



**Office of the Washington State Auditor
Pat McCarthy**

June 23, 2025

Mayor and City Council
City of Seattle
Seattle, Washington

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of the City of Seattle Water Enterprise Fund for the fiscal years ended December 31, 2024 and 2023. The City contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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

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

December 31, 2024 and 2023

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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Seattle Public Utilities – Water Fund (the Fund), which comprise the statements of net position as of December 31, 2024 and 2023, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2024 and 2023, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Financial Reporting Entity

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of City of Seattle, Washington, as of December 31, 2024 and 2023, the related changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2025, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Seattle, Washington
April 30, 2025

Management's Discussion and Analysis

Seattle Public Utilities – Water Fund

(An Enterprise Fund of the City of Seattle)

Management’s Discussion and Analysis

As management of Seattle Public Utilities (SPU), a department of the City of Seattle (the City), we offer readers of SPU’s financial statements this narrative overview and analysis of the financial activities of the Water Fund (the Fund) for the fiscal years ended December 31, 2024 and 2023. The revenues, expenses, assets, deferred outflows and inflows of resources, and liabilities of Seattle’s water system are recorded in the Fund, the functions of which are primarily supported by user fees and charges to customers. The financial situation of other aspects of Seattle City government, including other utility services and general government operations, are reported elsewhere.

Overview of the Financial Statements

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

Basic financial statements – The basic financial statements of the Fund report information similar to the presentation used by private sector companies. These statements offer short-term and long-term financial information about its activities. The basic financial statements begin on page 14 of this report and are comprised of three components: (1) statements of net position, (2) statements of revenues, expenses, and changes in net position, and (3) statements of cash flows.

The statements of net position present information, as of December 31, 2024 and 2023, on all the Fund’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between assets combined with deferred outflows of resources and liabilities combined with deferred inflows of resources is reported as net position. They also provide information about the nature and amounts of investments in resources (assets and deferred outflows of resources), obligations to the Fund’s creditors (liabilities and deferred inflows of resources), and provide the basis for assessing the liquidity and financial flexibility of the Fund.

The statements of revenues, expenses, and changes in net position present changes in the Fund’s net position for the years ended December 31, 2024 and 2023. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. These statements reflect the results of the Fund’s operations for the years identified to provide information about the Fund’s creditworthiness and its ability to recover all its costs through service fees and other charges.

The statements of cash flows are required to provide information about the Fund’s cash receipts and cash payments during the years ended December 31, 2024 and 2023, and 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 19 of this report.

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

Financial Analysis

Increases or decreases in net position may serve over time as a useful indicator of whether the Fund’s financial position is improving or deteriorating. At December 31, 2024 and 2023, the Fund’s assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources, resulting in surpluses in total net position of \$868.5 million and \$820.8 million, respectively. In 2024, the Fund’s change in net position was an increase of \$47.7 million (5.8%) as compared to 2023, which increased \$49.5 million (6.4%). The following summary statements of net position presents the assets and deferred outflows of resources of the Fund and shows the mix of liabilities, deferred inflows of resources, and net position used to acquire these assets and deferred outflows of resources:

Summary Statements of Net Position

| | 2024 | 2023 | 2022 |
|---|-------------------------|-------------------------|-------------------------|
| ASSETS | | | |
| Current assets | \$ 169,676,653 | \$ 160,766,155 | \$ 145,922,174 |
| Capital assets, net | 1,422,203,198 | 1,390,326,431 | 1,369,256,870 |
| Other | 178,713,625 | 144,663,677 | 180,177,364 |
| Total assets | 1,770,593,476 | 1,695,756,263 | 1,695,356,408 |
| DEFERRED OUTFLOWS OF RESOURCES | 32,880,313 | 40,818,824 | 30,200,083 |
| Total assets and deferred outflows of resources | <u>\$ 1,803,473,789</u> | <u>\$ 1,736,575,087</u> | <u>\$ 1,725,556,491</u> |
| LIABILITIES | | | |
| Current liabilities | \$ 84,807,647 | \$ 83,414,972 | \$ 91,639,327 |
| Revenue bonds | 629,225,000 | 604,485,000 | 688,052,014 |
| Other | 156,140,549 | 167,918,288 | 95,686,864 |
| Total liabilities | 870,173,196 | 855,818,260 | 875,378,205 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Revenue stabilization fund | 52,578,875 | 47,549,791 | 42,440,724 |
| Deferred inflows - other | 12,216,179 | 12,385,749 | 36,426,777 |
| Total deferred inflows of resources | 64,795,054 | 59,935,540 | 78,867,501 |
| NET POSITION | | | |
| Net investment in capital assets | 788,539,953 | 753,677,215 | 720,227,690 |
| Restricted | 20,506,595 | 20,943,954 | 18,290,404 |
| Unrestricted | 59,458,991 | 46,200,118 | 32,792,691 |
| TOTAL NET POSITION | 868,505,539 | 820,821,287 | 771,310,785 |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 1,803,473,789</u> | <u>\$ 1,736,575,087</u> | <u>\$ 1,725,556,491</u> |

2024 Compared to 2023

Assets – Current assets increased \$8.9 million (5.5%) from 2023. This is primarily due to an increase in net accounts receivable of \$4.9 million, an increase in operating cash of \$3.0 million, an increase of unbilled revenue of \$0.8 million, an increase in materials and supplies inventory of \$0.3 million, and an increase due from other governments of \$0.1 million. The change in operating cash is primarily due to the move of \$3.2 million to the rate stabilization account in 2024.

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

Capital assets increased \$31.9 million (2.3%) from 2023 mainly due to current year capital spending (Note 3).

Other assets increased \$34.0 million (23.5%) from 2023. The largest portion of the change was due to the issuance of \$68.8 million in revenue bonds, with a premium of \$7 million, for construction; \$5.5 million of which is for bond reserves, \$3.2 million transferred from operating to the rate stabilization account, and \$1.9 million of investment income on restricted cash. This was offset by a transfer to operating cash of \$48 million for construction projects.

Deferred outflows of resources – Deferred outflows of resources decreased by \$8.0 million (-19.4%) from 2023. This change resulted mainly from assumptions related to pension accounting and differences in expected and actual experience in other post-employment benefits.

Liabilities – Current liabilities decreased \$1.4 million (-1.7%) from 2023. The change mostly resulted from increases of \$3.2 million in revenue bonds due within one year, and \$3.5 million in due to other funds. This was offset by decreases of accounts payable of \$2.9 million and a decrease of \$2.3 million in salaries payable.

Noncurrent liabilities increased \$13 million (1.7%) over 2023. This is mainly from an increase of \$21.6 million in revenue bonds as a result of 2024 bonds issuance, an increase of \$2 million in premiums, and an increase of \$1.8 million in unfunded other post-retirement benefits, an increase of \$1.4 million in compensated absences, and an increase of \$1.1 million in Habitat Conservation Program (HCP) liability. This was offset by a decrease of \$12.8 million in net pension liability and a decrease of \$2 million in loans.

Deferred inflows of resources – Deferred inflows of resources increased by \$4.9 million (8.1%) from 2023. This increase is mainly due to an increase of \$5.0 million in the rate stabilization account.

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

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

The Fund’s unrestricted net position (\$59.5 million or 6.8%) represents resources that are not subject to external restrictions and may be used to meet the Fund’s obligations to creditors. This portion increased \$13.3 million in 2024 as compared to 2023 primarily as a result of operations.

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

2023 Compared to 2022

Assets – Current assets increased \$14.8 million (10.2%) from 2022. This is primarily due to an increase in operating cash of \$17.3 million, materials and supplies inventory of \$1.8 million, and due from other governments of \$0.9 million, offset by a decrease in accounts receivable of \$5.0 million and a decrease in unbilled revenue of \$0.4 million. The change in operating cash is primarily due to cash flow from operations and a decrease in accounts receivable.

Capital assets increased \$21.1 million (1.5%) from 2022 mainly due to current year capital spending (Note 3).

Other assets decreased \$35.5 million (-19.7%) from 2022. The largest portion of the change was due to a decrease in restricted cash and equity in pooled investments of \$41.2 million from the transfer of cash from restricted accounts for construction to operating.

Deferred outflows of resources – Deferred outflows of resources increased by \$10.6 million (35.2%) from 2022. This change resulted mainly from assumptions related to pension accounting and differences in expected and actual experience in other post-employment benefits.

Liabilities – Current liabilities decreased \$8.2 million (-9.0%) from 2022. The change mostly resulted from decreases of \$6.7 million in revenue bonds due within one year, \$3.4 million in other, and \$3.2 million due to other funds. This was offset by an increase in accounts payable of \$5.2 million.

Noncurrent liabilities decreased \$11.3 million (-1.4%) over 2022. This is mainly from a decrease of \$49.0 million in revenue bonds and bond premiums, due to regular payments, which was offset by an increase of \$37.1 million in net pension liability.

Deferred inflows of resources – Deferred inflows of resources decreased by \$18.9 million (-24.0%) from 2022. This decrease is mainly due to a decrease of \$23.4 million in pension and other post-employment benefits (OPEB) which was offset by an increase in the rate stabilization account of \$5.1 million.

Net position – Net investment in capital assets was the largest portion of the Fund’s net position (\$753.7 million or 91.8%). This amount reflects the Fund’s investment in capital assets such as land, buildings, and equipment, less accumulated depreciation, and any related outstanding debt used to acquire those assets. The Fund uses these assets to provide services to customers; consequently, these assets are not available for future spending. Although the Fund’s investment in its capital assets is reported net of related debt, the resources needed to repay the debt are provided by fees paid by customers for services provided by these assets. In 2023, net investment in capital assets increased \$33.4 million from 2022 primarily from an increase in utility plant and construction in progress. Other contributing factors are decreases in debt, debt related accounts, and decrease in construction cash of \$46.4 million as a result of construction spending.

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

The Fund’s restricted net position (\$20.9 million or 2.6%) represents resources that are subject to restrictions on how they may be used. Restricted net position increased by \$2.7 million.

The Fund’s unrestricted net position (\$46.2 million or 5.6%) represents resources that are not subject to external restrictions and may be used to meet the Fund’s obligations to creditors. This portion increased \$13.4 million in 2023 as compared to 2022 primarily as a result of operations.

