CITY OF SEATTLE – CITY LIGHT DEPARTMENT

Seattle, Washington

COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended December 31, 2012

CITY OF SEATTLE – CITY LIGHT DEPARTMENT

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REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE

BAKER TILLY

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To the Energy and Environment Committee
City of Seattle – City Light Department
Seattle, WA

In planning and performing our audit of the financial statements of the City of Seattle – City Light Department (the "Department") as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing 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 its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in the Department's internal control to be significant deficiencies:

- Cost accounting
- Cash handling

The Department's written responses to the significant deficiencies and other control recommendations identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Energy and Environment Committee and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 30, 2013

COST ACCOUNTING

During the audit, we concentrated a portion of our testing on the processes and controls surrounding the cost accumulation and allocation tasks within the cost accounting department. A new work order asset management system (WAMS) was implemented in June 2011 to improve the efficiencies and accuracy of project costing and asset management systems. Through the implementation of WAMS, the cost accounting department has been able to reduce the quantity of open work orders where projects are substantially complete and better manage the large volumes of data processed by the system. A considerable amount of time and effort has been spent converting to the new software which is expected to continue into 2013. Although the department has made extensive progress in improving the system and controls surrounding the cost accounting process, we continue to experience areas where improvements should be made. The subsequent discussion identifies these areas.

Property Record Reconciliations and Asset Retirements

The WAMS system allows cost accounting to monitor assets and related property units over their useful lives. This information is necessary to properly account for the value of the asset and remove the associated historical cost when the asset is taken out of service. During the conversion process, it was noted that asset and property records were not reconciled to general ledger account balances on a regular basis. A retroactive review was completed in an attempt to reconcile asset categories with their property listings. The review resulted in the identification of property and equipment that had been taken out of service in prior years but had never been removed from the general ledger. The identified assets were assumed to be fully depreciated and were retired during the year. The review also identified retirements from prior years with no associated asset listings amounting to approximately six million dollars. The assets associated with this unidentified variance were also assumed to be fully depreciated and are in the process of being addressed by Department personnel. We recommend the Department continue to proactively address these issues and monitor their formal reconciliation and retirement processes between WAMS and the general ledger to ensure assets are properly accounted for.

Billable Work Orders

Cost accounting has billing processes and procedures in place to identify work orders classified as billable to customers for projects completed on their behalf. Billings are to be generated upon completion of the project and close-out of the work order. A billing request is created by a Service Representative which notifies cost accounting to prepare a billing to be sent to the customer. On occasion, critical steps in the process are not being completed which delays or prevents billings from being generated. Instances noted during the audit include the following:

> Requests for billing on work order were not initiated through WAMS by Service Representative; therefore, the billings were never generated.

> Billing requests assigned to multiple work orders through an automatic billing process often generated zero dollar billings which were not subsequently corrected or investigated.

> Work orders for certain operating expenses to other City Departments were coded as billable during WAMS system conversion. Cost Accounting had not identified these setup errors nor explained how they occurred.

Cost accounting has an adequate process in place to properly bill those work orders identified as billable to customers; however, the process is not consistently followed. We recommend cost accounting incorporate steps into its existing policies and procedures to address the issues noted above ensuring billings are properly and accurately billed to customers going forward.

Surplus Sales and Salvage Unit Activities

During the 2011 financial audit we were engaged to inventory all major processes that support, create or manage cash handling and document the risk areas identified during our testing and walk-through procedures to supplement our audit work. As a result of this engagement we identified the Department's surplus sales activities as having the following risks:

> Sales price determination, billing, and collections are handled by one individual
> Process for large sales are not stringent enough to assure all transactions are properly accounted for
> Surplus sales are recorded as an Other Asset – Deferred rather than a receivable and are only recorded after the money is collected

Based on our conclusion that the Department exposes itself to an increased risk of loss/theft as there is no notification a sale has occurred and payment is due, the Office of the City Auditor hired Francis & Company to perform certain agreed-upon procedures related to the Department's salvage yard activities. The purpose of this engagement was to provide a detailed assessment of the Department's existing controls and make recommendations for improvements. In light of the recent published news report stating that $120,000 worth of insulated copper wire was stolen from the Department's South Service Center during normal business hours and the aforementioned risks identified during the 2011 financial audit we recommend management review the existing internal controls and implement improvements and enhancements during 2013.

Based on our inquiry with Francis & Company, they anticipate finalizing their work during May 2013, and subsequently issuing a report which will include procedures performed, any findings noted, and recommendations where controls can be implemented or improved. We will review the results of their work during the planning phase of the calendar year 2013 financial audit to determine the overall impact on our audit procedures.

