



**SEATTLE PUBLIC UTILITIES - WATER FUND
(AN ENTERPRISE FUND OF
THE CITY OF SEATTLE)**

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

December 31, 2011 and 2010

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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CONTENTS

	PAGE
REPORT OF INDEPENDENT AUDITORS	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-10
FINANCIAL STATEMENTS	
Balance Sheets	11-12
Statements of Revenues, Expenses, and Changes in Net Assets	13
Statements of Cash Flows	14-15
Notes to Financial Statements	16-39
SUPPLEMENTAL INFORMATION	
Water System Operating Statistics	40
Major Retail Water Customers	41
Water Rates	42

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying balance sheets of Seattle Public Utilities - Water Fund (the "Fund"), as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seattle Public Utilities - Water Fund as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying management discussion and analysis is not part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. This information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Moss Adams LLP

Seattle, Washington
April 25, 2012

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2011 AND 2010

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, 2011 and 2010. The revenues, expenses, assets, and liabilities of Seattle's water system are recorded in the Water Fund, the functions of which are primarily supported by user fees and charges charged to customers. The financial situation of other aspects of Seattle City government, including other utility services and general government operations, are reported elsewhere.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements - The basic financial statements of the Fund report information about the Fund using accounting methods similar to those 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 11 of this report and are comprised of three components: (1) Balance Sheets, (2) Statements of Revenues, Expenses, and Changes in Net Assets, and (3) Statements of Cash Flows.

The Balance Sheets present information, as of December 31, 2011 and 2010, on all of the Fund's assets and liabilities, with the difference between the two reported as net assets. They also provide information about the nature and amounts of investments in resources (assets), obligations to the Fund's creditors (liabilities), and provide the basis for assessing the liquidity and financial flexibility of the Fund.

The Statements of Revenues, Expenses, and Changes in Net Assets present changes in the Fund's net assets for the years ended December 31, 2011 and 2010. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. These statements reflect the results of the Fund's operations for the years identified to provide information about the Fund's credit worthiness and its ability to successfully recover all its costs through service fees and other charges.

The Statements of Cash Flows are required to provide information about the Fund's cash receipts and cash payments during the years ended December 31, 2011 and 2010. To provide answers to questions about sources, uses, and impacts to cash, these statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities for the reporting period.

Notes to the Financial Statements - The notes are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the data provided in the financial statements, such as for certain estimates and financing details. The notes to the financial statements begin on page 16 of this report.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2011 AND 2010

FINANCIAL ANALYSIS

Increases or decreases in net assets may serve over time as a useful indicator of whether the Fund's financial position is improving or deteriorating. At December 31, 2011 and 2010, the Fund's assets exceeded liabilities, resulting in surpluses in total net assets of \$312.7 million and \$310.9 million, respectively. During these years, the Fund's overall position improved, with increases in net assets amounting to \$1.8 million (0.6%) and \$0.7 million (0.2%) during 2011 and 2010, respectively. The following summary balance sheets present the assets of the Fund and show the mix of liabilities and net assets used to acquire these assets:

SUMMARY BALANCE SHEETS

	2011	2010	2009
ASSETS			
Current assets	\$ 38,558,607	\$ 40,383,090	\$ 36,865,593
Capital assets, net	1,203,705,381	1,204,705,000	1,174,893,172
Restricted, deferred and other	140,023,920	170,315,553	90,748,661
Total assets	1,382,287,908	1,415,403,643	1,302,507,426
LIABILITIES			
Current liabilities	66,665,963	67,597,206	64,312,832
Revenue bonds	961,925,299	993,907,949	890,018,584
Other	41,018,801	43,017,248	38,004,221
Total liabilities	1,069,610,063	1,104,522,403	992,335,637
NET ASSETS			
Invested in capital assets, net of related debt	290,541,426	275,465,946	297,764,998
Restricted	27,646,433	25,143,871	19,608,899
Unrestricted accumulated surplus (deficit)	(5,510,014)	10,271,423	(7,202,108)
TOTAL NET ASSETS	\$ 312,677,845	\$ 310,881,240	\$ 310,171,789

2011 Compared to 2010

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

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

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

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2011 AND 2010

FINANCIAL ANALYSIS (Continued)

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

Net Assets - Net assets invested in capital assets, net of debt, was the largest portion of the Fund's net assets (\$290.5 million or 92.9%). This amount reflects the Fund's investment in capital assets such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2011, net assets invested in capital assets increased \$15.1 million from 2010 primarily from a decrease in debt offset by an increase in other deferred charges.

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

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

2010 Compared to 2009

Assets - Current assets increased \$3.5 million (9.5%) over 2009. This increase was primarily due to increases in accounts receivable of \$2.2 million, unbilled revenues of \$1.1 million and the prepayments and other of \$1.1 million. The increase was offset by decreases in amounts due from other City funds and other governments of \$0.5 million and a reduction in the BPA account of \$0.4 million.

Restricted, deferred, and other assets increased \$79.6 million (87.7%) over 2009. The largest portion of the change was due to an increase of \$91.7 million from bonds issued January 21, 2010. In addition, the BPA account increased \$0.2 million and unamortized loan fees rose by \$0.1 million. These increases were offset by a \$9.4 million decrease in other deferred charges and a \$3.0 million withdrawal from the revenue stabilization account.

Liabilities - Current liabilities increased \$3.3 million (5.1%) from 2009. Most notable increases were a \$3.7 million increase in the current portion of bonds payable, a \$2.8 million increase in interest payable, a \$2.8 million increase in amounts due to other City funds and \$1.4 million increase for deferred credits related to the Consolidated Customer Services System. These increases were offset by a \$5.2 million decrease in the current portion of the Habitat Conservation Plan and a \$2.2 million decrease in accounts payable.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2011 AND 2010

FINANCIAL ANALYSIS (Continued)

Other liabilities increased \$5.0 million (13.2%). The most significant factors affecting this increase were a \$6.0 million loan from the American Recovery and Reinvestment Act and \$2.7 million loan from the Public Works Trust Fund. This increase was offset by a \$3.6 million decrease in deferred credits, mostly from a withdrawal from the Revenue Stabilization account.

Net Assets - Net assets invested in capital assets, net of debt, was the largest portion of the Fund's net assets (\$275.5 million or 88.6%). This amount reflects the Fund's investment in capital assets such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers. Consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2010, net assets invested in capital assets decreased \$22.3 million from 2009 primarily from an increase in the debt related to capital assets placed in service.

The Fund's restricted net assets (\$25.1 million or 8.1%) represent resources that are subject to restrictions on how they may be used. Restricted net assets increased \$6.0 million primarily due to the restriction of 2010 bond proceeds set aside as a bond reserve.

The Fund's unrestricted net assets (\$10.3 million or 3.3%) represent resources that are not subject to external restrictions and may be used to meet the Fund's obligations to creditors. This portion increased \$17.5 million in 2010.

