
Ending liability	\$ 8,593,057	\$ 7,223,733

Note 8 – Pension Benefit Plan

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

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

Beginning with employees with hire dates of January 1, 2017, or later, all new members are enrolled in SCERS Plan II, which has contribution and benefit calculation rates different than the original SCERS I Plan. All Fund employees are eligible to participate in the system.

System benefits –Service retirement benefits are calculated on the basis of age, salary, and service credit.

SCERS I – The System provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. Members are eligible for retirement benefits after 30 years of service; at age 52 after 20 years of service; at age 57 after ten years of service; and at age 62 after five years of service. Annual retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months, excluding overtime. Members who retire before meeting the age and/or years of service requirement receive a 0.1% reduction for each year that retirement precedes the date of eligibility. Retirement benefits vest after 5 years of credited service.

SCERS II – Members are eligible for retirement benefits at age 55 after 20 years of service, at age 57 after 10 years of service, and at age 60 after 5 years of service. Annual retirement benefits are calculated as 1.75% multiplied by years of creditable service, multiplied by average salary, based on the highest 60 consecutive months, excluding overtime. Members who retire before meeting the age and/or years of service requirement receive a 0.1% reduction for each year that retirement precedes the date of eligibility. Retirement benefits vest after 5 years of credited service.

Member and employer contributions – Member and employer contributions are:

	<u>YEAR</u>	<u>SCERS I</u>	<u>SCERS II</u>
Member Contribution	2025	10.03%	7.00%
	2024	10.03%	7.00%
Employer Contribution	2025	15.33%	14.94%
	2024	15.31%	14.91%

Member and employer rates are established by the Seattle Municipal Code Chapter 4.36. The Fund’s contributions to the System for the years ended December 31, 2025 and 2024, were \$10,352,888 and \$10,266,599, 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, and telephone: (206) 386-1293, or email at retirecity@seattle.gov, or online at <https://www.seattle.gov/retirement/forms-and-publications/publications>.

Seattle Public Utilities – Water Fund
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Notes to Financial Statements

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At December 31, 2025 and 2024, the Fund reported a liability of \$83,440,426 and \$81,396,454, respectively, its proportionate share of the Systems' net pension liability. The net pension liability was measured as of December 31, 2024 and 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2024 and 2023. The Fund's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating parties, actuarially determined. At December 31, 2025 and 2024, the Fund's proportion was 5.83% and 5.94%, respectively.

For the years ended December 31, 2025 and 2024, the Fund recognized pension expense of approximately \$9,523,000 and \$7,690,000, respectively.

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2025:

	Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 7,077,684	\$ 398,888
Change of assumptions	2,086,485	-
Difference between projected and actual earnings	3,712,525	-
Contributions made subsequent to measurement date	10,352,887	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	695,814	2,667,294
Total	\$ 23,925,395	\$ 3,066,182

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2024:

	Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 503,209	\$ 703,016
Change of assumptions	3,420,210	-
Difference between projected and actual earnings	6,786,013	-
Contributions made subsequent to measurement date	10,266,599	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	2,833,655
Total	\$ 20,976,031	\$ 3,536,671

Seattle Public Utilities – Water Fund
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The Fund's contributions made subsequent to measurement date are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended December 31, 2026. Amounts currently reported as deferred outflows of resources relate to actual experience and difference in actual earnings on pension investments from projected earnings and will be recognized in pension expense as follows for years ending December 31:

Year	Amortization
2026	\$ 4,376,067
2027	6,387,813
2028	(1,653,954)
2029	579,520
2030	816,880
Total	\$ 10,506,326

Actuarial assumptions – The total pension liability as of December 31, 2025, was determined using the following actuarial assumptions:

Valuation date	January 1, 2024
Measurement date	December 31, 2024
Actuarial cost method	Individual Entry Age Normal
Amortization method	Level Percent, Closed
Remaining amortization period	30 years as of January 1, 2013 valuation
Asset valuation method	5-Year Non-asymptotic
Inflation	2.60%
Investment rate of return	6.75% compounded annually, net of expenses
Discount rate	6.75%
Projected general wage inflation	2.6%
Postretirement benefit increases	1.5%
Mortality	Various rates based on PubG-2010 mortality tables and using generational projection of improvement using MP-2021 Ultimate projection scale. See 2022 Investigation of Experience report for details.