Department Response

Property Record Reconciliations and Asset Retirements

Management is aware of this situation and Management agrees with Baker Tilly's recommendation. Baker Tilly describes specific findings that Department staff self-identified in the process to reconcile asset and property records. This effort is being continued by a recently hired team dedicated to this task under a specific Strategic Initiative for this purpose.

Billable Work Orders

Management agrees with Baker Tilly's recommendation. Management acknowledges that in the recent process of transferring multiple workflow processes into the WAMS system and training many new users in its use, there were impacts on the associated function of billing for service work. It should be clarified that while Baker Tilly's conclusions on process are accurate, the specific exceptions cited involve very minor amounts and we have the opportunity to correct these individual items as well as improve general process oversights.

COST ACCOUNTING (cont.)

Department Response (cont.)

Billable Work Orders (cont.)

The Cost-Accounting group completed in 2013 the hiring for three of its four top accountant positions. These were vacant for much of 2012 during a hiring process that took six months to complete. With staff in place we have focused on a review of our billing processes as they have been implemented through the WAMS system. This includes meetings of Accounting staff with the Service Representative teams, and meetings with WAMS and Summit technical support teams on this specific subject. Our processes and inquiries have expanded to proactively look for billing request exceptions or anomalies. This is being combined with our ongoing use of the WAMS system to enhance our ability to promptly and accurately bill for service.

Surplus Sales and Salvage Unit Activities

Refer to the Department response to Cash Handling.

STATUS OF PRIOR YEAR COMMENTS

CASH HANDLING

During 2011, we supplemented our audit work by inventorying all major processes that support, create or manage cash handling and documenting the risk areas identified during our testing and walk-through procedures. During this process we noted the following:

> There is a lack of formal, documented policies and procedures in place to track payment receipts and parties responsible for maintaining custody over the payments in some major cash handling processes.
> There are numerous payment points throughout the Department's operations that do not always observe adequate segregation of duties, documentation and control of payment receipts.
> The Department is exposed to an elevated inherent safeguarding-of-asset risk due to the numerous individuals and departments handling payments prior to deposit.

Recommendations as a result of our findings are as follows:

> Require all payments to be submitted directly to appropriate payment processing facilities:
  - Designated lockbox
  - Neighborhood centers
  - Service centers

> Establish individual lockboxes specifically for material revenue streams:
  - Power billings
  - Escrow payments
  - Surplus sales
  - Conservation
  - Rental properties
  - Miscellaneous (to collect other payments)

A detailed report of our procedures and findings which includes an executive summary, summary of key recommendations and conclusion can be obtained directly from management.

Status 12/31/2012

The cash handling process was revisited during 2012 and it was noted extensive improvements have been made by the Department to address our concerns from the previous year. We noted the implementation a lockbox process which has reduced the volume of payments being processed by multiple departments and individuals. Formal, documented policies and procedures related to the handling of cash have also been developed by various departments to limit the risks associated with this process. Although significant steps have been taken to address our concerns, multiple departments have not modified their procedures and continue to lack the controls necessary to reduce the inherent risk in this area. This point continues to remain valid.

CASH HANDLING (cont.)

Department Response

SCL is pleased with the progress that has been made in 2012 to strengthen the control weaknesses highlighted in Baker Tilly's prior year report. The implementation of the lockboxes has been successful, although some work remains to insure that payments are sent to those boxes rather than to legacy addresses. A program is in place to notify those customers who continue to send payments to the old address and further reduce the volume of payments not going through the lockbox. Similarly, SCL continues to work with City Treasury and FAS Summit team to refine the reporting provided from the lockbox information to aid the SCL org units in proper application of the payment.

Although some payments are still arriving outside of the lockbox, additional manual processes have been instituted to intercept these payments, and when they do occur, to log them, maintain chain of custody, prepare deposits and turn them over to Treasury. This manual process provides adequate controls over the receipt of cash in instances where the lockbox payment does not occur.

Changes to the surplus sales process (addressing segregation of duties and record keeping) have been implemented and training conducted.

Continued training of employees, testing, and monitoring of the process will continue in 2013.

COMMUNICATION OF OTHER CONTROL RECOMMENDATIONS TO MANAGEMENT THAT ARE NOT MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES

OTHER CONTROL RECOMMENDATIONS

CONTROLS OVER INFORMATION TECHNOLOGY

The 2012 Information Technology (IT) General Controls review focused on assessing the design and effectiveness of IT controls in place for critical systems that impact financial reporting. The following IT processes were in scope for this review:

> System development life cycle (SDLC)
> Change management
> Logical security
> Physical security
> Third party vendor management
> Backups
> Automated job processing

Recommendations that resulted from this review are below:

> Expand SDLC and Change Management Processes to Include All Critical Systems that Impact Financial Reporting

Baker Tilly recommends expanding the scope of existing SDLC and change management processes, or developing system-specific processes, to include PowerOps. This process should include formal documentation and approval for all software development, acquisition, and change management efforts.