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

SUMMARY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 194,572,652	\$ 195,203,465	\$ 191,369,588
Operating expenses	<u>(154,496,847)</u>	<u>(164,238,625)</u>	<u>(164,278,308)</u>
Net operating income	40,075,805	30,964,840	27,091,280
Other expenses, net of other revenues	(41,810,494)	(42,438,947)	(31,253,453)
Fees, contributions, and grants	<u>3,531,294</u>	<u>12,183,558</u>	<u>10,033,491</u>
Change in net assets	<u>\$ 1,796,605</u>	<u>\$ 709,451</u>	<u>\$ 5,871,318</u>

2011 Compared to 2010

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

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2011 AND 2010

FINANCIAL ANALYSIS (Continued)

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

2010 Compared to 2009

Operating revenue increased approximately \$3.8 million (2.0%) over 2009. This change was driven by an increase in water rates effective January 1, 2010 and a surcharge added to rates through December 31, 2010 to recover costs related to the hydrant settlement (see Note 12), resulting in a \$6.2 million rise in direct customer water service revenue. In addition, \$3.0 million was recognized as rate stabilization revenue. These increases were offset by a decrease in wholesale revenue of \$3.4 million due to a wetter than normal summer and a reduction in new water services of \$2.0 million due to a continued economic downturn.

Operating expenses decreased by \$0.04 million (0.02%) due to several factors. Overall branch expenses decreased \$4.9 million. This decrease was offset by increases in city taxes of \$2.4 million due to an increase in the City tax rate from 15.54% to 19.87% from March 2009 to December 2010, depreciation and amortization increases of \$2.0 million due mainly for depreciation on donated asset additions and increases in other taxes by \$0.5 million.

CAPITAL ASSETS

The following table summarizes capital assets, net of accumulated depreciation, by major asset category as of December 31, 2011, 2010, and 2009.

SUMMARY OF CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land and land rights	\$ 41,554,148	\$ 40,634,660	\$ 39,127,903
Buildings	139,390,553	133,716,122	136,730,786
Structures	207,894,613	211,678,140	185,675,086
Machinery and equipment	732,620,473	731,874,638	696,527,888
Computer systems	25,297,192	28,659,382	28,883,342
Construction in progress	56,020,194	57,228,686	87,082,670
Other property	928,208	913,372	865,497
Capital assets, net of accumulated depreciation	<u>\$ 1,203,705,381</u>	<u>\$ 1,204,705,000</u>	<u>\$ 1,174,893,172</u>

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

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2011 AND 2010

CAPITAL ASSETS (Continued)

2011 Compared to 2010

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

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

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

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

2010 Compared to 2009

The Fund's investment in capital assets for the year ended December 31, 2010, amounted to \$1.2 billion, net of accumulated depreciation. This represents a net increase of approximately \$29.8 million (2.5%) for the fiscal year.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2011 AND 2010

CAPITAL ASSETS (Continued)

Highlights of the Fund's major capital assets placed in service during 2010 include the following:

- West Seattle reservoir covering project was completed at a cost of \$34.8 million.
- Water tanks and pump station improvements were placed in service at a cost of \$12.5 million.
- Improvements at the Cedar River Watershed and emergency preparedness programs totaling \$5.4 million.
- Water pipeline upgrades and replacements totaling \$5.2 million.

The Fund had \$57.2 million in construction work in progress as of December 31, 2010. Projects under construction are the following:

- Water system improvements, rehabilitations, reservoir coverings, and environmental stewardship projects totaling \$27.5 million.
- Water conservation projects totaling \$11.7 million.
- Design and construction of the Sockeye hatchery at the Cedar River Watershed and improvements at the Ballard Locks totaling \$8.2 million.
- Business and technology infrastructure upgrades totaling \$3.2 million.
- Rebuilding water systems for interagency projects and operation facilities totaling \$3.9 million.

DEBT ADMINISTRATION

The Fund's debt primarily consists of bonded debt and public works trust loans. Bonded debt is secured solely by water system revenues and provides financing for capital improvements. Public works trust loans are unsecured loans issued by the Washington State Department of Commerce for certain capital improvements.

Additional detail about the Fund's revenue bonds and public works trust loans are located in Notes 4 and 9 of this report.

2011 Compared to 2010

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

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2011 AND 2010

DEBT ADMINISTRATION (Continued)

2010 Compared to 2009

At December 31, 2010 the Fund had \$1,006.3 million in bonded debt and \$18.5 million in public works trust and American Recovery and Reinvestment Act loans, as compared to \$904.0 million and \$10.5 million, respectively, at December 31, 2009. Bonded debt increased \$102.3 million, attributed primarily to the issuance of \$190.8 million of new debt during the year, offset by a payment of \$61.8 million to refund the 1998 Water Parity bond and payments of \$26.7 million of debt principal on existing bonds. Loans increased \$8.6 million due to additional draw downs of \$2.7 million in public works trust loans and a \$5.9 million loan from the American Recovery and Reinvestment Act.

REQUESTS FOR INFORMATION

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

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

ASSETS	2011	2010
CURRENT ASSETS		
Cash and equity in pooled investments	\$ 7,297,606	\$ 8,504,138
Accounts receivable, net of allowance for doubtful accounts of \$529,345 and \$514,850, respectively	13,532,093	13,618,259
Unbilled revenues	10,947,286	10,198,787
Due from other City funds	910,697	1,615,647
Due from other governments	755,085	1,065,352
Current portion of notes and contracts receivable	16,118	21,228
Materials and supplies inventory	3,820,951	4,074,958
Prepayments and other	1,210,771	1,184,721
BPA account - cash and equity in pooled investments	68,000	100,000
Total current assets	38,558,607	40,383,090
RESTRICTED ASSETS		
Bond reserve account - cash and equity in pooled investments	16,710,973	16,700,466
Construction fund		
Cash and equity in pooled investments	60,641,445	81,101,884
Dedicated investments	-	18,097,906
Vendor deposits - cash and equity in pooled investments	-	13,250
Revenue stabilization fund - cash and equity in pooled investments	9,014,423	10,444,399
BPA account - cash and equity in pooled investments	395,294	463,101
Total restricted assets	86,762,135	126,821,006
DEFERRED CHARGES AND OTHER		
Unamortized bond issue costs and loan fees	4,918,240	5,180,374
Notes and contracts receivable	465,194	169
Deferred conservation costs	29,905,009	29,568,737
Other deferred charges	17,973,342	8,745,267
Total deferred charges and other	53,261,785	43,494,547
CAPITAL ASSETS, at cost		
Capital assets - excluding land	1,664,690,270	1,627,958,898
Less accumulated depreciation	(559,487,439)	(522,030,616)
Capital assets, net of accumulated depreciation	1,105,202,831	1,105,928,282
Construction in progress	56,020,194	57,228,686
Land and land rights	41,554,148	40,634,660
Other property	928,208	913,372
Total capital assets	1,203,705,381	1,204,705,000
TOTAL ASSETS	\$ 1,382,287,908	\$ 1,415,403,643