The actuarial assumptions that determined the net pension liability as of the measurement date were based on the results of an actuarial experience study for the period January 1, 2018, through December 31, 2021.

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

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

Best estimates of geometric real rates of return for each major asset class included in the System’s target asset allocation as of December 31, 2025, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Equity: Public	4.80%
Equity: Private	7.80%
Fixed Income: Broad	2.60%
Fixed Income: Long-Term	2.60%
Fixed Income: Credit	5.90%
Real Assets: Real Estate	4.50%
Real Assets: Infrastructure	4.10%

Sensitivity analysis – The following presents the Fund’s proportionate share of the net pension liability calculated using the discounted rate of 6.75%, as well as what the employer’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate.

1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
\$ 121,897,689	\$ 83,440,426	\$ 44,712,219

Seattle Public Utilities – Water Fund
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Notes to Financial Statements

Note 9 – Loans

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

Loans outstanding as of December 31, 2025 and 2024, are as follows:

Description	Maturity Years	Interest Rate	Loan Amount	Loans Outstanding	
				2025	2024
Myrtle Reservoir	2008-2025	1.5%	\$ 4,040,000	\$ -	\$ 224,444
Beacon Reservoir	2008-2026	1.5%	4,040,000	212,632	425,264
West Seattle Reservoir	2009-2027	1.5%	3,030,000	318,947	478,421
Maple Leaf	2011-2029	1.5%	3,030,000	645,400	806,748
Maple Leaf ARRA	2013-2031	1.0%	7,341,758	2,569,615	2,936,704
Morse Lake Pump Plant #1	2014-2037	1.5%	12,120,000	7,272,000	7,878,000
Morse Lake Pump Plant #2	2017-2036	1.5%	6,060,000	3,508,420	3,827,368
			<u>\$ 39,661,758</u>	<u>\$ 14,527,014</u>	<u>\$ 16,576,949</u>

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

Years Ending December 31,	Principal	Interest	Total
2026	\$ 1,825,490	\$ 205,057	\$ 2,030,547
2027	1,612,859	179,510	1,792,369
2028	1,453,385	157,153	1,610,538
2029	1,453,385	137,187	1,590,572
2030	1,292,035	117,222	1,409,257
2031 - 2035	5,358,913	333,947	5,692,860
2036 - 2037	1,530,947	32,054	1,563,001
	<u>\$ 14,527,014</u>	<u>\$ 1,162,130</u>	<u>\$ 15,689,144</u>

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

	2025	2024
Net loans, beginning of year	\$ 16,576,949	\$ 18,626,884
Principal payments	(2,049,935)	(2,049,935)
Net loans, end of year	<u>\$ 14,527,014</u>	<u>\$ 16,576,949</u>
Loans due within one year	<u>\$ 1,825,490</u>	<u>\$ 2,049,935</u>
Loans, noncurrent	<u>\$ 12,701,524</u>	<u>\$ 14,527,014</u>

Seattle Public Utilities – Water Fund **(An Enterprise Fund of the City of Seattle)** **Notes to Financial Statements**

Note 10 – 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. The total cost of burying six reservoirs is expected to be approximately \$69.6 million through the year 2031; costs beyond 2031 are not estimable as of the date of this report. As of December 31, 2025 and 2024, total cumulative costs incurred were \$184.9 million and \$183.5 million, respectively.