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

| | 2024 | 2023 | 2022 |
|---------------------------------------|----------------|----------------|----------------|
| Operating revenues | \$ 307,819,615 | \$ 301,496,010 | \$ 290,868,791 |
| Operating expenses | (262,906,611) | (257,879,079) | (224,994,613) |
| Net operating income | 44,913,004 | 43,616,931 | 65,874,178 |
| Other expenses, net of other revenues | (11,220,811) | (3,926,795) | (27,201,562) |
| Fees, contributions, and grants | 13,992,059 | 9,820,366 | 18,624,638 |
| Change in net position | \$ 47,684,252 | \$ 49,510,502 | \$ 57,297,254 |

2024 Compared to 2023

Operating revenues increased approximately \$6.3 million (2.1%) from 2023. The change was mainly driven by increases in utility services revenue of \$5.6 million, which was due to a 2% rate increase, and wholesale commercial services of \$5.9 million offset by a decrease of \$5.2 million other operating revenue.

Operating expenses increased \$5.0 million (1.9%) from 2023. Notable factors affecting this change include increases of \$4.3 million in services, \$3.5 million in salaries, and was offset by a decrease of \$4.1 million in personnel benefits.

Other expenses, net of other revenues increased by \$7.3 million (185.7%) over 2023. The change was primarily due to a decrease in investment income realized and unrealized of \$3 million, and a decrease in recoveries of \$5.2 million, which was offset by an increase in rent from operating property of \$0.5 million and an increase in other judgments and settlements of \$0.3 million.

Capital contributions and grants increased by \$4.2 million (42.5%) over 2023. The main factor for the change is an increase of \$2.7 million in other private contributions and \$1.5 million in state grants.

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

2023 Compared to 2022

Operating revenues increased approximately \$10.6 million (3.7%) from 2022. The change was mainly driven by increases in utility services revenue of \$5.0 million, wholesale commercial services of \$2.8 million and other operating revenue of \$2.8 million.

Operating expenses increased \$32.9 million (14.6%) from 2022. Notable factors affecting this change include increases of \$10.9 million in services, \$10.6 million in benefits, \$6.4 million in salaries, and \$3.2 million in other operating expenses. The increase in salaries is largely driven by the agreement between the unions and the City.

Other expenses, net of other revenues decreased by \$23.3 million (-85.6%) over 2022. The change was primarily due to an increase in investment income realized and unrealized of \$17.5 million, and other non-operating revenue of \$3.0 million and a decrease in interest expense of \$2.8 million.

Capital fees, contributions and grants decreased by \$8.8 million (-47.3%) over 2022. The main factor for the change is an \$8.2 million decrease in donations.

Capital Assets

The following table summarizes capital assets, net of accumulated depreciation and amortization, by major asset category as of December 31, 2024, 2023, and 2022:

Summary of Capital Assets, Net of Accumulated Depreciation and Amortization

| | December 31, | | |
|---|-------------------------|-------------------------|-------------------------|
| | 2024 | 2023 | 2022 |
| Land and land rights | \$ 54,511,259 | \$ 54,511,259 | \$ 54,511,042 |
| Buildings | 115,584,824 | 120,732,870 | 125,995,394 |
| Structures | 919,763,199 | 889,663,148 | 831,320,552 |
| Machinery and equipment | 215,123,696 | 225,270,943 | 239,037,009 |
| Computer systems | 17,479,490 | 21,293,176 | 23,765,012 |
| Construction in progress | 95,835,366 | 75,185,263 | 91,176,278 |
| Artwork | 2,385,839 | 2,357,342 | 2,165,809 |
| Intangible right-to-use, net | 1,245,013 | 1,037,918 | 1,011,262 |
| Property held for future use | 274,512 | 274,512 | 274,512 |
| Capital assets, net of accumulated depreciation and amortization | <u>\$ 1,422,203,198</u> | <u>\$ 1,390,326,431</u> | <u>\$ 1,369,256,870</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

2024 Compared to 2023

The Fund’s investment in capital assets, net of accumulated depreciation and amortization for the year ended December 31, 2024, was \$1.4 billion. This represents an increase of \$31.9 million (2.3%) compared to 2023. The addition of capital assets was offset by increased depreciation and disposals. Highlights of the Fund’s major capital assets placed in service during 2024 include the following:

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

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

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

2023 Compared to 2022

The Fund’s investment in capital assets for the year ended December 31, 2023, was \$1.4 billion, net of accumulated depreciation and amortization. This represents an increase of \$21.0 million (1.5%) compared to 2022. The addition of capital assets was offset by increased depreciation and disposals. Highlights of the Fund’s major capital assets placed in service during 2023 include the following:

- \$71.4 million for water infrastructure improvements and rehabilitation
- \$6.8 million for Tolt & Cedar infrastructure and facility improvements
- \$3.2 million for heavy equipment
- \$2.5 million for Cedar Falls power service upgrade.

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

As of December 31, 2023, the Fund had \$75.2 million in construction in progress. Major projects under construction are the following:

- \$39.3 million for water system improvements and rehabilitation
- \$12.9 million for Cedar and Tolt infrastructure and facility improvements
- \$3.4 million for pump station improvements
- \$3.0 million for Bitter Lake reservoir covering
- \$2.1 million for watershed protection information management system
- \$2.0 million for South Fork Tolt dam relicensing.

Debt Administration

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

2024 Compared to 2023

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

2023 Compared to 2022

At December 31, 2023, the Fund had \$604.5 million in bonded debt and \$18.6 million in loans, as compared to \$655.2 million and \$20.7 million, respectively, at December 31, 2022. Bonded debt decreased a net \$50.8 million, attributed to scheduled payments of debt principal on existing bonds. Loans also decreased by \$2.0 million due to scheduled principal payments on existing loans.

Requests for Information

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

Financial Statements

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Statements of Net Position
December 31, 2024 and 2023

| | 2024 | 2023 |
|---|------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Operating cash and equity in pooled investments | \$ 109,254,735 | \$ 106,296,593 |
| Receivables | | |
| Accounts, net of allowance | 26,786,383 | 21,837,112 |
| Interest and dividends | 728,624 | 777,230 |
| Unbilled revenues | 17,754,139 | 16,971,551 |
| Due from other funds | 676,053 | 841,833 |
| Due from other governments | 2,759,087 | 2,641,512 |
| Materials and supplies inventory | 11,646,039 | 11,328,731 |
| Prepayments and other current assets | 71,593 | 71,593 |
| Total current assets | 169,676,653 | 160,766,155 |
| NONCURRENT ASSETS | | |
| Restricted cash and equity in pooled investments | 133,354,313 | 98,740,641 |
| Prepayments long-term | 517,447 | 589,039 |
| Conservation costs | 27,406,806 | 27,418,831 |
| Regulatory assets | 4,677,986 | 4,866,702 |
| Other charges | 12,757,073 | 13,048,464 |
| Capital assets | | |
| Land and land rights | 54,511,259 | 54,511,259 |
| Plant in service, excluding land | 2,348,684,681 | 2,293,489,071 |
| Less accumulated depreciation | (1,079,488,459) | (1,035,491,014) |
| Construction in progress | 95,835,366 | 75,185,261 |
| Other property, net | 2,660,351 | 2,631,854 |
| Total noncurrent assets | 1,600,916,823 | 1,534,990,108 |
| Total assets | 1,770,593,476 | 1,695,756,263 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Unamortized loss on advanced refunding | 9,776,550 | 10,810,552 |
| Pension and OPEB contributions and changes in assumptions | 23,103,763 | 30,008,272 |
| Total deferred outflow of resources | 32,880,313 | 40,818,824 |
| Total assets and deferred outflows of resources | \$ 1,803,473,789 | \$ 1,736,575,087 |

See accompanying notes.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Statements of Net Position
December 31, 2024 and 2023

| | 2024 | 2023 |
|---|-------------------------|-------------------------|
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 13,055,125 | \$ 15,922,016 |
| Salaries, benefits, and payroll taxes payable | 917 | 2,299,879 |
| Compensated absences payable | 361,187 | 286,310 |
| Due to other funds | 3,452,941 | - |
| Due to other governments | - | 132,765 |
| Interest payable | 9,668,101 | 9,437,929 |
| Taxes payable | 811,902 | 887,939 |
| Revenue bonds due within one year | 47,205,000 | 44,025,000 |
| Claims payable | 2,179,465 | 1,708,658 |
| Habitat conservation program liability | 545,328 | 553,240 |
| Loans payable, due within one year | 2,049,935 | 2,049,935 |
| Lease and subscription liabilities, due within one year | 351,030 | 234,741 |
| Other | 5,126,716 | 5,876,560 |
| Total current liabilities | <u>84,807,647</u> | <u>83,414,972</u> |
| NONCURRENT LIABILITIES | | |
| Compensated absences payable | 6,862,546 | 5,439,887 |
| Revenue bonds | 629,225,000 | 604,485,000 |
| Less bonds due within one year | (47,205,000) | (44,025,000) |
| Bond premiums | 80,534,573 | 78,586,937 |
| Claims payable | 4,902,705 | 5,105,089 |
| Habitat conservation program liability | 8,996,070 | 7,930,457 |
| Loans payable | 14,527,014 | 16,576,949 |
| Unfunded other post employment benefits | 4,209,176 | 2,435,671 |
| Net pension liability | 81,396,454 | 94,174,854 |
| Lease and subscription liabilities, net of current portion | 986,741 | 875,873 |
| Other noncurrent liabilities | 930,270 | 817,571 |
| Total noncurrent liabilities | <u>785,365,549</u> | <u>772,403,288</u> |
| Total liabilities | <u>870,173,196</u> | <u>855,818,260</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unamortized gain on advanced refunding | 7,321,388 | 7,961,748 |
| Rate stabilization account | 52,578,875 | 47,549,791 |
| Deferred inflows-pension and OPEB | 4,894,791 | 4,424,001 |
| Total deferred inflows of resources | <u>64,795,054</u> | <u>59,935,540</u> |
| NET POSITION | | |
| Net investment in capital assets | 788,539,953 | 753,677,215 |
| Restricted for | | |
| Other charges | 10,445,513 | 10,497,931 |
| Conservation costs | 2,996,955 | 3,236,842 |
| Habitat conservation program | 7,064,127 | 7,209,181 |
| Unrestricted | 59,458,991 | 46,200,118 |
| Total net position | <u>868,505,539</u> | <u>820,821,287</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 1,803,473,789</u> | <u>\$ 1,736,575,087</u> |