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2011 AND 2010

LIABILITIES AND NET ASSETS

	2011	2010
CURRENT LIABILITIES		
Accounts payable	\$ 5,126,658	\$ 5,322,275
Accrued payroll and payroll taxes payable	1,465,971	1,358,521
Taxes payable	523,314	541,047
Interest payable	18,172,161	18,552,762
Due to other City funds	4,553,017	6,959,499
Claims payable	1,626,270	1,649,957
Compensated absences payable	401,748	400,168
HCP liability	533,222	527,457
Revenue bonds due within one year	31,425,000	29,140,000
Public works trust loans due within one year	858,293	858,293
Other current liabilities and deferred credits	1,980,309	2,287,227
Total current liabilities	66,665,963	67,597,206
REVENUE BONDS		
Revenue bonds - due serially	977,160,000	1,006,300,000
Less revenue bonds due within one year	(31,425,000)	(29,140,000)
Bond premiums	30,949,689	32,856,664
Loss on refunding	(14,759,390)	(16,108,715)
Total revenue bonds	961,925,299	993,907,949
NONCURRENT AND OTHER LIABILITIES		
Vendor deposits payable	-	13,250
Compensated absences payable	4,346,982	4,417,733
Other postemployment benefits	2,033,474	1,551,050
Public works trust loans	16,765,886	17,624,179
Claims payable	3,966,596	4,087,808
HCP liability	4,514,553	3,784,109
Deferred credits - Revenue Stabilization Fund	9,007,262	10,443,950
Other noncurrent liabilities	384,048	1,095,169
Total noncurrent and other liabilities	41,018,801	43,017,248
Total liabilities	1,069,610,063	1,104,522,403
NET ASSETS		
Invested in capital assets - net of related debt	290,541,426	275,465,946
Restricted	27,646,433	25,143,871
Unrestricted accumulated deficit	(5,510,014)	10,271,423
Total net assets	312,677,845	310,881,240
TOTAL LIABILITIES AND NET ASSETS	\$ 1,382,287,908	\$ 1,415,403,643

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
OPERATING REVENUES		
Direct service	\$ 137,382,037	\$ 136,442,800
Rate stabilization revenue	1,522,974	3,000,000
Wholesale	44,031,090	45,072,655
Other	11,636,551	10,688,010
Total operating revenues	194,572,652	195,203,465
OPERATING EXPENSES		
Pre-capital planning and development	1,330,792	2,059,112
Utility systems management	14,717,263	14,906,335
Field operations	22,836,313	20,816,456
Project delivery	4,311,408	6,419,956
Customer services	7,453,815	7,666,552
General and administrative	27,273,770	27,794,402
City taxes	23,279,845	29,454,840
Other taxes	7,231,727	7,035,586
Depreciation and amortization	46,061,914	48,085,386
Total operating expenses	154,496,847	164,238,625
NET OPERATING INCOME	40,075,805	30,964,840
OTHER INCOME (EXPENSES)		
Investment income	2,887,919	3,206,775
Interest expense	(46,589,417)	(47,576,654)
Amortization of bond premiums and discounts	1,906,975	1,916,704
Amortization of loss on refunding	(1,349,325)	(1,389,620)
Amortization of debt expenses	(257,663)	(257,760)
Gain on sale of assets	543,577	153,772
Other, net	1,047,440	1,507,836
Total other expenses	(41,810,494)	(42,438,947)
FEES, CONTRIBUTIONS, AND GRANTS		
Capital fees, contributions, and grants	3,096,313	11,643,915
Operating fees, contributions, and grants	434,981	539,643
Total fees, contributions, and grants	3,531,294	12,183,558
CHANGE IN NET ASSETS	1,796,605	709,451
NET ASSETS		
Beginning of year	310,881,240	310,171,789
End of year	\$ 312,677,845	\$ 310,881,240

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 194,414,793	\$ 193,874,859
Cash paid to suppliers	(27,067,874)	(29,811,046)
Cash paid to employees	(54,453,769)	(54,676,245)
Cash paid for taxes	(31,107,892)	(33,993,625)
Net cash provided by operating activities	81,785,258	75,393,943
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	440,981	525,064
Other cash inflows	2,384,713	2,936,200
Other cash outflows	(228,870)	(39,136)
Net cash provided by noncapital financing activities	2,596,824	3,422,128
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of bonds	-	132,995,704
Capital fees, contributions, and grants	1,738,807	1,605,384
Principal payments on revenue bonds	(29,140,000)	(26,700,000)
Proceeds from public works trust loans	-	8,647,997
Principal payments on public works trust loans	(858,293)	(714,766)
Capital expenditures and deferred charges	(50,989,161)	(61,482,337)
Interest paid on long-term debt	(49,600,802)	(47,483,998)
Proceeds from sale of capital assets	267,253	558,744
Debt issuance costs	-	(230,554)
Net cash (used in) provided by capital and related financing activities	(128,582,196)	7,196,174
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	-	(78,500,000)
Proceeds from sales of investments	18,100,000	60,400,000
Interest received on investments	2,905,391	2,093,019
Net cash provided by (used in) investing activities	21,005,391	(16,006,981)
NET (DECREASE) INCREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	(23,194,723)	70,005,264
CASH AND EQUITY IN POOLED INVESTMENTS		
Beginning of year	117,322,464	47,317,200
End of year	\$ 94,127,741	\$ 117,322,464

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
RECONCILIATION OF NET OPERATING INCOME TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$ 40,075,805	\$ 30,964,840
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation and amortization	46,061,914	48,085,386
Changes in operating assets and liabilities		
Accounts receivable	86,166	(2,156,411)
Unbilled revenues	(748,499)	(1,090,118)
Due from other City funds	704,950	(128,922)
Due from other governments	572,356	647,191
Materials and supplies inventory	254,007	96,492
Prepayments and other	(43,522)	(33,217)
Notes and contracts receivable	(459,914)	21,978
Vendor deposits payable	(208,283)	(71,847)
Accounts payable	(195,618)	(2,156,854)
Accrued payroll and payroll taxes payable	107,450	14,147
Taxes payable	(17,732)	85,177
Compensated absences payable	(69,171)	(39,962)
Other postemployment benefits	482,424	314,618
Due to other City funds	(2,406,482)	2,842,134
Due to other governments	-	(79,082)
Claims payable	(144,899)	379,815
Deferred credits - Revenue Stabilization Fund	(1,436,689)	(2,863,094)
Other deferred credits and liabilities	(829,005)	561,672
Total adjustments	41,709,453	44,429,103
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 81,785,258	\$ 75,393,943
NONCASH TRANSACTIONS		
Change in fair value of investments	\$ (8,142)	\$ 8,142
Contributed infrastructure	1,095,415	10,038,531
Total noncash transactions	\$ 1,087,273	\$ 10,046,673

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 1 - Operations and Summary of Significant Accounting Policies

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

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

SPU receives certain services from other departments and agencies of the City, including some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally pays public utility tax to the City's General Fund. During 2011 and 2010, the Fund paid \$9,547,222 and \$10,263,046, respectively, to the City for its share of general and administrative services. Additionally, the Fund paid \$23,279,845 and \$29,454,840 in 2011 and 2010, respectively, to the City for public utility taxes.

Water services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected \$2,722,327 and \$2,646,901 in 2011 and 2010, respectively, from the City for water services provided.

The utility billing function is co-managed by both SPU and Seattle City Light ("SCL"). SPU provides customer service through the call center and walk-in center. SCL operates and manages the billing system, Combined Customer Services System ("CCSS"). SPU and SCL billed and reimbursed each other for these services in 2011 and 2010. Within SPU, the costs and reimbursements were shared among its three utility funds (Water, Drainage and Wastewater, and Solid Waste). The Fund received reimbursements related to the call center and walk-in center of \$1,438,374 and \$1,637,727 in 2011 and 2010, respectively. The Fund paid \$396,012 and \$316,482 for CCSS services in 2011 and 2010, respectively, which does not include reimbursements to SCL for the Fund's share of capital costs to upgrade the CCSS system.