The City has wholesale contracts with Cascade Water Alliance (CWA) and nineteen individual water districts and municipalities. Sixteen wholesale customers have full and partial requirements contracts which obligate the City to meet the wholesale customers' demand that is not already met by their independent sources of supply. Another feature of these contracts is that each year, actual revenues are compared to actual costs for the F&P contract holder group as a whole, and a running balance of over-or under-payments is maintained. The requirements contracts were amended in 2025, with January 1, 2026, being the effective date for the new amended contracts. These amended contracts provide for stranded costs provisions, automatic 10-year extensions, and a return of the over-collected amount as of December 31, 2024, in the form of a refund. Pursuant to that last provision, in 2025 Seattle recognized an expense for \$25,195,013, which was offset by a corresponding withdrawal from the Revenue Stabilization Fund, where past surplus revenues are held. The payment was made to the requirements of contract holders in February 2026. Under these contracts, Seattle is committed to continuing to provide, on an ongoing basis through the automatic contract extensions, water supplies sufficient to meet the demand of the contract holders. The full and partial requirements contracts include an additional amendment period where the parties may opt to review and change certain contract terms and conditions in 2042.

Two wholesale customers (CWA and Northshore Utility District) have block contracts which obligate the City to provide water up to a combined maximum of 41.85 MGD per year through 2039, which is when CWA's 33.3 MGD block amount begins to decline in yearly increments until it reaches 5.3 MGD at the end of their contract at the end of 2063. CWA has the option to purchase, and Seattle has the obligation to provide, up to 5.3 MGD after the end of the contract. Northshore Utility District's block contract has no change to the block size (8.55 MGD) over the life of the contract, which runs through 2061. Northshore Utility District has the option to purchase, and Seattle has the obligation to provide, the amount of water then supplied at the end of the contract. Seattle has approached Northshore about amending its contract with Seattle to provide consistent financial terms across wholesale contracts as well as to offer Northshore the same opportunity for automatic 10 year extensions.

Two customers have emergency intertie agreements and do not purchase water from Seattle on a regular basis. These contracts run through 2061 and 2062.

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

Seattle Public Utilities – Water Fund
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Notes to Financial Statements

Note 11 – Habitat Conservation Program Liability

SPU has prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the 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 \$128.2 million (in 2025 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 2025 is \$114.4 million. The remaining \$13.8 million to complete the HCP is comprised of a \$10.9 million liability and an estimate of \$2.9 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 expensed as incurred.

Note 12 – Subsequent Events

In January 2026, Seattle Public Utilities purchased the 18-acre Talaris property in the Laurelhurst neighborhood of Seattle for \$64.3 million. The purchase allows the utility to comply with Washington Department of Fish and Wildlife requirements to restore fish passage on the site; it contains a 72-inch storm drain that now conveys Yesler Creek and is considered a fish barrier. The utility determined the property is also suitable for stormwater control facilities because the area needs additional stormwater drainage facilities to manage increased flows.

Required Supplementary Information

Seattle Public Utilities – Water Fund
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Required Supplementary Information

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

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Employer’s proportion of the net pension liability	13.89	13.81%	14.21%	14.76%	14.62%	14.33%	14.55%	14.73%	15.13%	16.37%
Employer’s proportionate share of the net pension liability	\$ 190,138,034	\$ 185,271,435	\$ 214,988,644	\$ 122,309,887	\$ 143,163,797	\$ 180,105,232	\$ 221,049,893	\$ 163,086,154	\$ 197,454,529	\$ 212,671,200
Employer’s covered payroll	\$ 161,485,225	\$ 129,935,333	\$ 127,869,634	\$ 126,830,347	\$ 127,584,358	\$ 112,528,955	\$ 111,973,027	\$ 107,715,383	\$ 106,696,535	\$ 105,031,141
Employer’s proportionate share of the net pension liability as a percentage of its covered payroll	117.74%	142.59%	168.13%	96.44%	112.21%	160.05%	197.41%	151.40%	185.06%	202.48%
Plan fiduciary net position as a percentage of the total pension liability	75.99%	74.93%	70.63%	83.31%	78.81%	71.48%	64.14%	72.04%	65.60%	64.03%