See accompanying notes.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2024 and 2023

| | 2024 | 2023 |
|--|----------------|----------------|
| OPERATING REVENUES | | |
| Charges for services and other revenues | \$ 307,819,615 | \$ 301,496,010 |
| OPERATING EXPENSES | | |
| Salaries, wages and personnel benefits | 74,288,524 | 74,909,944 |
| Supplies | 8,121,243 | 8,144,229 |
| Services | 62,964,892 | 58,623,899 |
| Intergovernmental payments | 52,439,037 | 50,872,429 |
| Depreciation | 56,551,465 | 55,355,175 |
| Amortization | 3,450,599 | 3,079,273 |
| Other operating expenses | 5,090,851 | 6,894,130 |
| Total operating expenses | 262,906,611 | 257,879,079 |
| OPERATING INCOME | 44,913,004 | 43,616,931 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment income | 8,597,048 | 11,593,278 |
| Interest expense | (22,231,524) | (22,061,543) |
| Other, net | 2,413,665 | 6,541,470 |
| Total nonoperating expenses | (11,220,811) | (3,926,795) |
| Income before capital contributions and grants | 33,692,193 | 39,690,136 |
| Capital contributions and grants | 13,992,059 | 9,820,366 |
| CHANGE IN NET POSITION | 47,684,252 | 49,510,502 |
| NET POSITION | | |
| Beginning of year | 820,821,287 | 771,310,785 |
| End of year | \$ 868,505,539 | \$ 820,821,287 |

See accompanying notes.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Statements of Cash Flows
Years Ended December 31, 2024 and 2023

| | 2024 | 2023 |
|---|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 309,214,870 | \$ 311,893,349 |
| Cash paid to suppliers | (77,720,552) | (72,597,160) |
| Cash paid to employees | (80,209,104) | (73,448,795) |
| Cash paid for taxes | (50,033,672) | (47,719,231) |
| Net cash provided by operating activities | 101,251,542 | 118,128,163 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Noncapital grants received | 1,982,571 | 845,803 |
| Payment for environmental liabilities | - | 551 |
| Net cash flows from noncapital financing activities | 1,982,571 | 846,354 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from the sales of bonds and other long-term debt | 75,824,988 | - |
| Principal payments on long-term debt | (46,074,935) | (52,288,721) |
| Capital expenditures and other charges paid | (82,198,394) | (78,178,294) |
| Interest paid on long-term debt | (29,324,213) | (30,821,592) |
| Build America Bonds Federal Interest Subsidy | 1,619,191 | 1,764,952 |
| Capital fees and grants received | 6,890,487 | 6,563,173 |
| Proceeds from the sales of capital assets | 622,722 | 256,398 |
| Net cash used in capital and related financing activities | (72,640,154) | (152,704,084) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net change on investment | 6,977,855 | 9,828,326 |
| NET INCREASE (DECREASE) IN CASH AND EQUITY IN POOLED INVESTMENTS | 37,571,814 | (23,901,241) |
| CASH AND EQUITY IN POOLED INVESTMENTS | | |
| Beginning of year | 205,037,234 | 228,938,475 |
| End of year | \$ 242,609,048 | \$ 205,037,234 |
| CASH AT THE END OF THE YEAR CONSISTS OF | | |
| Operating cash and equity in pooled investments | \$ 109,254,735 | \$ 106,296,593 |
| Noncurrent restricted cash and equity in pooled investments | 133,354,313 | 98,740,641 |
| Total cash and equity in pooled investments at the end of the year | \$ 242,609,048 | \$ 205,037,234 |

See accompanying notes.

Seattle Public Utilities – Water Fund
(An Enterprise Fund of the City of Seattle)
Statements of Cash Flows
Years Ended December 31, 2024 and 2023

| | 2024 | 2023 |
|---|----------------|----------------|
| RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Net operating income | \$ 44,913,004 | \$ 43,616,931 |
| Adjustments to reconcile net operating income to net cash provided by operating activities | | |
| Adjustment for net pension liability | (5,403,101) | 2,038,190 |
| Depreciation and amortization | 60,002,064 | 58,434,448 |
| Other cash receipts | 1,659,257 | 6,277,002 |
| Accounts receivable | (4,949,271) | 5,008,811 |
| Unbilled revenues | (782,588) | 379,986 |
| Due from other funds | 165,780 | (266,802) |
| Due from other governments | (117,576) | (927,486) |
| Materials and supplies inventory | (317,307) | (1,757,805) |
| Prepayments and other assets | 71,592 | 71,593 |
| Accounts payable | (2,866,890) | 5,182,740 |
| Salaries, benefits, and payroll taxes payable | (2,298,962) | 88,533 |
| Compensated absences payable | 1,497,536 | (115,939) |
| Due to other funds | 3,452,941 | (3,220,611) |
| Due to other governments | (132,765) | 132,765 |
| Claims payable | 268,423 | 1,728,122 |
| Taxes payable | (76,037) | 3,704 |
| Regulatory liability - revenue stabilization account | 5,029,084 | 5,109,067 |
| Lease and subscription, unfunded OPEB liabilities | 1,136,358 | (3,655,086) |
| Total adjustments | 56,338,538 | 74,511,232 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 101,251,542 | \$ 118,128,163 |
| NONCASH TRANSACTIONS | | |
| Contributed infrastructure | \$ 5,119,002 | \$ 2,411,390 |

See accompanying notes.

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

Note 1 – Operations and Summary of Significant Accounting Policies

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

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

SPU receives certain services from other departments and agencies of the City, including information technology and some that are normally considered to be general and administrative. The Fund is charged a share of these costs and during 2024 and 2023, paid \$28,485,935 and \$26,282,348, respectively, to the City for its share of these services. Additionally, the Fund pays a business and occupation utility tax to the City’s General Fund. The Fund paid \$38,369,410 and \$37,259,299 for these taxes in 2024 and 2023, respectively. These amounts are recorded within intergovernmental payments on the accompanying statements of revenues, expenses, and changes in net position.

The utility billing function is co-managed by SPU, Seattle City Light (SCL), and the Information Technology Department (ITD). SPU provides customer service through the call center and walk-in center. ITD maintains the Customer Information System (CIS). SPU and SCL bill and reimburse each other for these services. SPU reimburses ITD for the information technology services mentioned above. Within SPU, the costs and reimbursements were shared among its three utility funds (Water, Drainage and Wastewater, and Solid Waste). The Fund received reimbursements related to the call center and walk-in center of \$2,325,185 and \$2,280,537 in 2024 and 2023, respectively. The Fund paid \$9,816 and \$72,805 for the utility billing services in 2024 and 2023, respectively.

Water services provided to other City departments and agencies are billed at rates prescribed by City ordinances. The Fund collected \$4,214,355 and \$4,641,107 in 2024 and 2023, respectively, from the City for water services provided.

The Fund is subject to regulation by the City and the State of Washington. Service rates are authorized by ordinances passed by the Seattle City Council (City Council). Financial reporting is reviewed by the Washington State Auditor’s Office and conforms to accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

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

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

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

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

Allowance for doubtful accounts – A reserve has been established for uncollectible accounts receivable based on actual historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. As of December 31, 2024 and 2023, the Fund’s allowance for doubtful accounts was \$1,274,828 and \$1,219,116, respectively.

Materials and supplies inventory – The Fund values its inventory based on a moving average method. The most recent total cost of an inventory item is divided by the total units of the item that remain in inventory to determine the moving average cost of the item. The moving average cost is then applied to all the units of the inventory item.

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

Regulatory assets – GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, allows for certain costs to be capitalized as a regulatory asset instead of charged to expense. A regulatory asset is recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will be recovered through customer rates over some future period. The Fund uses regulatory accounting for debt issuance costs because these costs are included in the rate structure and, as such, will continue to be amortized over the life of the associated bond and loan issues. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, would have required these costs to be expensed in the period incurred if the Fund had not utilized regulatory accounting for these costs. The Fund uses regulatory accounting for interest costs incurred during the construction of capital assets because these costs are included in the rate structure and, as such, will continue to be amortized over the life of the associated capital assets. GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, would have required these costs to be recognized as an expense in the period incurred if the Fund had not utilized regulatory accounting for these costs.

Revenue Stabilization Account – The Revenue Stabilization Account (RSA) was established by City Ordinance 122841 to reduce year-to-year variation in rates. Amounts deposited into the RSA are excluded from the statements of revenues, expenses, and changes in net position and treated as a credit in accordance with GASB Statement No. 62. The RSA is included in the “Revenue Stabilization Account” identified in the Fund’s bond covenants. These covenants provide that withdrawals and deposits from the “Revenue Stabilization Account” shall augment or reduce adjusted net revenue available for the payment of debt service. In 2024, \$3.2 million was deposited into the RSA. \$3.7 million was deposited into the RSA in 2023.

BPA account – In 2003, the Bonneville Power Administration (BPA) purchased an easement in the amount of \$6.0 million from the Fund to construct a power transmission line through the Cedar River Watershed. This \$6.0 million, together with \$657,149 in timber sales related to the easement, were deposited into the BPA account and classified as restricted assets. At December 31, 2024 and 2023, the cash balance in the BPA account was \$480,721 and \$463,021, respectively. Monies in the BPA account are considered a portion of the “Revenue Stabilization Account” described in bond covenants and therefore shall augment or reduce adjusted net revenue available for the payment of debt service. The Fund will recognize the revenues deposited in the BPA account in the calculation of adjusted net revenues available for the payment of debt service as they are withdrawn to fund certain activities in the Cedar River Watershed.

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

Other charges – Other charges include costs such as the Water System Plan, leasehold improvements, and the Tolt Levee modification. The Fund amortizes these charges over a 2 to 33-year period.