The Fund is subject to regulation by the City and the state of Washington. Service rates are authorized by ordinances passed by the Seattle City Council ("City Council"). Accounting policies and financial reporting are regulated by the Washington State Auditor's Office, and conform to accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Fund has chosen to apply all pronouncements and interpretations issued by GASB, as well as those issued by the Financial Accounting Standards Board ("FASB") on or before November 30, 1989, except when they conflict with GASB.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

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

Cash and Equity in Pooled Investments - Cash resources of the Fund are combined with cash resources of the City to form a pool of cash that is managed by the City's Finance and Administration Services Department. Under the City's investment policy, the Finance and Administration Services Department invests all temporary cash surpluses either directly or through a sweep account. Interest earned on the pooled investments is prorated to individual funds at the end of each month on the basis of their average daily cash balances during the month when interest was earned. The Fund's share of the pool is included in the accompanying Balance Sheets under the caption "cash and equity in pooled investments." The pool operates like a demand deposit account in that all City departments may deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the Statements of Cash Flows reconcile to cash and equity in pooled investments. Cash and equity in pooled investments are reported at fair market value.

Investments - The Fund's restricted cash resources are invested by the Finance and Administration Services Department separate from the cash and investments pool. Investments are managed in accordance with the City's investment policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Fund. These investments are reported at fair value.

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

Notes and contracts receivable arise from written agreements or contracts with private individuals or organizations. Activity between funds that is outstanding at the end of the year not related to the provision of utility services is reported as due from other funds.

Allowance for Doubtful Accounts - A reserve has been established for uncollectible accounts receivable based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely.

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.

Restricted Assets - The construction fund accounts are comprised of unexpended bond proceeds, a portion of which will be spent during 2012.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

Unamortized Bond Issue Costs - Costs associated with the issuance of bonds are amortized to expense over the term of the related debt. Amortization expense is calculated under the straight-line method or effective interest method, depending on the maturity schedule of the related bonds.

Revenue Stabilization Fund - The Revenue Stabilization Fund ("RSF") was established by the City Council to reduce year-to-year variation in rates. Amounts deposited into the RSF are excluded from the statement of revenues, expenses, and changes in net assets and treated as a deferred credit in accordance with Accounting Standards Codification ("ASC") 980. Council ordinance specifies that the balance in the RSF be maintained at a minimum of \$9.0 million. There were no deposits to the RSF other than interest earnings of \$0.1 million in both 2011 and 2010. The RSF is included in the "Revenue Stabilization Account" identified in the Fund's bond covenants. These covenants provide that withdrawals and deposits from the "Revenue Stabilization Account" shall augment or reduce adjusted net revenue available for the payment of debt service. During 2011 and 2010, \$1.5 million and \$3.0 million, respectively, were withdrawn from the Revenue Stabilization Fund as authorized by City ordinance 122841.

Deferred Conservation Costs - Conservation program costs that result in long-term benefits and reduce or postpone other capital expenditures or have a legal requirement are deferred 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 deferred costs 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 Deferred Charges - Other deferred charges include costs such as the Water System Plan, leasehold improvements, the hydrant settlement, Morse Lake Pump Plant, and payments to the Muckleshoot Indian Tribe. The Fund amortizes these charges over a 2 to 33 year period. Further discussion of the hydrant settlement may be found in Note 12.

Capital Assets - Capital assets are stated at cost or, if contributed, at fair value at the date of contribution. Costs include direct material, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest relating to the financing of projects under construction. The cost of current repairs and maintenance is charged to expense, while the cost of additions and improvements is capitalized. SPU's policy is to capitalize assets with a cost of \$5,000 or more. The Fund receives donated assets such as water mains from developers and other governmental agencies.

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

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

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

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

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

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

BPA Account - In 2003, the Bonneville Power Administration ("BPA") purchased an easement in the amount of \$6.0 million from the Fund to construct a power transmission line through the Cedar River Watershed. This amount was included in gain on sale of land rights and timber in the 2003 statement of revenues, expenses, and changes in net assets. 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, 2011 and 2010, the cash balance in the BPA account was \$463,294 and \$563,101, respectively. Monies in the BPA account are considered a portion of the "Revenue Stabilization Account" described in bond covenants, and therefore shall augment or reduce adjusted net revenue available for the payment of debt service. The Fund will recognize the revenues deposited in the BPA account in the calculation of adjusted net revenues available for the payment of debt service as they are withdrawn to fund certain activities in the Cedar River Watershed.

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

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

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

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

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

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

Operating Expenses - Certain expenses of the Fund are reported on the statements of revenues, expenses, and changes in net assets by functional category. The types of work performed within each category are as follows:

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

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

Other Revenues and Expenses - This includes the non-operating revenues and expenses that arise from transactions not related directly to the major income-earning operations of the utility and are of a recurring nature. Major items are investment and interest income, interest expense, gains or losses on the sale of assets, and amortization of debt expenses.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

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

Net assets invested in capital assets, net of related debt, consists of capital assets, less accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Net assets are restricted when constraints placed on net asset 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 assets as of December 31, 2011, and 2010, are related to the BPA and RSF accounts, bond debt reserve funds, and certain deferred charges.

Unrestricted net assets are those that are not "invested in capital assets, net of related debt" or "restricted."

Arbitrage Rebate Requirement - The Fund is subject to the Internal Revenue Code ("IRC"), Section 148(f), related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed will be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had no liability for arbitrage as of December 31, 2011 or 2010.

Accounting Changes - The Fund adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, as of January 1, 2010. This statement clarified the definition of intangible assets as used in the description of capital assets in GASB Statement No. 34. The adoption of GASB 51 did not have a significant impact on the Fund's financial statements for 2011 or 2010.

The Fund adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as of January 1, 2010. This statement provides guidance for the recognition, measurement and disclosure of activity related to derivative instruments held by state and local governments. The adoption of GASB 53 did not have a significant impact on the Fund's financial statements for 2011 or 2010.

GASB issued Statement No. 59 *Financial Instruments Omnibus*, to update and improve existing financial reporting and disclosure standards of certain financial instruments and external investment pools. This statement became effective for periods beginning after June 15, 2010 and did not have a significant impact on the Fund's financial statements for 2011 or 2010.

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

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

GASB has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The requirements of this statement will standardize the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The statement is effective for periods beginning after December 15, 2011. The Fund is evaluating the impact of this standard on the financial statements.

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

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

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

Note 2 - Cash and Investments

Custodial Credit Risk - Deposits - As of December 31, 2011 and 2010, the City's pool contained cash on deposit with the City's custodial banks in the amounts of \$19,666,051 and \$16,663,123, respectively. The deposits in excess of \$250,000 in both 2011 and 2010 were uninsured and uncollateralized. As such, these deposits were exposed to custodial credit risk, which is the risk that the deposits may not be returned to the City in the event of a bank failure. The City attempts to minimize exposure to custodial credit risk for deposits by requiring the depository bank to have sufficient capital to support the activity of the City. In addition, banks having a deposit relationship with the City are required to provide financial statements for the City's use in reviewing the bank's financial condition.