Schedule of Seattle Public Utilities’ Pension Contributions

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required employer contribution	\$ 24,575,902	\$ 20,748,200	\$ 20,632,427	\$ 20,589,068	\$ 20,654,175	\$ 17,041,133	\$ 17,103,559	\$ 16,466,270	\$ 16,354,089	\$ 16,487,154
Contributions in relation to the contractually required employer contribution	(24,575,902)	(20,748,200)	(20,632,427)	(20,589,068)	(20,654,175)	(17,041,133)	(17,103,559)	(16,466,270)	(16,354,089)	(16,487,154)
Employer contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer’s covered payroll	\$ 161,485,225	\$ 129,935,333	\$ 127,869,634	\$ 126,830,347	\$ 127,584,358	\$ 112,528,955	\$ 111,973,027	\$ 107,715,383	\$ 106,696,535	\$ 105,031,141
Employer contributions as a percentile of covered payroll	15.22%	15.97%	16.14%	16.23%	16.19%	15.14%	15.27%	15.29%	15.33%	15.70%

Seattle Public Utilities – Water Fund
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Required Supplementary Information

Schedule of the City’s Total OPEB Liability and Related Ratios

	December 31, 2025	December 31, 2024	December 31, 2023	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018
Total OPEB Liability								
Normal cost	\$ 5,652,179	\$ 2,588,171	\$ 3,563,210	\$ 4,514,549	\$ 4,015,249	\$ 3,378,925	\$ 3,842,152	\$ 3,821,876
Interest	2,958,677	1,911,611	1,195,910	1,553,119	1,813,401	2,586,942	2,195,238	2,583,105
Differences between expected and actual experience	-	(1,219,914)	-	(16,026,625)	-	6,956,579	-	13,491,865
Changes in assumptions	(6,491,070)	35,933,709	(8,009,946)	(1,556,412)	3,738,597	(7,760,776)	(3,886,702)	(22,126,128)
Benefit payment	(3,365,542)	(2,455,021)	(2,436,239)	(3,039,800)	(2,933,774)	(2,484,320)	(2,333,610)	(2,289,000)
Total OPEB liability – beginning of year	86,774,056	50,015,500	55,702,565	70,257,734	63,624,261	60,946,911	61,129,833	65,648,115
Total OPEB liability – end of year	<u>\$ 85,528,300</u>	<u>\$ 86,774,056</u>	<u>\$ 50,015,500</u>	<u>\$ 55,702,565</u>	<u>\$ 70,257,734</u>	<u>\$ 63,624,261</u>	<u>\$ 60,946,911</u>	<u>\$ 61,129,833</u>
Covered-employee payroll	\$ 1,335,594,652	\$ 1,335,721,665	\$ 1,145,862,502	\$ 1,145,862,502	\$ 1,124,692,046	\$ 1,124,692,046	\$ 1,015,097,334	\$ 1,015,097,334
Total OPEB liability as percentage of covered-employee payroll	6.40%	6.50%	4.36%	4.86%	6.25%	5.66%	6.00%	6.02%

Other Information (Unaudited)

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Other Information (Unaudited)

Water Fund Debt Service Coverage Calculation 2025

Operating Revenues	
Utility Service	\$ 263,013,439
Wholesale/Commercial	62,028,601
Other	12,523,324
Total Operating Revenue	<u>337,565,364</u>
 Operating Expense	
Salaries and Wages	52,755,001
Personnel Benefits	29,491,703
Supplies	10,187,818
Services	92,854,732
Intergovernmental Payments	54,940,227
Other Operating Expense	(714,997)
Total Operating Expenses	<u>239,514,484</u>
 Net Operating Income	 <u>98,050,880</u>
 Adjustments	
Add: Capital Contributions Connection Charge	4,647,636
Add: City Taxes	39,874,947
Add: Investment Interest	7,092,383
Less: DSRF Earnings	(507,014)
Add: BAB's Subsidy	283,983
Add (Less): Net Other Nonoperating Revenues/(Expenses)	3,619,492
Add: Proceeds from Sale of Assets	300,866
Total Adjustments	<u>55,312,293</u>
 Net Revenue Available for Debt Service	 <u>\$ 153,363,173</u>
 <i>w/o Credit for City Taxes</i>	 <u>\$ 113,488,226</u>
 Annual Debt Service	
Annual Debt Service	\$ 76,636,580
Less: DSRF Earnings	(507,014)
Adjusted Annual Debt Service	<u>\$ 76,129,566</u>
 Coverage	 2.01
Coverage without taxes	1.49