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

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

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 on the date of contribution. Other property includes artwork and property held for future use. The artwork is acquired through the City’s “One Percent for Art” program, which supports the City ordinance established to direct the inclusion of works of art in public spaces within the City.

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

| | |
|--|-----------------|
| Buildings and fixtures | 10 to 50 years |
| Earthen source of supply developments | 100 years |
| Transmission and distribution pipelines, reservoirs, and tanks | 15 to 100 years |
| Water mains | 33 to 57 years |
| Pumps, wells, and treatment equipment | 10 to 50 years |
| Machinery and equipment | 3 to 20 years |
| Computer systems | 3 to 11 years |

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

Deferred outflows/inflows of resources – In addition to assets, the statements of net position, when applicable, will report a separate section for deferred outflows of resources. It represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The fund had deferred loss on refunding debt which qualifies for reporting in this category. A deferred loss on refunding bonds results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The Fund has also recorded deferred outflows of resources for certain pension and OPEB activities including, the difference between projected and actual experience, the difference between projected and actual earnings on investments, and contributions made subsequent to the measurement date (Notes 5 and 8).

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

In addition to liabilities, the statements of net position, when applicable, will report a separate section for deferred inflows of resources. It represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Fund has also recorded deferred inflows of resources for changes in proportion and differences between employer contributions and proportionate share of contributions and unamortized gain on refunding. The Fund has a revenue stabilization account which qualifies for reporting in this category.

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

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

Retiring employees who are not eligible to participate in the HRA-VEBA program may elect to receive 25% of the value of unused sick leave upon retirement or defer receipt of 35% of the value of their sick leave balance to the City's 457 Plan and Trust, subject to the year-to-date or life-to-date limitations on deferrals and contributions. If the 35% value of the sick leave balance exceeds the maximum amount deferred to the City's 457 Plan and Trust, the employee shall receive a taxable cash payment equal to the amount by which the 25% value of the sick leave balance exceeds the 35% that was allowed to be deferred. The Fund records a liability for estimated sick leave based on an analysis of the amount management deems is more likely than not to be used or settled in cash or noncash means.

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

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

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

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

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

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

Taxes – The Fund is charged a public utility tax by the City at a rate of 15.54% of Fund revenues, net of certain credits and certain revenues. In addition, the Fund paid a 5.03% public utility tax to the state on a certain portion of revenues identified as utility revenues. The Fund also paid business and occupation tax to the City at the rate of 0.22% and to the state at the rate of 1.75% for certain other non-utility revenues.

Nonoperating revenues and expenses – The Fund’s non-operating revenues and expenses arise from transactions not related directly to the major income-earning operations of the utility and are of a recurring nature. Major items are investment and interest income, interest expense, gains or losses on the sale of assets, and amortization of debt expenses.

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

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

Net position is restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. The Fund’s restricted net position as of December 31, 2024 and 2023, are mainly related to conservation costs, HCP and certain other charges.

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

Arbitrage rebate requirement – The Fund is subject to the Internal Revenue Code (IRC), Section 148(f), related to its tax-exempt revenue bond. The IRC requires that earnings on gross proceeds of any revenue bonds that are more than the amount prescribed will be surrendered to the Internal Revenue Service. As such, the Fund would record such a rebate as a liability. The Fund had no arbitrage liability as of December 31, 2024 and 2023.

Accounting standard changes – In June 2022, GASB issued Statement No. 100 (GASB 100), *Accounting Changes and Error Corrections*, and it was effective for reporting periods beginning after June 15, 2023. This standard prescribes the accounting and financial reporting requirements for accounting changes and error corrections. There is no impact to the Fund as a result of adopting this standard.

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

In June 2022, GASB issued Statement No. 101 (GASB 101), *Compensated Absences*, and it was effective for reporting periods beginning after December 15, 2023. This standard requires the Fund to record a liability for leave that accumulates, is attributable to services already rendered, and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. There is no impact to the Fund as a result of adopting this standard.

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

Significant risks and uncertainties – The Fund is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, water conditions, weather 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 the financial statements and related footnote presentations. These reclassifications had no effect on the operating results or net position of the Fund.

Note 2 – Cash and Equity in Pooled Investments

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

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

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

As of December 31, 2024 and 2023, the City did not have custodial credit risk. The City's deposits are covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Association (NCUA) as well as protection provided by the Washington State Public Deposit Protection Commission (PDPC) as established in RCW 39.58. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent. The PDPC approves which banks, credit unions, and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers' deposits when they exceed the amount insured by the FDIC or NCUA by requiring banks, credit unions, and thrifts to pledge securities as collateral.

As of December 31, 2024 and 2023, the City held sufficient cash in its vault for operations. Additional small amounts of cash were held in departmental revolving fund accounts with the City's various custodial banks, all of which fell within the NCUA/FDIC's \$250,000 standard maximum deposit insurance amount. Any of the City's cash not held in its vault, or a local depository, was held in the City's Consolidated Cash Pooled Investment Portfolio (investment pool), and at the close of every business day, any cash remaining in the operating fund is swept into an overnight repurchase agreement that matures the next day.

Custodial credit risk – investments – Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the City will not have access to, or be able to recover, its investments or collateral securities that are in the possession of an outside party. The City mitigates custodial credit risk for its investments by having its investment securities held by the City's contractual custodial agent. The City maintains a custody relationship with Principal Custody Solutions under the State of Washington's statewide custody provider program arranged by the State Treasurer's Office. The City mitigates counterparty risk by settling trades through its custodian on a delivery-versus-payment method.

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

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Some of the City's pooled investments have credit risk from holdings in commercial paper, corporate notes, and taxable municipal bonds. The City may not hold more than 50% of the Pool's total assets in these credit sensitive sectors.

State statute defines the investments in commercial paper and corporate notes as a "credit portfolio." The credit portfolio may not exceed 25 percent of the Pool's market value. Credit investments must be diversified by sector and industry. No single issuer shall exceed 3 percent of the Pool's market value.

Commercial Paper investments may not have maturities exceeding 270 days and must hold the highest short-term credit rating by all the major credit rating agencies that rate the issuer at the time of purchase.

Corporate notes must mature within 5.5 years from the time of purchase and must be rated at least weak single-A or better by all the major rating agencies that rate the note at the time of purchase. No single issuer rated AA or better may exceed 3 percent of the Pool's market value. No single issuer rated in the single-A category may exceed 2 percent of the Pool's market value.

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

Municipal bonds must have a credit rating of weak single-A or better by all the major rating agencies that rate the issuer at the time of purchase. No single issuer may exceed 5 percent of the Pool's market value.

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

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

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

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

Investments – The Fund's cash resources may be invested by FAS separate from the cash and investments pool. Investments are managed in accordance with the City's Statement of Investment Policy, with limits and restrictions applied at the City-wide level rather than to specific investments of the Fund. As of December 31, 2024 and 2023, the Fund did not have any dedicated investments. The City's Statement of Investment Policy was modified on January 1, 2018, with an effective date of March 8, 2018. There have been no subsequent changes to the policy.

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

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

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

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

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

Fair value of pooled investments – The City reports investments at fair value and categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. Fair value of the City’s pooled investments fluctuates with changes in interest rates and the underlying size of the pooled investment portfolio. To mitigate interest rate risk in the City’s pooled investment portfolio, the City typically holds its investments to maturity and manages its maturities to ensure sufficient monthly cash flow to meet its liquidity requirements.

As of December 31, 2024 and 2023, the City held \$468.3 million and \$406.4 million, respectfully on deposit in the Washington State LGIP managed by the Office of the Washington State Treasurer. The City’s investments in the LGIP are reported at amortized cost which approximates fair value. It is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee, and the Washington State Auditor’s Office.

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

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

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

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

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

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

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

The City uses market pricing for its over-the-counter investments as provided by its contractual custodial agent, Principal Financial Services Inc., and the City's third-party investment accounting vendor Clearwater Analytics LLC. Prices are obtained from the City's safekeeping bank, Principal. Principal's primary pricing vendor is Intercontinental Exchange (ICE). Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund can access at the measurement date.

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

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

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

The City's investments in US Treasuries are valued as Level 1. The City's remaining investments are valued as Level 2 or measured at amortized cost. The City does not invest in securities that require Level 3 inputs.

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

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

Weighted Average Maturity of the City's Pooled Investments

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

As of December 31, 2023, the City's pooled investments were categorized within the fair value hierarchy as follows (in thousands):

| Investments | Fair Value as of December 31, 2023 | Fair Value Measurements Using | | | Weighted Average Maturity (Days) |
|--|---|-------------------------------|---------------------|-------------------|---|
| | | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | |
| U.S. Government Agency Securities | \$ 1,417,009 | \$ - | \$ 1,417,009 | \$ - | 404 |
| U.S. Treasury and U.S. Government-Backed Securities | 1,240,539 | 1,240,539 | - | - | 679 |
| Local Government Investment Pool | 406,431 | 406,431 | - | - | - |
| U.S. Government Agency Mortgage-Backed Securities | 312,777 | - | 312,777 | - | 1,754 |
| Municipal Bonds | 150,811 | - | 150,811 | - | 772 |
| Corporate Bonds | 67,267 | - | 67,267 | - | 537 |
| International Bank for Reconstruction and Development Repurchase Agreements | 48,924 17,297 | - 17,297 | 48,924 - | - - | 247 9,497 |
| | <u>\$ 3,661,055</u> | <u>\$ 1,664,267</u> | <u>\$ 1,996,788</u> | <u>\$ -</u> | |

Weighted Average Maturity of the City's Pooled Investments

626

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

| | <u>2024</u> | <u>2023</u> |
|---|---------------------------|---------------------------|
| Cash and equity in pooled investments | \$ 109,254,735 | \$ 106,296,593 |
| Restricted cash and equity in pooled investments | <u>133,354,313</u> | <u>98,740,641</u> |
| Total | <u>\$ 242,609,048</u> | <u>\$ 205,037,234</u> |
| Balance as a percentage of City Pool cash and investments | 6.4% | 5.6% |

Concentration of credit risk – Concentration risk is the risk of loss attributed to the magnitude of investments in a single issuer. The City manages concentration risk by limiting its investments in any one issuer in accordance with the City's investment policy and state statutes. The policy limits vary for each investment category. State statute and the City's Statement of Investment Policy do not stipulate concentration limits for holdings of U.S. Government or U.S. Government Agency Obligations. However, as noted under credit risk, the City's Statement of Investment Policy outlines maximum percentage allocations for municipal securities, commercial paper as well as bank notes and corporate notes.