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

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 2 - Cash and Investments (Continued)

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

	2011				Weighted Average Maturity (Days)
	Dedicated Investments of the Fund	City Pool	Other Dedicated Investments	Total	
U.S. Government Agencies	\$ -	\$ 991,128,738	\$ -	\$ 991,128,738	974
State and Local Governments	-	105,403,511	-	105,403,511	513
Commercial Paper	-	77,494,937	-	77,494,937	10
Repurchase Agreements	-	66,785,435	-	66,785,435	3
U.S. Government Obligations	-	37,993,718	-	37,993,718	816
Total	\$ -	\$ 1,278,806,339	\$ -	\$ 1,278,806,339	
			Portfolio Weighted Average Maturity		823

	2010				Weighted Average Maturity (Days)
	Dedicated Investments of the Fund	City Pool	Other Dedicated Investments	Total	
U.S. Government Agencies	\$ 18,097,906	\$ 628,004,011	\$ 63,436,250	\$ 709,538,167	655
Commercial Paper	-	256,364,545	-	256,364,545	21
Repurchase Agreements	-	56,365,904	-	56,365,904	3
U.S. Government Obligations	-	39,624,611	-	39,624,611	398
State and Local Governments	-	1,020,110	-	1,020,110	213
Total	\$ 18,097,906	\$ 981,379,181	\$ 63,436,250	\$ 1,062,913,337	
			Portfolio Weighted Average Maturity		458

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

	2011	2010
Cash and equity in pooled investments	\$ 7,297,606	\$ 8,504,138
Restricted cash and equity in pooled investments	86,830,135	108,818,326
Total	\$ 94,127,741	\$ 117,322,464
Balance as a percentage of City Pool cash and investments	7.4%	11.9%

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 2 - Cash and Investments (Continued)

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

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In accordance with the City's investment policy, investments in commercial paper purchased on the secondary market are limited to those with maturities not longer than 180 days from purchase and with the highest rating by at least two nationally recognized statistical rating organizations ("NRSROs"). As of December 31, 2011 and 2010, the City's investments in commercial paper were rated P-1 by Moody's Investors Service and A-1 to A-1+ by Standard & Poor's Rating Service.

The City also purchases obligations of government-sponsored enterprises which are eligible as collateral for advances to member banks as determined by the Board of Governors of the Federal Reserve System. These include, but are not limited to, debt securities of Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal National Mortgage Association. As of December 31, 2011 these investments were rated Aaa, Aa1 and P-1 by Moody's Investors Service and AAA, AA+, and AA by Standard & Poor's Rating Service. As of December 31, 2010, these investments were rated Aaa by Moody's Investors Service, and AAA by Standard & Poor's Rating Service.

As of December 31, 2011, the City's investments in repurchase agreements require a signed and executed 2011 Version of the Global Master Repurchase Agreement, a standardized form published by the Securities Industry and Financial Markets Association ("SIFMA") and International Capital Market Association ("ICMA"), with an approved repo counterparty of the City. Additionally, the City will have to sign and execute a Tri-Party Custodial Agreement between the counterparty and one of the two third-party custodians, JPMorgan Chase and BNY Mellon, respectively. The City conducts repo transactions with investment grade rated primary dealers after thorough internal credit due diligence of the counterparty. Securities delivered as collateral must be priced at a minimum of 102% of their market value. Potentially higher margins of 103% to 105% would be used for pricing collateral in a volatile market environment. Parameters for acceptable collateral are determined by the City's investment policy, which abides by Washington State statute. As of December 31, 2011, the securities underlying the City's investments in repurchase agreements have included U.S. Treasuries, U.S. Agency debentures, and U.S. Agency mortgage-backed pass-throughs. The City has not accepted collateral containing credit risk, such as bankers' acceptances, commercial paper, or municipal bonds. Repurchase agreements do not have credit ratings.

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

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 2 - Cash and Investments (Continued)

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

Issuer	2011		2010	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal Home Loan Mortgage Corp	\$ 395,358,375	31%	\$ 114,398,437	11%
Federal National Mortgage Association	\$ 317,039,812	25%	\$ 276,373,623	26%
Federal Home Loan Bank	\$ 194,321,359	15%	\$ 218,644,903	21%
Federal Farm Credit Bank	\$ 83,708,078	7%	\$ 100,121,203	9%
Washington State	\$ 68,388,721	5%	\$ -	0%
Wells Fargo	\$ 66,785,435	5%	\$ 32,565,904	3%
Sheffield Receivables Corporation	\$ -	0%	\$ 54,343,164	5%

As of December 31, 2011, the Fund liquidated all dedicated investment to the construction fund account. The Fund's dedicated investments in which 5% or more is invested in any single issuer as of December 31 are as follows:

Issuer	2011		2010	
	Fair Value	Percent of Total Investments	Fair Value	Percent of Total Investments
Federal Home Loan Bank	\$ -	0%	\$ 12,192,375	67%
Federal Farm Credit Bank	\$ -	0%	\$ 5,905,531	33%

Note 3 - Capital Assets

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

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

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 3 - Capital Assets (Continued)

Capital asset activity consisted of the following for the year ended December 31, 2010:

	Beginning Balance	Additions and Transfers In	Retirements and Transfers Out	Ending Balance
Buildings	\$ 168,996,850	\$ 485,484	\$ (51,692)	\$ 169,430,642
Structures	226,981,061	77,027,173	(48,419,988)	255,588,246
Machinery and equipment	1,042,886,627	62,501,572	(1,062,578)	1,104,325,621
Computer systems	92,434,967	6,222,023	(42,601)	98,614,389
Total capital assets - excluding land	1,531,299,505	146,236,252	(49,576,859)	1,627,958,898
Less accumulated depreciation	<u>(483,482,403)</u>	<u>(40,864,673)</u>	<u>2,316,460</u>	<u>(522,030,616)</u>
	1,047,817,102	105,371,579	(47,260,399)	1,105,928,282
Construction in progress	87,082,670	116,669,354	(146,523,338)	57,228,686
Land and land rights	39,127,903	1,506,852	(95)	40,634,660
Other property	865,497	47,875	-	913,372
Capital assets, net	<u>\$ 1,174,893,172</u>	<u>\$ 223,595,660</u>	<u>\$ (193,783,832)</u>	<u>\$ 1,204,705,000</u>

During 2011 and 2010, the Fund capitalized interest costs relating to construction of \$2,635,254 and \$2,697,823, respectively.

Note 4 - Revenue Bonds

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has set aside \$16,710,973 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, 2011 and 2010 were \$977,160,000 and \$1,006,300,000, respectively.

The Fund did not issue Revenue Bonds during the year ended December 31, 2011.