Seattle Public Utilities – Water Fund
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Other Information (Unaudited)

Water System Operating Statistics

	2021	2022	2023	2024	2025
Population Served					
Retail	**	826,000	843,000	863,000	886,000
Wholesale ⁽¹⁾	**	749,000	765,000	795,000	801,000
Total Population Served	**	1,575,000	1,608,000	1,658,000	1,687,000
Water Sales Revenues (\$000) ⁽²⁾⁽³⁾					
Retail	\$ 213,552	\$ 221,695	\$ 230,721	\$ 234,766	\$ 244,830
Wholesale	57,362	56,242	59,043	59,922	62,029
Total Water Sales Revenues	\$ 270,914	\$ 277,937	\$ 289,764	\$ 294,688	\$ 306,859
Billed Water Consumption (MG) ⁽³⁾					
Retail	19,522	19,560	19,914	19,719	20,219
Wholesale	23,328	22,770	23,368	22,989	23,915
Total Billed Water Use	42,850	42,330	43,282	42,708	44,134
Operating Costs (\$ per MG)	\$ 5,184	\$ 5,316	\$ 5,958	\$ 6,156	\$ 6,203
Gallons Used per Day per Capita ⁽⁴⁾	75	74	74	71	72
Retail Meters in Use	200,152	200,706	201,847	202,173	202,975
Number of New Retail Meters	1,426	554	1,141	326	802
Total Water Diversions (MGD)	124.9	123.6	125.7	124.1	126.7
Non-Revenue	7.5	7.6	6.9	7.0	5.7
% Non-Revenue	6.0	6.2	5.5	5.6	4.5

** 2021 and 2022 population served estimates are unchanged from 2020 estimates.

⁽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 do not include the impacts of transfers to/from the Revenue Stabilization Account.

⁽³⁾ Per capita billed water consumption has been generally decreasing for the past 25 years. 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 service nor any appreciable change in the number or composition of retail customers.

⁽⁴⁾ Gallons used per Day per Capita in 2021 and 2022 use the population from 2020.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Other Information (Unaudited)

Major Retail Water Customers

During the year ended December 31, 2025, major retail water customers included:

Customer	CCF	Billed Amount
City of Seattle	591,990	\$ 5,205,185
University of Washington	676,949	\$ 4,714,706
Seattle Housing Authority	427,052	\$ 3,131,164
Port of Seattle	376,629	\$ 2,905,205
King County	187,526	\$ 1,590,912
Equity Residential	189,733	\$ 1,338,245
Marriott International Inc.	167,489	\$ 1,161,298
Nucor Steel Seattle	144,114	\$ 962,770
Seattle Public Schools	78,125	\$ 833,506
Bellwether Housing	109,438	\$ 781,159

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Other Information (Unaudited)