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

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

| Issuer | 2024 | | 2023 | |
|---------------------------------------|-------------|------------------------------|--------------|------------------------------|
| | Fair Value | Percent of Total Investments | Fair Value | Percent of Total Investments |
| United States Government | \$1,924,517 | 51% | \$ 1,240,539 | 34% |
| Federal Home Loan Bank | 193,947 | 5% | 572,730 | 16% |
| Local Government Investment Pool | 468,340 | 12% | 406,431 | 11% |
| Federal National Mortgage Association | 280,777 | 7% | 293,713 | 8% |
| Federal Farm Credit Bank | 219,703 | 6% | 291,404 | 8% |
| Federal Home Loan Mortgage Corp | 215,628 | 6% | 287,136 | 8% |
| Federal Agriculture Mortgage Corp | - | - | 248,019 | 7% |

Note 3 – Capital Assets

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

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

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

Capital asset activity consisted of the following for the year ended December 31, 2023:

| | Beginning Balance | Additions and Transfers In | Retirements and Transfers Out | Ending Balance |
|---|-------------------------|-------------------------------|----------------------------------|-------------------------|
| Buildings | \$ 213,597,058 | \$ 166 | \$ - | \$ 213,597,224 |
| Structures | 1,298,352,324 | 85,254,414 | (4,677,736) | 1,378,929,002 |
| Machinery and equipment | 593,012,891 | 4,894,636 | (966,574) | 596,940,953 |
| Computer systems | 98,857,778 | 3,568,596 | (78,004) | 102,348,370 |
| Intangible right-to-use | 1,317,714 | 359,282 | (3,474) | 1,673,522 |
| Total capital assets - excluding land | 2,205,137,765 | 94,077,094 | (5,725,788) | 2,293,489,071 |
| Less accumulated depreciation and amortization | (984,008,534) | (55,687,801) | 4,205,321 | (1,035,491,014) |
| | 1,221,129,231 | 38,389,293 | (1,520,467) | 1,257,998,057 |
| Construction in progress | 91,176,276 | 80,685,857 | (96,676,872) | 75,185,261 |
| Land and land rights | 54,511,042 | 388 | (171) | 54,511,259 |
| Artwork | 2,165,809 | 191,533 | - | 2,357,342 |
| Property held for future use | 274,512 | - | - | 274,512 |
| Capital assets, net | \$ 1,369,256,870 | \$ 119,267,071 | \$ (98,197,510) | \$ 1,390,326,431 |

During 2024 and 2023, the Fund capitalized interest costs as a regulatory asset relating to construction of \$2,728,965 and \$3,289,927, respectively.

The Fund, as lessee, has entered into various leases for building and equipment with lease terms expiring between 2025 and 2030. Leases that have a maximum possible lease term that are non-cancelable by both lessee and lessor, have a term of more than 12 months, and a present value greater than \$5,000 are considered to be “right to use” assets. Unless explicitly stated in the lease agreement, the discount rate used to calculate lease right-of-use assets and liabilities in which the Fund acts as lessee is the City’s incremental borrowing rate based on the expiring date. The discount rate used for leases during the years ending December 31, 2024 and 2023, was 0.38%.

The Fund has two software-based information technology arrangements (SBITAs) with terms ending in 2027. Any subscription-based information technology arrangement (SBITA) that is negotiated by Seattle IT that is for the benefit of multiple departments, will be accounted for at the City level by Seattle IT and is excluded by the Fund. The discount rate used for the software arrangement during the years ending December 31, 2024 and 2023, was 2.70%.

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

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

| Years ending December 31, | Principal | Interest | Total |
|---------------------------|---------------------|------------------|---------------------|
| 2025 | \$ 351,030 | \$ 13,436 | \$ 364,466 |
| 2026 | 329,567 | 8,644 | 338,211 |
| 2027 | 257,195 | 3,792 | 260,987 |
| 2028 | 184,312 | 1,146 | 185,458 |
| 2029 | 185,018 | 440 | 185,458 |
| 2030 | 30,649 | 5 | 30,654 |
| | <u>\$ 1,337,771</u> | <u>\$ 27,463</u> | <u>\$ 1,365,234</u> |

Note 4 – Revenue Bonds

The Fund issues bonds to provide financing for capital improvements. Payment of debt service on the bonds is derived solely from the revenues generated by the Fund. The Fund has set aside \$26,342,737 in a debt service reserve account and has obtained reserve insurance policies to meet the remainder of its reserve requirements. The total bonds outstanding as of December 31, 2024 and 2023, were \$629,225,000 and \$604,485,000, respectively.

Revenue bonds outstanding as of December 31, 2024 and 2023, consisted of the following Municipal Water bonds:

| Name of Issue | Issuance Date | Maturity Years | Interest Rates | Original Issue Amount | Bonds Outstanding | |
|---|---------------|----------------|----------------|-------------------------|-----------------------|-----------------------|
| | | | | | 2024 | 2023 |
| 2010 Improvement, Series A ^a (Taxable) | 1/21/10 | 2019-2040 | 4.67-5.89% | \$ 109,080,000 | \$ 87,220,000 | \$ 91,170,000 |
| 2012 Refunding | 5/30/12 | 2012-2034 | 2.0-5.0% | 238,770,000 | 10,750,000 | 10,750,000 |
| 2015 Improvement and Refunding | 6/10/15 | 2015-2045 | 2.0-5.0% | 340,840,000 | 168,375,000 | 189,435,000 |
| 2017 Improvement and Refunding | 1/25/17 | 2017-2046 | 4.0-5.0% | 194,685,000 | 154,935,000 | 161,480,000 |
| 2021 Improvement and Refunding | 6/14/21 | 2022-2034 | 4.0-5.0% | 82,220,000 | 73,015,000 | 76,595,000 |
| 2022 Improvement and Refunding | 7/28/22 | 2022-2052 | 5.0% | 93,260,000 | 66,165,000 | 75,055,000 |
| 2024 Improvement and Refunding | 6/6/24 | 2025-2054 | 5.0% | 68,765,000 | 68,765,000 | - |
| | | | | <u>\$ 1,127,620,000</u> | <u>\$ 629,225,000</u> | <u>\$ 604,485,000</u> |

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

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

| Years Ending December 31, | Principal | Interest | Total |
|---------------------------|-----------------------|-----------------------|-----------------------|
| 2025 | \$ 47,205,000 | \$ 29,161,109 | \$ 76,366,109 |
| 2026 | 45,230,000 | 26,833,077 | 72,063,077 |
| 2027 | 43,550,000 | 24,618,301 | 68,168,301 |
| 2028 | 41,705,000 | 22,397,668 | 64,102,668 |
| 2029 | 43,415,000 | 20,594,758 | 64,009,758 |
| 2030 - 2034 | 160,695,000 | 77,709,274 | 238,404,274 |
| 2035 - 2039 | 117,285,000 | 45,222,497 | 162,507,497 |
| 2040 - 2044 | 64,000,000 | 23,635,451 | 87,635,451 |
| 2045 - 2049 | 39,390,000 | 11,344,400 | 50,734,400 |
| 2050 - 2054 | 26,750,000 | 3,750,000 | 30,500,000 |
| | <u>\$ 629,225,000</u> | <u>\$ 285,266,535</u> | <u>\$ 914,491,535</u> |

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

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-------------------------------|-----------------------|----------------------|------------------------|-----------------------|------------------------|
| Bonds payable | | | | | |
| Revenue bonds | \$ 604,485,000 | \$ 68,765,000 | \$ (44,025,000) | \$ 629,225,000 | \$ 47,205,000 |
| Add (deduct) deferred amounts | | | | | |
| Issuance premiums | 78,586,937 | 7,059,988 | (5,112,351) | 80,534,574 | - |
| Total bonds payable | <u>\$ 683,071,937</u> | <u>\$ 75,824,988</u> | <u>\$ (49,137,351)</u> | <u>\$ 709,759,574</u> | <u>\$ 47,205,000</u> |

The following table shows the revenue bond activity during the year ended December 31, 2023:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-------------------------------|-----------------------|-------------|------------------------|-----------------------|------------------------|
| Bonds payable | | | | | |
| Revenue bonds | \$ 655,245,000 | \$ - | \$ (50,760,000) | \$ 604,485,000 | \$ 44,025,000 |
| Add (deduct) deferred amounts | | | | | |
| Issuance premiums | 83,567,014 | - | (4,980,077) | 78,586,937 | - |
| Total bonds payable | <u>\$ 738,812,014</u> | <u>\$ -</u> | <u>\$ (55,740,077)</u> | <u>\$ 683,071,937</u> | <u>\$ 44,025,000</u> |

In May 2024, the Fund issued \$68,765,000 of Water System Improvement Revenue Bonds with varying annual principal payments due beginning 2025 and ending in 2054, at interest rate of 5.0 percent.

Financial covenants – The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain reserve subaccount at the least of (i) Maximum Annual Debt Service on all parity bonds outstanding at the time of calculation, (ii) 1.25 times adjusted annual debt service on all parity bonds outstanding at the calculation, or (iii) the sum of 10% of the proceeds of each series of parity bonds then outstanding. Management believes the Fund was in compliance with all debt covenants as of December 31, 2024. For more information, see Other Information (page 52).

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

Note 5 – Postemployment Benefit Plans

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

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

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

Other postemployment benefits plan description – Health care plans for active and retired employees are administered by the City of Seattle as single-employer defined benefit public employee health care plans.