In January 2010, the Fund issued \$109,080,000 of Water System Revenue Bonds with varying annual principal payments due beginning in 2019 and ending in 2040, at interest rates ranging from 4.67% to 5.89%. The bonds were issued as taxable, direct pay Build America Bonds. Designation as Build America Bonds allows the Fund a credit payable by the United States Treasury in an amount equal to 35% of the interest payable on each bond interest payment date. As a result, interest on the bonds is not excludable from gross income. Proceeds of the revenue bonds are being used to finance certain capital improvements and additions to the water system.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 4 - Revenue Bonds (Continued)

Also, in January 2010, the Fund issued \$81,760,000 of Water System Improvement and Refunding Revenue Bonds with varying annual principal payments due beginning in 2010 and ending in 2027, at interest rates ranging from 3.00% to 5.00%. A portion of the proceeds from the issuance was set aside in the Fund's restricted cash and used on January 21, 2010, to refund the remaining portion of the 1998 Water Revenue Bonds, totaling \$61,825,000. The remaining proceeds will be used for certain capital improvement projects for the Fund. As a result of the refunding, the Fund reduced total debt service requirements by \$9.5 million resulting in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$6.7 million. A deferred charge (the difference between the cost to refund outstanding debts and the carrying value of bonds refunded) of \$1.2 million is being amortized over the life of the refunded bonds using the straight-line method. The defeased bonds were subsequently redeemed in 2010. No outstanding bonds are considered defeased at December 2011 and 2010.

Revenue bonds outstanding as of December 31, 2011 and 2010 consisted of the following Municipal Water bonds:

Name of Issue	Issuance Date	Maturity Years	Interest Rates	Original Issue Amount	Bonds Outstanding, 2011	Bonds Outstanding, 2010
2001 parity bonds	11/20/01	2005-2031	4.5-5.0%	\$ 52,525,000	\$ 44,320,000	\$ 45,630,000
2003 parity, refunding bonds	5/12/03	2003-2033	4.0-6.0%	271,320,000	185,725,000	194,240,000
2004 parity bonds	10/25/04	2005-2034	3.0-5.0%	84,750,000	73,735,000	75,430,000
2005 parity, refunding bonds	12/28/05	2006-2029	4.0-5.0%	138,040,000	123,000,000	127,600,000
2006 parity, refunding bonds	10/23/06	2008-2037	4.0-5.0%	189,970,000	177,655,000	182,100,000
2008 parity, refunding bonds	12/15/08	2009-2038	4.0-5.25%	205,080,000	190,145,000	193,885,000
2010A parity, revenue bonds	1/21/10	2019-2040	4.67-5.89%	109,080,000	109,080,000	109,080,000
2010B parity, refunding revenue bonds	1/21/10	2010-2027	3.0-5.0%	81,760,000	73,500,000	78,335,000
				<u>\$ 1,132,525,000</u>	<u>\$ 977,160,000</u>	<u>\$ 1,006,300,000</u>

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 4 - Revenue Bonds (Continued)

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

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 31,425,000	\$ 48,103,807	\$ 79,528,807
2013	32,795,000	46,709,282	79,504,282
2014	34,240,000	45,251,907	79,491,907
2015	35,810,000	43,675,882	79,485,882
2016	37,545,000	41,926,482	79,471,482
2017 - 2021	215,415,000	180,141,296	395,556,296
2022 - 2026	233,360,000	123,228,962	356,588,962
2027 - 2031	191,700,000	68,544,422	260,244,422
2032 - 2036	117,810,000	27,958,776	145,768,776
2037 - 2040	47,060,000	4,894,093	51,954,093
	<u>\$ 977,160,000</u>	<u>\$ 630,434,909</u>	<u>\$ 1,607,594,909</u>

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

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

The following table shows the revenue bond activity during the year ended December 31, 2010:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
Revenue bonds	\$ 903,985,000	\$ 190,840,000	\$ (88,525,000)	\$ 1,006,300,000	\$ 29,140,000
Add (deduct) deferred amounts:					
Issuance premiums	28,111,017	6,662,351	(1,916,704)	32,856,664	-
Issuance discounts	(306,733)	-	306,733	-	-
Loss on refunding	(16,345,700)	(1,152,635)	1,389,620	(16,108,715)	-
Total bonds payable	<u>\$ 915,443,584</u>	<u>\$ 196,349,716</u>	<u>\$ (88,745,351)</u>	<u>\$ 1,023,047,949</u>	<u>\$ 29,140,000</u>

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 4 - Revenue Bonds (Continued)

Debt Service Coverage - The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain adjusted net revenue available for debt service of not less than 125% of actual annual debt service. In 2011, adjusted net revenue available for debt service, as defined by the bond covenants was 148% of debt service. For 2010, adjusted net revenue available for debt service was 159%. Net revenue available for debt service for the year ended December 31 is determined as follows:

	<u>2011</u>	<u>2010</u>
Change in net assets	\$ 1,796,605	\$ 709,451
Add:		
City taxes	23,279,845	29,454,840
Depreciation and amortization	46,061,914	48,085,386
Interest paid on revenue bonds	49,224,670	50,274,477
Draws on BPA account	<u>100,000</u>	<u>198,207</u>
	120,463,034	128,722,361
Less:		
Donation of assets	1,095,415	10,038,531
Capitalized interest	2,635,254	2,697,823
Amortization of bond premiums, debt expenses, and loss on refunding	<u>299,987</u>	<u>269,324</u>
Adjusted net revenue available for debt service	<u><u>\$ 116,432,378</u></u>	<u><u>\$ 115,716,683</u></u>
Debt service requirement (cash basis)	\$ 78,552,207	\$ 72,749,679
Coverage percentage	148%	159%

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 5 - Leases

The Fund has non-cancelable operating lease commitments for real and personal property with minimum payments of \$384,595 in 2011 and \$375,965 in 2010. Rents are paid as they become due and payable. Minimum payments under the leases as of December 31, 2011 are shown below:

	Minimum Payments
2012	\$ 392,972
2013	274,933
2014	248,136
2015	256,273
2016	221,013
2017 - 2021	54,045
2022 - 2026	54,045
2027 - 2029	32,427
	\$ 1,533,844

Note 6 - Retirement and Other Postemployment Benefit Plans

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

City employees are required to contribute 9.03% of their annual base salaries to System. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2011, 2010, and 2009, were \$3,892,675, \$3,601,358 and \$3,861,387, respectively. The Fund's contribution in 2011 represents its full liability to the System.

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

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

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

Year Ended December 31,	City Required Contribution	City Actual Contribution	Percentage Contributed
2009	\$ 46.7	\$ 46.7	100%
2010	\$ 45.2	\$ 45.2	100%
2011	\$ 50.2	\$ 50.2	100%

Actuarial data and assumptions:

Valuation date	January 1, 2011
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	30 years, open
Asset valuation method	5-Year Smoothing Method
Investment rate of return	7.75%
Projected general wage inflation	4.0%
Postretirement benefit increases	1.5%

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liabilities (AAL) Entry Age ¹ (b)	Unfunded AAL (UAAL) ² (b-a)	Funded Ratio (a/b)	Covered Payroll ³ (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2008	\$ 2,119.4	\$ 2,294.6	\$ 175.2	92.4%	\$ 501.9	34.9%
January 1, 2010	\$ 1,645.3	\$ 2,653.8	\$ 1,008.5	62.0%	\$ 580.9	173.6%
January 1, 2011	\$ 2,013.7	\$ 2,709.0	\$ 695.4	74.3%	\$ 563.2	123.5%

- 1 Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
- 2 Actuarial accrued liabilities less actuarial value of assets.
- 3 Covered payroll includes compensation paid to all active employees on which contributions are calculated.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

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

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

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

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

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

The Seattle City Council authorizes the obligations of the plan members and the City as employer by passing ordinances and amendments regarding contributions to the plans. Eligible retirees self-pay 100% of the premiums based on blended rates which were established by including the experience of retirees with the experience of active employees for underwriting purposes. The plan is financed on a pay-as-you-go basis, and the City was required to contribute \$3.2 million in 2010 and \$3.0 million in 2009.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

The table below summarizes the City's annual cost, expected contributions to the plan, and changes in the net OPEB obligation for fiscal year ended December 31, 2010 and 2009. These calculations are based on the most recent actuarial valuation data available, dated January 1, 2010. The Fund has accrued \$2,033,474 to the plan as of December 31, 2011, as a reasonable estimate of expected contributions.