Effective January 1, 2026

RATE SCHEDULES	Direct Service														Mercer Island			
	Inside City				Outside City				City of Shoreline / City of Lake Forest Park				Burien					
	Residential	MMRD*	Gen Svc	Fire Service	Residential	MMRD*	Gen Svc	Fire Service	Residential	MMRD*	Gen Svc	Fire Service	MMRD* w/PUT	Residential		MMRD*	Gen Svc	Fire Service
Commodity Charge (\$/100 Cubic Feet)																		
Offpeak Usage (Sept 16-May 15)	\$5.82	\$5.82	\$6.06		\$6.63	\$6.63	\$6.91		\$7.06	\$7.06	\$7.35		\$6.61	\$7.21	\$7.21	\$7.51		\$7.30
Peak Usage (May 16-Sept 15)																		
Up to 5 ccf**	\$5.98	\$5.98	\$7.70		\$6.82	\$6.82	\$8.78		\$7.25	\$7.25	\$9.34		\$6.79	\$7.41	\$7.41	\$9.54		\$9.27
Next 13 ccf**	\$7.39	\$7.39	\$7.70		\$8.42	\$8.42	\$8.78		\$8.96	\$8.96	\$9.34		\$8.39	\$9.16	\$9.16	\$9.54		\$9.27
Over 18 ccf**	\$11.80	\$11.80	\$7.70		\$13.45	\$13.45	\$8.78		\$14.31	\$14.31	\$9.34		\$13.39	\$14.62	\$14.62	\$9.54		\$9.27
Usage over base allowance			\$20.00				\$22.80				\$24.30					\$24.80		
Utility Credit (\$/month)	\$25.36		\$14.19		\$25.36		\$14.19		\$25.36		\$14.19			\$25.36		\$14.19		\$14.19
Base Service Charge (\$/month/meter)																		
3/4 inch and less	\$21.35		\$25.20		\$24.35		\$28.75		\$25.90		\$30.55			\$26.45		\$31.25		
1 inch	\$22.00		\$26.00		\$25.10		\$29.65		\$26.70		\$31.55			\$27.25		\$32.20		
1-1/2 inch	\$33.95	\$33.95	\$40.05		\$38.70	\$38.70	\$45.65		\$41.15	\$41.15	\$48.55	\$38.55		\$42.05	\$42.05	\$49.65		
2 inch	\$37.60	\$37.60	\$44.35	\$17.75	\$42.85	\$42.85	\$50.55	\$20.00	\$45.60	\$45.60	\$53.80	\$22.00	\$42.70	\$46.60	\$46.60	\$54.95	\$22.00	
3 inch	\$139.20	\$139.20	\$164.00	\$23.00	\$158.70	\$158.70	\$186.95	\$26.00	\$168.80	\$168.80	\$198.90	\$28.00	\$158.00	\$172.50	\$172.50	\$203.20	\$29.00	
4 inch	\$199.00	\$199.00	\$235.00	\$43.00	\$227.00	\$227.00	\$267.90	\$49.00	\$241.00	\$241.00	\$285.00	\$52.00	\$225.85	\$247.00	\$247.00	\$291.20	\$53.00	
6 inch		\$245.00	\$290.00	\$73.00		\$279.00	\$331.00	\$83.00		\$297.00	\$352.00	\$89.00	\$278.00		\$304.00	\$359.00	\$90.00	
8 inch		\$289.00	\$341.00	\$115.00		\$329.00	\$389.00	\$131.00		\$350.00	\$414.00	\$139.00	\$328.00		\$358.00	\$423.00	\$143.00	\$410.00
10 inch		\$353.00	\$417.00	\$166.00		\$402.00	\$475.00	\$189.00		\$428.00	\$506.00	\$201.00	\$401.00		\$437.00	\$517.00	\$206.00	\$502.00
12 inch		\$477.00	\$562.00	\$242.00		\$544.00	\$641.00	\$276.00		\$578.00	\$682.00	\$293.00	\$541.00		\$591.00	\$696.00	\$300.00	
16 inch		\$535.00	\$631.00			\$610.00	\$719.00			\$649.00	\$765.00		\$607.00		\$663.00	\$782.00		
20 inch		\$614.00	\$721.00			\$700.00	\$822.00			\$745.00	\$874.00		\$697.00		\$761.00	\$893.00		
24 inch		\$771.00	\$819.00			\$879.00	\$934.00			\$935.00	\$993.00		\$875.00		\$955.00	\$1,015.00		

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of Seattle Public Utilities – Water Fund (the Fund) as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Fund’s basic financial statements, and have issued our report thereon dated April 30, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly US, LLP

Seattle, Washington
April 30, 2026

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