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

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

Seattle Public Utilities – Water Fund
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Notes to Financial Statements

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

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

| Actuarial data and assumptions | 2024 |
|--|--|
| Valuation date | January 1, 2024 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar |
| Discount rate | 3.26% |
| Health care cost trend rates – medical | 6.47% in 2024, increasing to 8.00% in 2025 and decreasing by varying amounts until 2035 thereafter |
| Health care cost trend rates – Rx | 7.56% in 2024 and 13.00% in 2025 and decreasing by varying amounts until 2035 thereafter |
| Participation | 25% of active employees who retire participate |

Mortality

General Service (Actives)
 PubG-2010 Employee Table multiplied by 95%
 Rates are projected generationally using Scale MP-2021 ultimate rates

General Service (Retirees)
 PubG-2010 Retired Mortality Table multiplied by 95%
 Rates are projected generationally using Scale MP-2021 ultimate rates

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

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

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

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The average medical and prescription drug per capita claims costs were developed from 2024 calendar year self-funded premium rates. Premium-equivalent rates were provided by the City of Seattle’s health pricing actuary. The average medical and prescription drug per capita “adult-equivalent” claims costs were based on the respective pre-65 enrollment weighted average of the 2024 four-tier rate structure including the add-on cost of dependent children and trended back from 2024 to 2023 to be centered at the mid-point of the annual period following the valuation date. Average medical/Rx per capita claims costs were then age-adjusted based on the demographics of the rating population, and the assumed health care aging factors shown in the table below.

Models are used to estimate underlying per capita medical and drug claims costs, subsequently utilized as assumption inputs for valuation models used to develop the liabilities for the 2025 and future valuations.

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

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

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

OPEB liability – The Fund reported an OPEB liability of approximately \$4.2 million in 2024 and \$2.4 million in 2023. The Fund’s proportionate share of the change in the OPEB liability was 4.89% and 4.59% for the years ended December 31, 2024 and 2023, respectively. Based on the actuarial valuation date of January 1, 2024, details regarding the Fund’s Total OPEB Liability as of December 31, are shown below.

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| | Total OPEB Liability at December 31, | |
|--|---|--------------|
| | 2024 | 2023 |
| Changes recognized for the fiscal year: | | |
| Service cost | \$ 126,538 | \$ 163,623 |
| Interest on the total OPEB liability | 93,461 | 54,916 |
| Differences between expected and actual experience | (59,643) | - |
| Changes of assumptions | 1,756,835 | (367,817) |
| Contributions from the employer | (120,028) | (111,872) |
| Other changes | (23,657) | (31,193) |
| Net Changes | 1,773,506 | (292,343) |
| Balance recognized at December 31, 2023 | 2,435,671 | 2,728,014 |
| Balance recognized at December 31, 2024 | \$ 4,209,176 | \$ 2,435,671 |

The Fund recorded an expense for OPEB of \$218,976 in 2024 and \$42,021 in 2023. The Health Care Subfund of the General Fund is reported in The City of Seattle's Annual Comprehensive Financial Report.

Discount rate and healthcare cost trend rates – The discount rate used to measure the total OPEB liability is 3.26% for 2024 and 3.72% for 2023. The following tables present the sensitivity of total OPEB liability calculation to a 1% increase and a 1% decrease in the discount rate used to measure the total OPEB liability:

| | OPEB Liability at December 31, | |
|-----------------------|-----------------------------------|--------------|
| | 2024 | 2023 |
| Discount rate | | |
| 1% decrease | \$ 4,621,125 | \$ 2,650,444 |
| Current discount rate | 4,209,176 | 2,435,671 |
| 1% increase | 3,835,074 | 2,241,110 |

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

Healthcare Cost Trend Rate Sensitivity

| | OPEB Liability at December 31, | |
|---------------|-----------------------------------|--------------|
| | 2024 | 2023 |
| Discount rate | | |
| 1% decrease | \$ 3,723,402 | \$ 2,168,061 |
| Trend rate | 4,209,176 | 2,435,671 |
| 1% increase | 4,786,893 | 2,754,395 |

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

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

The following table presents information about the OPEB-related deferred outflows of resources and deferred inflows of resources for the Fund at December 31, 2023.

| | Deferred Outflows | Deferred Inflows |
|---|----------------------|---------------------|
| Difference between actual and expected experience | \$ 416,943 | \$ 576,475 |
| Assumption changes | 116,711 | 1,061,460 |
| Contributions made in 2023 after measurement date | 112,733 | - |
| Total | \$ 646,387 | \$ 1,637,935 |

The Fund’s contributions made in 2024 in the amount of \$164,545 are reported as deferred outflows of resources and will be recognized as a reduction of the total OPEB liability in the year ended December 31, 2025. These contributions will be recognized in the future as shown in the following table. Note that additional future deferred outflows and inflows of resources may impact these amounts.

| Year Ending December 31, <i>(in thousands)</i> | Amortization |
|---|--------------|
| 2025 | \$ (1,131) |
| 2026 | (1,131) |
| 2027 | 45,594 |
| 2028 | 67,005 |
| 2029 | 76,076 |
| Thereafter | 418,655 |
| Total | \$ 605,067 |

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

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Note 6 – Claims Payable

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

For 2024 and 2023, liabilities for workers’ compensation claims, as well as other claims, are discounted over a 15-year period at the City’s rate of return on investments of 3.61% and 3.12%, respectively. Claims expected to be paid within one year are \$2,179,465 and \$1,708,658 at December 31, 2024 and 2023, respectively. The table below presents the changes in the liability for workers’ compensation claims and other claims (risk-financing liabilities) as of December 31:

| | 2024 | 2023 |
|---|--------------|--------------|
| Beginning liability, discounted | \$ 6,813,747 | \$ 5,085,625 |
| Payments | (2,509,399) | (2,562,054) |
| Incurred claims and changes in estimate | 2,777,822 | 4,290,176 |
| Ending liability, discounted | \$ 7,082,170 | \$ 6,813,747 |

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

Note 7 – Compensated Absences

The Fund has recorded a liability for vested but unused compensatory and vacation leave, as well as estimated sick leave payments calculated based on the economic resources measurement focus for leave that is more likely than not to be settled by cash payments or noncash settlement, such as conversion to defined postemployment benefits. The schedules below show the compensated absences activity during the years ended December 31, 2024 and 2023:

| | 2024 | 2023 |
|--------------------------|--------------|--------------|
| Beginning liability | \$ 5,726,197 | \$ 5,842,136 |
| Net Additions/Reductions | 1,497,536 | (115,939) |
| Ending liability | \$ 7,223,733 | \$ 5,726,197 |

Note 8 – Pension Benefit Plan

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

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

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

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

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

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

Member and employer contributions – Member and employer contributions are:

| | <u>YEAR</u> | <u>SCERS I</u> | <u>SCERS II</u> |
|-----------------------|-------------|----------------|-----------------|
| Member Contribution | 2024 | 10.03% | 7.00% |
| | 2023 | 10.03% | 7.00% |
| Employer Contribution | 2024 | 15.31% | 14.91% |
| | 2023 | 15.91% | 15.56% |

Member and employer rates are established by the Seattle Municipal Code Chapter 4.36. The Fund’s contributions to the System for the years ended December 31, 2024 and 2023, were \$10,266,599 and \$8,620,728, respectively.

The System issues stand-alone financial statements, which may be obtained by writing to the Seattle City Employees’ Retirement System, 720 Third Avenue, Suite 900, Seattle, Washington, 98104, and telephone: (206) 386-1293, or email at retirecity@seattle.gov, or online at <https://www.seattle.gov/retirement/forms-and-publications/publications>.

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Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At December 31, 2024 and 2023, the Fund reported a liability of \$81,396,454 and \$94,174,854, respectively, its proportionate share of the Systems' net pension liability. The net pension liability was measured as of December 31, 2023 and 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2024 and 2023. The Fund's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating parties, actuarially determined. At December 31, 2024 and 2023, the Fund's proportion was 5.94% and 5.68%, respectively.

For the years ended December 31, 2024 and 2023, the Fund recognized pension expense of approximately \$7,690,000 and \$10,766,000, respectively.

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

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

The Fund's deferred outflows and inflows of resources are as follows at December 31, 2023:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 126,577 | \$ 1,219,947 |
| Change of assumptions | 5,597,440 | - |
| Difference between projected and actual earnings | 15,017,140 | - |
| Contributions made subsequent to measurement date | 8,620,728 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 1,566,119 |
| Total | \$ 29,361,885 | \$ 2,786,066 |

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The Fund's contributions made subsequent to measurement date are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended December 31, 2025. Amounts currently reported as deferred outflows of resources relate to actual experience and difference in actual earnings on pension investments from projected earnings and will be recognized in pension expense as follows for years ending December 31:

| Year | Amortization |
|-------|---------------------|
| 2025 | \$ 787,649 |
| 2026 | 4,193,250 |
| 2027 | 6,487,516 |
| 2028 | (2,687,604) |
| 2029 | <u>(1,608,050)</u> |
| Total | <u>\$ 7,172,761</u> |

Actuarial assumptions – The total pension liability as of December 31, 2024, was determined using the following actuarial assumptions:

| | |
|----------------------------------|--|
| Valuation date | January 1, 2023 |
| Measurement date | December 31, 2023 |
| Actuarial cost method | Individual Entry Age Normal |
| Amortization method | Level Percent, Closed |
| Remaining amortization period | 30 years as of January 1, 2013 valuation |
| Asset valuation method | 5-Year Non-asymptotic |
| Inflation | 2.60% |
| Investment rate of return | 6.75% compounded annually, net of expenses |
| Discount rate | 6.75% |
| Projected general wage inflation | 2.6% |
| Postretirement benefit increases | 1.5% |
| Mortality | Various rates based on PubG-2010 mortality tables and using generational projection of improvement using MP-2021 Ultimate projection scale. See 2022 Investigation of Experience report for details. |

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

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

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

Best estimates of geometric real rates of return for each major asset class included in the System’s target asset allocation as of December 31, 2024, are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|-----------------------------|---|
| Equity: Public | 4.70% |
| Equity: Private | 7.50% |
| Fixed Income: Broad | 2.30% |
| Fixed Income: Credit | 5.80% |
| Real Assets: Real Estate | 4.20% |
| Real Assets: Infrastructure | 4.50% |

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

| 1% Decrease 5.75% | Current Discount Rate 6.75% | 1% Increase 7.75% |
|-------------------------|-----------------------------------|-------------------------|
| \$ 119,736,206 | \$ 81,396,454 | \$ 46,176,503 |