	2010	2009
Annual required contribution	\$ 10,709,000	\$ 9,269,000
Interest on net OPEB obligation	898,000	693,000
Adjustment to annual required contribution	(1,239,000)	(915,000)
Annual OPEB cost (expense)	10,368,000	9,047,000
Expected contribution (employer-paid benefits)	(3,202,000)	(2,954,000)
Increase in net OPEB obligation	7,166,000	6,093,000
Net OPEB obligation, beginning of year	20,446,000	14,353,000
Net OPEB obligation, end of year	\$ 27,612,000	\$ 20,446,000
Fund's allocated share of city liability	\$ 1,551,050	\$ 1,236,432

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

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

Significant methods and assumptions are as follows:

Actuarial data and assumptions

Valuation date	January 1, 2010
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	30 years, open
Discount rate	4.39%
Health care cost trend rates - medical:	10.0%, decreasing by 0.5% for each year for 10 years to an ultimate rate of 5%.
Participation	40% of Active Employees who retire participate
Mortality	General Service Actives and Retirees based on the Group Annuity Mortality (GAM) 1994 Static Table (Final) with ages set forward one year.
Marital status	60% of members electing coverage are assumed to be married or to have a registered domestic partner. Male spouses two years older than their female spouses.
Morbidity factors	Morbidity rate ranges for ages 50 through 64: 104.25% to 203.61% for male retirees, 76.78% to 149.96% for female retirees, 123.03% to 229.84% for male spouses, and 90.62% to 169.29% for female spouses. Retirees' spouses pay a lower premium than retirees.
Other considerations	Active employees with current spousal and/or dependent coverage are assumed to elect same plan and coverage after retirement.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL Entry Age (b)	UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
January 1, 2008	\$ -	\$ 78.8	\$ 78.8	0.0%	NA	NA
January 1, 2009	\$ -	\$ 84.1	\$ 84.1	0.0%	NA	NA
January 1, 2010	\$ -	\$ 93.5	\$ 93.5	0.0%	NA	NA

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

Note 7 - Claims Payable

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

For 2011 and 2010, liabilities for workers' compensation claims, as well as other claims, are discounted over a 15-year period at the City's rate of return on investments, 0.824% and 1.027%, respectively. Claims expected to be paid within one year were \$1,626,270 and \$1,649,957 at December 31, 2011 and 2010, respectively. The table below presents the changes in the liability for workers' compensation claims and other claims (risk-financing liabilities) as of December 31:

	2011	2010
Beginning liability, undiscounted	\$ 5,929,939	\$ 5,627,641
Payments	(947,194)	(1,698,655)
Incurred claims and changes in estimate	759,346	2,000,953
Ending liability, undiscounted	<u>\$ 5,742,091</u>	<u>\$ 5,929,939</u>
Ending liability, discounted (recorded balance at December 31)	<u>\$ 5,592,866</u>	<u>\$ 5,737,765</u>

The Fund is involved in litigation from time to time as a result of operations. Claims are pursued if determined to be in the best interest of the Fund's customers.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 8 - Compensated Absences

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

	2011	2010
Beginning liability	\$ 4,817,901	\$ 4,857,863
Additions	3,675,559	5,287,424
Reductions	(3,744,730)	(5,327,386)
Ending liability	\$ 4,748,730	\$ 4,817,901

Note 9 - Public Works Trust Loans

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

Loans outstanding as of December 31, 2011 and 2010 are as follows:

Description	Maturity Years	Interest Rate	Amount Borrowed	Loans Outstanding, 2011	Loans Outstanding, 2010
Magnolia Manor Reservoir	1994-2013	1.0%	\$ 2,220,000	\$ 236,433	\$ 354,650
Myrtle Reservoir	2008-2025	1.5%	4,040,000	3,142,222	3,366,667
Beacon Reservoir	2008-2026	1.5%	4,040,000	3,189,474	3,402,105
West Seattle Reservoir	2009-2027	1.5%	3,030,000	2,551,579	2,711,053
Maple Leaf ARRA	2009-2032	1.0%	5,920,997	5,920,997	5,920,997
Maple Leaf	2010-2029	1.5%	2,727,000	2,583,474	2,727,000
			\$ 21,977,997	\$ 17,624,179	\$ 18,482,472

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 9 - Public Works Trust Loans (Continued)

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

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 858,293	\$ 315,479	\$ 1,173,772
2013	1,154,343	221,292	1,375,635
2014	1,036,126	206,048	1,242,174
2015	1,036,126	191,987	1,228,113
2016	1,036,126	177,925	1,214,051
2017 - 2021	5,180,629	678,702	5,859,331
2022 - 2026	4,956,185	327,160	5,283,345
2027 - 2031	2,070,302	74,519	2,144,821
2032	296,049	2,961	299,010
	<u>\$ 17,624,179</u>	<u>\$ 2,196,073</u>	<u>\$ 19,820,252</u>

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

	<u>2011</u>	<u>2010</u>
Net public works trust loans, beginning of year	\$ 18,482,472	\$ 10,549,241
Loan proceeds	-	8,647,997
Principal payments	<u>(858,293)</u>	<u>(714,766)</u>
Net public works trust loans, end of year	<u>\$ 17,624,179</u>	<u>\$ 18,482,472</u>
Public works trust loans due within one year	<u>\$ 858,293</u>	<u>\$ 858,293</u>
Public works trust loans, noncurrent	<u>\$ 16,765,886</u>	<u>\$ 17,624,179</u>

Note 10 - Notes and Contracts Receivable

The Fund has an agreement with the Seattle Housing Authority for the recovery of the remaining unreimbursed cost of the Fund's contributions of public infrastructure to the New Holly redevelopment project. As of December 31, 2011 the Seattle Housing Authority receivable was \$480,855.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 10 - Notes and Contracts Receivable (Continued)

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

	2011	2010
Seattle Housing Authority receivable	\$ 480,855	\$ -
Water main assessments	457	4,038
Land sales receivable	-	17,359
Total notes and contracts receivable	481,312	21,397
Due within one year	(16,118)	(21,228)
Total non-current notes and contracts receivable	\$ 465,194	\$ 169

Note 11 - Commitments

The Fund is required by the Washington State Department of Health (“DOH”) to complete a program to cover its open, above-ground distribution system reservoirs by the year 2020. The total cost of burying five reservoirs is expected to be approximately \$123.2 million through the year 2016; costs beyond 2016 are not estimable as of the date of this report. As of December 31, 2011 and 2010, total cumulative costs incurred were \$112.4 million and \$111.5 million, respectively.