> Enhance Logical Security Practices

Baker Tilly recommends enhancing logical security practices for all critical systems that impact financial reporting, including requirements for unique login IDs, strong passwords, standard user access, management policies and procedures, limited administrative access, and periodic access reviews.

> Enhance System Security Monitoring

Baker Tilly recommends continuing Information Technology Services Division's ("ITSD") planned initiative to formally replace current firewalls, and implement audit logging of database-level security events for all critical systems that impact financial reporting.

Department Response

SCL has drafted a business process map that outlines the change management process for Power Ops (and all Power Systems Automation changes), copy available from SCL management upon request. This process addresses both intake and change management. This process is being used for all changes within Power Ops today. The document is being updated with any new/enhanced features as needed.

All critical applications must now comply with the City Light ITSD Application Security Policy. This policy requires unique login IDs and strong passwords for all users of critical applications. The User Access Authorization Policy and Procedure which is in support of the Application Security Policy, standardizes the user access process by requiring that all new requests and changes to user access be approved by an appropriate business representative. There are also specific policies and procedures for periodic review of user access including Annual User Access audits and Inactive Account Monitoring. These policies and procedures have been implemented for all critical applications. Administrative Access is limited by the policy to limit system administrator rights within the Application Security policy and the annual System Administrator Access Audit Policy and Procedure currently in development.

CONTROLS OVER INFORMATION TECHNOLOGY (cont.)

Department Response (cont.)

The initiative to replace current firewalls is in progress. The vendor needed to begin the replacement of the two internal firewalls is developing the statement of work for our review. The two internal firewalls will be completed in approximately seven months (which includes two upgrades to get the firewalls current because they are so old). The subsequent 34 firewalls will begin after this internals are completed.

The Database-level security audit logging is completed for CCSS, OMS, Power Ops, and WMS systems. Remaining system is Passport which will be done by summer 2013. Maximo system is being obsolete by the WMS launch that occurred April 29, 2013 so this system will not have logging added.

REQUIRED COMMUNICATIONS BY THE AUDITOR WITH THOSE CHARGED WITH GOVERNANCE

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To the Energy and Environment Committee
City of Seattle – City Light Department
Seattle, Washington

We have completed our audit of the financial statements of the City of Seattle – City Light Department (the "Department") for the year ended December 31, 2012 and have issued our report thereon dated April 30, 2013. This letter presents communications required by our professional standards.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or those charged with governance of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Other Information in Documents Containing Audited Financial Statements

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated November 28, 2012.

Qualitative Aspects of the Entity's Significant Accounting Practices

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Department are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Department changed accounting policies related to deferred outflows of resources, deferred inflows of resources, and net position by adopting Statement of Governmental Accounting Standards (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in 2012. Accordingly, the effect of the accounting change as of the beginning of the year has been reported in the Statements of Net Position. We noted no transactions entered into by the Department during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Other postemployment benefit (OPEB) cost, net OPEB obligation and employee benefits self-insurance fund
- Allowance for doubtful accounts
- Unbilled revenues
- The Department's portion of the City of Seattle's Industrial Insurance Fund and Self-Insured Liability losses
- Environmental remediation liabilities

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

A summary of uncorrected financial statement misstatements follows this required communication. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

To the Energy and Environment Committee
City of Seattle – City Light Department

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Management Representations

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

Independence

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the Department that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of the Department for the year ended December 31, 2012, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the Department in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the Department other than audit services provided in connection with the audit of the current year's financial statements.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Energy and Environment Committee and management and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss the information included in this letter and any other matters. We appreciate the courtesy and assistance extended to us by your personnel during the audit. If you have any questions on our comments, or if we can offer our services in any other way during the year, please don't hesitate to contact us. Thank you for allowing us to serve you.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 30, 2013

SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

CITY OF SEATTLE - CITY LIGHT DEPARTMENT

SUMMARY OF PASSED ADJUSTING JOURNAL ENTRIES
December 31, 2012

	2012									
	Financial Statements Effect - Increase (Decrease) to Financial Statement Total									
	Current Assets	Long-Term Assets	Total Assets	Current Liabilities	Long-Term Liabilities	Total Liabilities	Total Net Assets	Total Revenues	Total Expenses	Net Income
Total Net Audit Differences	$ (186,287)	$ (1,503,483)	$ (1,689,770)	$ (1,285,059)	$ 70,686	$ (1,214,373)	$ (475,397)	$ (205,792)	$ 269,605	$ (475,397)

MANAGEMENT REPRESENTATIONS

City of Seattle

Your **Seattle City Light**

April 30, 2013

Baker Tilly Virchow Krause, LLP
Ten Terrace Court
PO Box 7398
Madison, WI 53707-7398

Dear Auditors:

We are providing this letter in connection with your audit of the financial statements of The City of Seattle—City Light Department (Department) as of December 31, 2012 and 2011 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the Department and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility.
3. We acknowledge our responsibility 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. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4. Significant assumptions we used in making accounting estimates are reasonable.