Seattle Public Utilities – Water Fund
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Note 9 – Loans

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

Loans outstanding as of December 31, 2024 and 2023, are as follows:

| Description | Maturity Years | Interest Rate | Loan Amount | Loans Outstanding | |
|--------------------------|----------------|---------------|----------------------|----------------------|----------------------|
| | | | | 2024 | 2023 |
| Myrtle Reservoir | 2008-2025 | 1.5% | \$ 4,040,000 | \$ 224,444 | \$ 448,889 |
| Beacon Reservoir | 2008-2026 | 1.5% | 4,040,000 | 425,264 | 637,895 |
| West Seattle Reservoir | 2009-2027 | 1.5% | 3,030,000 | 478,421 | 637,895 |
| Maple Leaf | 2011-2029 | 1.5% | 3,030,000 | 806,748 | 968,099 |
| Maple Leaf ARRA | 2013-2031 | 1.0% | 7,341,758 | 2,936,704 | 3,303,791 |
| Morse Lake Pump Plant #1 | 2014-2037 | 1.5% | 12,120,000 | 7,878,000 | 8,484,000 |
| Morse Lake Pump Plant #2 | 2017-2036 | 1.5% | 6,060,000 | 3,827,368 | 4,146,316 |
| | | | <u>\$ 39,661,758</u> | <u>\$ 16,576,949</u> | <u>\$ 18,626,884</u> |

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

| Years Ending December 31, | Principal | Interest | Total |
|---------------------------|----------------------|---------------------|----------------------|
| 2025 | \$ 2,049,935 | \$ 233,971 | \$ 2,283,905 |
| 2026 | 1,825,490 | 205,057 | 2,030,548 |
| 2027 | 1,612,859 | 179,510 | 1,792,369 |
| 2028 | 1,453,385 | 157,153 | 1,610,538 |
| 2029 | 1,453,385 | 137,187 | 1,590,573 |
| 2030 - 2034 | 5,726,001 | 414,331 | 6,140,331 |
| 2035 - 2037 | 2,455,894 | 68,893 | 2,524,787 |
| | <u>\$ 16,576,949</u> | <u>\$ 1,396,102</u> | <u>\$ 17,973,051</u> |

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

| | 2024 | 2023 |
|------------------------------|----------------------|----------------------|
| Net loans, beginning of year | \$ 18,626,884 | \$ 20,676,819 |
| Principal payments | (2,049,935) | (2,049,935) |
| Net loans, end of year | <u>\$ 16,576,949</u> | <u>\$ 18,626,884</u> |
| Loans due within one year | <u>\$ 2,049,935</u> | <u>\$ 2,049,935</u> |
| Loans, noncurrent | <u>\$ 14,527,014</u> | <u>\$ 16,576,949</u> |

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Note 10 – Commitments

The Fund is required by the Washington State Department of Health (DOH) to complete a program to cover its open, above-ground distribution system reservoirs. The total cost of burying six reservoirs is expected to be approximately \$221.6 million through the year 2025; costs beyond 2025 are not estimable as of the date of this report. As of December 31, 2024 and 2023, total cumulative costs incurred were \$183.5 million and \$181.6 million, respectively.

The City has wholesale contracts with Cascade Water Alliance (CWA) and nineteen individual water districts and municipalities. Sixteen wholesale customers have full and partial requirements contracts which obligate the City to meet the wholesale customers' demand that is not already met by their independent sources of supply. The full and partial requirements contracts include amendment periods where the parties may opt to review and change certain contract terms and conditions in 2022 and 2042. The City and the full and partial requirements Wholesale Customers began the review of certain contract terms in 2021 to determine if any amendments are desired in 2022 under the first amendment period. This review period has been extended by mutual agreement, with potential amendments becoming effective in 2025.

Two wholesale customers (including CWA) have block contracts which obligate the City to provide water up to a combined maximum of 41.85 MGD per year through 2039, which is when CWA's 33.3 MGD block amount begins to decline in yearly increments until it reaches 5.3 MGD at the end of their contract at the end of 2063. In May 2024, after nearly three years of discussions with SPU and the City of Tacoma, CWA decided it would prefer to obtain the majority of its water from Tacoma Public Utilities, rather than SPU, once the current contract with SPU expires. As part of those discussions between SPU and CWA, SPU is discussing a potential contract amendment that could extend the date, and change in rate of decline in the block volume out past the contractual date of 2040. The current provision to continue providing Cascade 5.3 MGD after the initial point of decline of the block volume would stay in place. The other block contracts have no change to the block size over the life of the contract, which runs through 2031.

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

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

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Note 11 – Habitat Conservation Program Liability

SPU has prepared a comprehensive environmental management plan for its Cedar River Watershed. The purpose of the HCP is to protect all species of concern that may be affected by the operations of SPU and SCL in the Cedar River Watershed, while allowing the City to continue to provide high quality drinking water to the region. The federal government has accepted the HCP. The total cost of implementing the HCP is expected to be \$125.6 million (in 2024 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 2024 is \$109.1 million. The remaining \$16.5 million to complete the HCP is comprised of a \$9.5 million liability and an estimate of \$7 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.

Required Supplementary Information

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Required Supplementary Information

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

| | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Employer's proportion of the net pension liability | 13.81% | 14.21% | 14.76% | 14.62% | 14.33% | 14.55% | 14.73% | 15.13% | 16.37% | 16.96% |
| Employer's proportionate share of the net pension liability | \$ 185,271,435 | \$ 214,988,644 | \$ 122,309,887 | \$ 143,163,797 | \$ 180,105,232 | \$ 221,049,893 | \$ 163,086,154 | \$ 197,454,529 | \$ 212,671,200 | \$ 187,919,945 |
| Employer's covered payroll | \$ 129,935,333 | \$ 127,869,634 | \$ 126,830,347 | \$ 127,584,358 | \$ 112,528,955 | \$ 111,973,027 | \$ 107,715,383 | \$ 106,696,535 | \$ 105,031,141 | \$ 102,783,473 |
| Employer's proportionate share of the net pension liability as a percentage of its covered payroll | 142.59% | 168.13% | 96.44% | 112.21% | 160.05% | 197.41% | 151.40% | 185.06% | 202.48% | 182.83% |
| Plan fiduciary net position as a percentage of the total pension liability | 74.93% | 70.63% | 83.31% | 78.81% | 71.48% | 64.14% | 72.04% | 65.60% | 64.03% | 67.70% |

Schedule of Seattle Public Utilities' Pension Contributions

| | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Contractually required employer contribution | \$ 20,748,200 | \$ 20,632,427 | \$ 20,589,068 | \$ 20,654,175 | \$ 17,041,133 | \$ 17,103,559 | \$ 16,466,270 | \$ 16,354,089 | \$ 16,487,154 | \$ 15,170,276 |
| Contributions in relation to the contractually required employer contribution | (20,748,200) | (20,632,427) | (20,589,068) | (20,654,175) | (17,041,133) | (17,103,559) | (16,466,270) | (16,354,089) | (16,487,154) | (15,170,276) |
| Employer contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Employer's covered payroll | \$ 129,935,333 | \$ 127,869,634 | \$ 126,830,347 | \$ 127,584,358 | \$ 112,528,955 | \$ 111,973,027 | \$ 107,715,383 | \$ 106,696,535 | \$ 105,031,141 | \$ 102,783,473 |
| Employer contributions as a percentile of covered payroll | 15.97% | 16.14% | 16.23% | 16.19% | 15.14% | 15.27% | 15.29% | 15.33% | 15.70% | 14.76% |

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

| | December 31, 2024 | December 31, 2023 | December 31, 2022 | December 31, 2021 | December 31, 2020 | December 31, 2019 | December 31, 2018 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total OPEB Liability | | | | | | | |
| Normal cost | \$ 2,588,171 | \$ 3,563,210 | \$ 4,514,549 | \$ 4,015,249 | \$ 3,378,925 | \$ 3,842,152 | \$ 3,821,876 |
| Interest | 1,911,611 | 1,195,910 | 1,553,119 | 1,813,401 | 2,586,942 | 2,195,238 | 2,853,105 |
| Differences between expected and actual experience | (1,219,914) | - | (16,026,625) | - | 6,956,579 | - | 13,491,865 |
| Changes in assumptions | 35,933,709 | (8,009,946) | (1,556,412) | 3,738,597 | (7,760,776) | (3,886,702) | (22,126,128) |
| Benefit payment | (2,455,021) | (2,436,239) | (3,039,800) | (2,933,774) | (2,484,320) | (2,333,610) | (22,809,000) |
| Total OPEB liability – beginning of year | 50,015,500 | 55,702,565 | 70,257,734 | 63,624,261 | 60,946,911 | 61,129,833 | 65,648,115 |
| Total OPEB liability – end of year | <u>\$ 86,774,056</u> | <u>\$ 50,015,500</u> | <u>\$ 55,702,565</u> | <u>\$ 70,257,734</u> | <u>\$ 63,624,261</u> | <u>\$ 60,946,911</u> | <u>\$ 61,129,833</u> |
| | | | | | | | |
| Covered-employee payroll | \$ 1,335,721,665 | \$ 1,145,862,502 | \$ 1,145,862,502 | \$ 1,124,692,046 | \$ 1,124,692,046 | \$ 1,015,097,334 | \$ 1,015,097,334 |
| | | | | | | | |
| Total OPEB liability as percentage of covered-employee payroll | 6.50% | 4.36% | 4.86% | 6.25% | 5.66% | 6.00% | 6.02% |

Other Information (Unaudited)