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

Note 12 - Hydrant Settlement

A class action lawsuit against the Fund alleged that fire hydrant costs were improperly paid by the Fund’s ratepayers and sought refund of such costs. The Fund settled the lawsuit and was ordered to refund ratepayers and to collect hydrant charges from the City. At the settlement date, the Fund recorded a liability of \$16.2 million for refunds to ratepayers and a \$14.3 million receivable due from the City in reimbursements. As of December 31, 2010, the Fund processed \$13.5 million for refunds that were received per the terms of the settlement. Of the total estimated liability, \$2.7 million was not claimed by ratepayers and was recorded as other non-operating revenue of the Fund.

The Fund had \$6.8 million of deferred costs related to the settlement, which represented a surcharge collected from ratepayers to cover these costs. As of December 31, 2010, the deferred costs were fully amortized.

SEATTLE PUBLIC UTILITIES - WATER FUND
(An Enterprise Fund of the City of Seattle)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 13 - Habitat Conservation Program Liability

SPU has prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the Habitat Conservation Plan ("HCP") is to protect all species of concern that may be affected by the operations of SPU and SCL in the Cedar River Watershed, while allowing the City to continue to provide high quality drinking water to the region. The federal government has accepted the HCP. The total cost of implementing the HCP is expected to be \$101.6 million (in 2011 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 2011 is \$81.2 million. The remaining \$20.4 million to complete the HCP is comprised of a \$5.0 million liability and an estimate of \$15.4 million for construction and operating commitments. The construction activities will add to the Fund's capital assets and the operating activities are mainly research, monitoring, and maintenance of the HCP program that will be expensed as incurred.

SUPPLEMENTAL INFORMATION

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

Water System Operating Statistics

	2007	2008	2009	2010	2011
Population Served					
Retail	642,385	649,286	658,951	664,458	669,654
Wholesale ⁽¹⁾	609,613	616,592	621,606	628,536	634,193
Total Population Served	1,251,998	1,265,878	1,280,557	1,292,994	1,303,847
Water Sales Revenues (\$000) ⁽²⁾⁽³⁾					
Retail	\$102,334	\$106,689	\$130,272	\$136,443	\$137,382
Wholesale	\$41,558	\$42,884	\$48,454	\$45,073	\$44,050
Total Water Sales Revenues	\$143,892	\$149,573	\$178,726	\$181,516	\$181,432
Billed Water Consumption (MG) ⁽³⁾					
Retail	21,311	20,599	20,956	19,868	19,305
Wholesale	22,741	22,255	23,554	20,437	20,922
Total Billed Water Use	44,052	42,854	44,510	40,305	40,227
Operating Costs (\$ per MG) ⁽⁴⁾	\$3,143	\$3,423	\$3,679	\$4,075	\$3,842
Gallons Used per Day per Capita	96	93	95	85	85
Retail Meters in Use	185,272	187,032	188,102	188,332	188,754
Number of New Retail Meters	1696	1760	1070	230	422
Total Water Diversions (MGD)	125.9	125.1	129.5	118.4	117.9
Non-Revenue	5.2	8.0	7.5	8.0	7.7
% Non-Revenue	4.1	6.4	5.8	6.7	6.5

(1) This is the estimated total population served by SPU's water supply. As some Wholesale Customers obtain some or all of their water from sources other than SPU, this number is less than the total population shown in the shaded areas on the map on the inside front cover.

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

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

(4) The increases in per unit operating costs in 2009 and 2010 are due in part to a temporary increase in the City's utility tax rate and increased amortization expense, both due to Lane v. City of Seattle. See "Litigation and Claims."

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

Major Retail Water Customers - 2010 Annual Revenues and Volumes

The Water System's ten largest retail water users in 2011 were the University of Washington, City of Seattle, Port of Seattle, Seattle Housing Authority, Seattle Steam Company, Todd Shipyards, Nucor Steel Seattle, Seattle Public Schools, and Swedish Medical Center. In the aggregate, revenue from these customers was less than nine percent of billed direct service.

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

Water Rates – Effective January 1, 2012

RATE SCHEDULES	Direct Service											Wholesale	
	Inside City				Outside City				City of Shoreline/City of Lake Forest Park				Full and Partial
	Residential	MMRD*	Gen Svc	Fire Service	Residential	MMRD*	Gen Svc	Fire Service	Residential	MMRD*	Gen Svc	Fire Service	
Commodity Charge (\$/100 Cubic Feet)													
Offpeak Usage (Sept 16-May 15)	\$4.04	\$4.04	\$4.04		\$4.61	\$4.61	\$4.61		\$4.90	\$4.90	\$4.90		\$1.52
Peak Usage (May 16-Sept 15)													
Up to 5 ccf**	\$4.34	\$4.34	\$5.15		\$4.95	\$4.95	\$5.87		\$5.26	\$5.26	\$6.25		\$2.26
Next 13 ccf**	\$5.15	\$5.15	\$5.15		\$5.87	\$5.87	\$5.87		\$6.25	\$6.25	\$6.25		\$2.26
Over 18 ccf**	\$11.80	\$11.80	\$5.15		\$13.45	\$13.45	\$5.87		\$14.31	\$14.31	\$6.25		\$2.26
Usage over base allowance				\$20.00				\$22.80				\$24.30	\$22.00
Utility Credit (\$/month)	\$16.97		\$10.14		\$16.97		\$10.14		\$16.97		\$10.14		
Base Service Charge (\$/month/meter)												New Srvc Fee (One Time)	
3/4 inch and less	\$13.25		\$13.25		\$15.10		\$15.10		\$16.05		\$16.05		\$483
1 inch	\$13.65		\$13.65		\$15.55		\$15.55		\$16.55		\$16.55		\$1,566
1-1/2 inch	\$21.05	\$21.05	\$21.05		\$24.00	\$24.00	\$24.00		\$25.55	\$25.55	\$25.55		\$3,915
2 inch	\$23.35	\$23.35	\$23.35	\$15.40	\$26.60	\$26.60	\$26.60	\$18.00	\$28.30	\$28.30	\$28.30	\$19.00	\$6,264
3 inch	\$86.35	\$86.35	\$86.35	\$20.00	\$98.45	\$98.45	\$98.45	\$23.00	\$104.70	\$104.70	\$104.70	\$24.00	\$17,226
4 inch	\$123.75	\$123.75	\$123.75	\$37.00	\$141.10	\$141.10	\$141.10	\$42.00	\$150.10	\$150.10	\$150.10	\$45.00	\$24,273
6 inch		\$152.30	\$152.30	\$63.00		\$173.60	\$173.60	\$72.00		\$184.70	\$184.70	\$76.00	\$51,678
8 inch		\$199.00	\$199.00	\$100.00		\$227.00	\$227.00	\$114.00		\$241.00	\$241.00	\$121.00	\$87,696
10 inch		\$297.00	\$297.00	\$144.00		\$339.00	\$339.00	\$164.00		\$360.00	\$360.00	\$175.00	\$132,327
12 inch		\$402.00	\$402.00	\$210.00		\$458.00	\$458.00	\$239.00		\$488.00	\$488.00	\$255.00	\$186,354
16 inch		\$477.00	\$477.00			\$544.00	\$544.00			\$579.00	\$579.00		\$186,354
20 inch		\$614.00	\$614.00			\$700.00	\$700.00			\$745.00	\$745.00		\$186,354
24 inch		\$771.00	\$771.00			\$879.00	\$879.00			\$935.00	\$935.00		\$186,354

* Master Metered Residential Development

** per residence