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

Water Fund Debt Service Coverage Calculation 2024

| | |
|--|-----------------------|
| Operating Revenues | |
| Utility Service | \$ 232,297,126 |
| Wholesale/Commercial | 64,922,374 |
| Other | 10,600,115 |
| Total Operating Revenue | <u>307,819,615</u> |
| Operating Expense | |
| Salaries and Wages | 50,776,243 |
| Personnel Benefits | 23,512,281 |
| Supplies | 8,121,243 |
| Services | 62,964,892 |
| Intergovernmental Payments | 52,439,037 |
| Other Operating Expense | 5,090,851 |
| Total Operating Expenses | <u>202,904,547</u> |
| Net Operating Income | <u>104,915,068</u> |
| Adjustments | |
| Add: Capital Contributions Connection Charge | 4,459,773 |
| Add: City Taxes | 38,369,410 |
| Add: Investment Interest | 6,298,657 |
| Less: DSRF Earnings | (892,191) |
| Add: BAB's Subsidy | 1,619,192 |
| Add (Less): Net Other Nonoperating Revenues/(Expenses) | 7,298,993 |
| Add: Proceeds from Sale of Assets | 630,570 |
| Total Adjustments | <u>57,784,404</u> |
| Net Revenue Available for Debt Service | <u>\$ 162,699,472</u> |
| <i>w/o Credit for City Taxes</i> | <u>\$ 124,330,062</u> |
| Annual Debt Service | |
| Annual Debt Service | \$ 73,086,329 |
| Less: DSRF Earnings | (892,191) |
| Adjusted Annual Debt Service | <u>\$ 72,194,138</u> |
| Coverage | 2.25 |
| Coverage without taxes | 1.72 |

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

Water System Operating Statistics

| | 2020 | 2021 | 2022 | 2023 | 2024 |
|--|------------|------------|------------|------------|------------|
| Population Served | | | | | |
| Retail | 820,000 | ** | 826,000 | 843,000 | 863,000 |
| Wholesale ⁽¹⁾ | 741,000 | ** | 749,000 | 765,000 | 795,000 |
| Total Population Served | 1,561,000 | ** | 1,575,000 | 1,608,000 | 1,658,000 |
| Water Sales Revenues (\$000) ⁽²⁾⁽³⁾ | | | | | |
| Retail | \$ 207,590 | \$ 213,552 | \$ 221,695 | \$ 230,721 | \$ 234,766 |
| Wholesale | 56,782 | 57,362 | 56,242 | 59,043 | 59,922 |
| Total Water Sales Revenues | \$ 264,372 | \$ 270,914 | \$ 277,937 | \$ 289,764 | \$ 294,688 |
| Billed Water Consumption (MG) ⁽³⁾ | | | | | |
| Retail | 18,882 | 19,522 | 19,560 | 19,914 | 19,719 |
| Wholesale | 21,849 | 23,328 | 22,770 | 23,368 | 22,989 |
| Total Billed Water Use | 40,731 | 42,849 | 42,330 | 43,282 | 42,708 |
| Operating Costs (\$ per MG) | \$ 5,240 | \$ 5,184 | \$ 5,316 | \$ 5,958 | \$ 6,156 |
| Gallons Used per Day per Capita ⁽⁴⁾ | 71 | 75 | 74 | 74 | 71 |
| Retail Meters in Use | 198,726 | 200,152 | 200,706 | 201,847 | 202,173 |
| Number of New Retail Meters | 979 | 1,426 | 554 | 1,141 | 326 |
| Total Water Diversions (MGD) | 118.2 | 124.9 | 123.6 | 125.7 | 124.1 |
| Non-Revenue | 7.0 | 7.5 | 7.6 | 6.9 | 7.0 |
| % Non-Revenue | 5.9 | 6.0 | 6.2 | 5.5 | 5.6 |

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

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

⁽²⁾ Revenues represent payments from customers for service provided at published rates in each year.

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

⁽³⁾ Per capita billed water consumption has been generally decreasing for the past 25 years. Variations in billed water use are primarily associated with year-to-year variations in temperature and precipitation in the summer irrigation period. There has been no change in the geographic area service nor any appreciable change in the number or composition of retail customers.

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

Major Retail Water Customers

During the year ended December 31, 2024, major retail water customers included the City of Seattle, University of Washington, Port of Seattle, Seattle Housing Authority, King County, Equity Residential, Marriott International Inc., Nucor Steel, Seattle Public Schools, Bellwether Housing. In aggregate, charges to these customers represented roughly 9% of the total billed direct service revenue for the year.

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

Water Rates – Effective January 1, 2025

Effective January 1, 2025

| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) | (k) | (l) | (m) | (n) | (o) | (p) | (q) | (r) | (s) | | |
|---|-------------|----------|----------|--------------|--------------|----------|----------|--------------|--|----------|----------|--------------|-------------|-------------|----------|----------|--------------|---------------|----------|----------|
| Direct Service | | | | | | | | | | | | | | | | | | | | |
| RATE SCHEDULES | Inside City | | | | Outside City | | | | City of Shoreline / City of Lake Forest Park | | | | | Burien | | | | Mercer Island | | |
| | Residential | MMRD* | Gen Svc | Fire Service | Residential | MMRD* | Gen Svc | Fire Service | Residential | MMRD* | Gen Svc | Fire Service | MMRD* w/PUT | Residential | MMRD* | Gen Svc | Fire Service | Gen Svc | | |
| Commodity Charge (\$/100 Cubic Feet) | | | | | | | | | | | | | | | | | | | | |
| Offpeak Usage (Sept 16-May 15) | \$5.79 | \$5.79 | \$5.98 | | \$6.60 | \$6.60 | \$6.82 | | \$7.02 | \$7.02 | \$7.25 | | \$6.57 | \$7.17 | \$7.17 | \$7.41 | | | \$7.20 | |
| Peak Usage (May 16-Sept 15) | | | | | | | | | | | | | | | | | | | | |
| Up to 5 ccf** | \$5.95 | \$5.95 | \$7.60 | | \$6.78 | \$6.78 | \$8.66 | | \$7.22 | \$7.22 | \$9.22 | | \$6.75 | \$7.37 | \$7.37 | \$9.42 | | | \$9.15 | |
| Next 13 ccf** | \$7.36 | \$7.36 | \$7.60 | | \$8.39 | \$8.39 | \$8.66 | | \$8.93 | \$8.93 | \$9.22 | | \$8.35 | \$9.12 | \$9.12 | \$9.42 | | | \$9.15 | |
| Over 18 ccf** | \$11.80 | \$11.80 | \$7.60 | | \$13.45 | \$13.45 | \$8.66 | | \$14.31 | \$14.31 | \$9.22 | | \$13.39 | \$14.62 | \$14.62 | \$9.42 | | | \$9.15 | |
| Usage over base allowance | | | | \$20.00 | | | | \$22.80 | | | | | \$24.30 | | | | | | \$24.80 | |
| Utility Credit (\$/month) | \$24.83 | | \$13.96 | | \$24.83 | | \$13.96 | | \$24.83 | | \$13.96 | | | \$24.83 | | \$13.96 | | | \$13.96 | |
| Base Service Charge (\$/month/meter) | | | | | | | | | | | | | | | | | | | | |
| 3/4 inch and less | \$20.45 | | \$23.50 | | \$23.30 | | \$26.80 | | \$24.80 | | \$28.50 | | | \$25.35 | | \$29.10 | | | | |
| 1 inch | \$21.10 | | \$24.25 | | \$24.05 | | \$27.65 | | \$25.60 | | \$29.40 | | | \$26.15 | | \$30.05 | | | | |
| 1-1/2 inch | \$32.50 | \$32.50 | \$37.35 | | \$37.05 | \$37.05 | \$42.60 | | \$39.40 | \$39.40 | \$45.30 | | \$36.90 | \$40.25 | \$40.25 | \$46.30 | | | | |
| 2 inch | \$36.00 | \$36.00 | \$41.40 | \$17.75 | \$41.05 | \$41.05 | \$47.20 | \$20.00 | \$43.65 | \$43.65 | \$50.20 | \$22.00 | \$40.85 | \$44.60 | \$44.60 | \$51.30 | \$22.00 | | | |
| 3 inch | \$133.35 | \$133.35 | \$153.00 | \$23.00 | \$152.00 | \$152.00 | \$174.40 | \$26.00 | \$161.70 | \$161.70 | \$185.55 | \$28.00 | \$151.35 | \$165.25 | \$165.25 | \$189.60 | \$29.00 | | | |
| 4 inch | \$191.00 | \$191.00 | \$219.00 | \$43.00 | \$217.75 | \$217.75 | \$249.65 | \$49.00 | \$231.65 | \$231.65 | \$265.60 | \$52.00 | \$216.80 | \$236.65 | \$236.65 | \$271.35 | \$53.00 | | | |
| 6 inch | | \$235.00 | \$270.00 | \$73.00 | | | \$268.00 | \$308.00 | \$83.00 | | | \$285.00 | \$327.00 | \$89.00 | | \$267.00 | | | | |
| 8 inch | | \$277.00 | \$318.00 | \$115.00 | | | \$316.00 | \$363.00 | \$131.00 | | | \$336.00 | \$386.00 | \$139.00 | \$314.00 | | \$343.00 | \$394.00 | \$143.00 | \$383.00 |
| 10 inch | | \$338.00 | \$389.00 | \$166.00 | | | \$385.00 | \$443.00 | \$189.00 | | | \$410.00 | \$472.00 | \$201.00 | \$384.00 | | \$419.00 | \$482.00 | \$206.00 | \$468.00 |
| 12 inch | | \$456.00 | \$525.00 | \$242.00 | | | \$520.00 | \$599.00 | \$276.00 | | | \$553.00 | \$637.00 | \$293.00 | \$518.00 | | \$565.00 | \$651.00 | \$300.00 | |
| 16 inch | | \$512.00 | \$589.00 | | | | \$584.00 | \$671.00 | | | | \$621.00 | \$714.00 | | \$581.00 | | \$634.00 | \$730.00 | | |
| 20 inch | | \$614.00 | \$672.00 | | | | \$700.00 | \$766.00 | | | | \$745.00 | \$815.00 | | \$697.00 | | \$761.00 | \$833.00 | | |
| 24 inch | | \$771.00 | \$771.00 | | | | \$879.00 | \$879.00 | | | | \$935.00 | \$935.00 | | \$875.00 | | \$955.00 | \$955.00 | | |

* Master Metered Residential Development

** per residence

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Seattle Public Utilities – Water Fund (the Fund) as of and for the year ended December 31, 2024, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2025.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Moss Adams LLP".

Seattle, Washington
April 30, 2025