5. Related party relationships and transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.

6. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

7. We believe the effects of the uncorrected financial statement misstatements summarized in the enclosed schedule are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.

8. All claims, assessments, or pending lawsuits against the Department which may have a material effect on the Departments financial statements were brought to your attention at the time of the audit.

9. Guarantees, whether written or oral, under which the Department are contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. We have provided you with:

    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.

    b. Additional information that you have requested from us for the purpose of the audit.

    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

    d. Minutes of the meetings of the Energy and Environment Committee and summaries of actions of recent meetings for which minutes have not yet been prepared.

11. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of any fraud or suspected fraud that affects the Department and involves:
    a. Management
    b. Employees who have significant roles in internal control, or
    c. Others where the fraud could have a material effect on the financial statements
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the Department received in communications from employees, former employees, regulators, or others.
15. There are no known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
16. We have disclosed to you all known related parties and all the related party relationships and transactions of which we are aware.
17. We have made available to you all financial records and related data.

Other

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, the financial reporting process.
19. We have a process to track the status of audit findings and recommendations.
20. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.
22. The Department has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
23. We are responsible for compliance with federal, state, and local laws, regulations and provisions of contracts and grant agreements applicable to us, including debt contracts and debt covenants, and we have identified, and disclosed to you, all federal, state, and local

laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

24. There are no -

    a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting and amending budgets), provisions of contracts and grant agreements and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency or for reporting on noncompliance.
    b. Violations of restrictions placed on revenues as a result of a bond ordinance covenant--such as revenue distribution, or debt service funding.
    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accredited in the United States of America.
    d. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.

25. The following, if any, have been properly recorded or disclosed in the financial statements:

    a. Joint ventures.
    b. Collateralization agreements with financial institutions.
    c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
    d. All off-balance sheet derivative financial instruments (i.e., futures, options, swaps), including outstanding commitments to purchase or sell securities under forward placement and standby commitments.
    e. Financial instruments with significant individual or group concentration of credit risk.
    f. Sales with recourse provisions, including all price adjustment provisions.
    g. All impaired loans receivable.
    h. Loans that have been restructured to provide a reduction or deferral of interest or principal payments because of borrower financial difficulties.
    i. Agreements to repurchase assets previously sold.
    j. Contingent assets and liabilities.

26. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.

27. The Department has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral other than liens created by our revenue debt.

28. Capital assets are properly capitalized and depreciated. Any known impairments have been disclosed and recorded.

29. We believe that we have properly identified all derivative instruments and that we have no embedded derivative instruments that require bifurcation. Our hedging activities, if any, are in accordance with our documented and approved hedging and risk management policies. We follow the valuation, accounting, reporting, and disclosure requirements outlined in GASB No. 53. We believe the timing, nature, and amounts of all forecasted transactions are probable of occurring. The fair values of all derivatives and hedged items disclosed in the notes to the financial statements have been determined based on prevailing market prices or by using financial models that we believe are the most appropriate models for valuing such instruments and that incorporate market data and other assumptions that we have determined to be reasonable and appropriate at year end.

30. As disclosed in the notes to the financial statements, we have appropriately described the impacts that proposed accounting pronouncements may have on our financial position or operations, or the status of our evaluation or accounting pronouncements to be adopted in future years.

31. No events have occurred and no facts have been discovered which indicate that the fair value of any security is significantly affected by the credit standing of the issuer or by other specific factors.

32. Funds held for respective trust accounts are sufficient to service and redeem defeased bonds.

33. Tax-exempt bonds issued have retained their tax-exempt status.

34. Components of net position (net investment in capital assets, restricted and unrestricted) are properly classified.

35. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements.
    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
    c. It is at least possible that the events that could cause the severe impact will occur in the near term.

36. The accounts receivable recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.

37. We are responsible for determining and maintaining the adequacy of the allowance for doubtful notes, loans, accounts receivable, energy contract assets and liabilities, unbilled revenue and incurred but not reported claims, as well as estimates used to determine such amounts. Management believes the allowances are adequate to absorb currently estimated bad debts in the account balance.

38. We believe that all expenditures that have been deferred to future periods are recoverable.

39. Provision has been made for any loss to be sustained in the fulfillment of, or from inability to fulfill, any sales commitments.

40. We have no intention of terminating our participation in the Seattle City Employee's Retirement System (SCERS) or withdrawing from any multi-employer plans, or taking any other action that could result in an effective termination or reportable event for any of the plans. We are not aware of any occurrences that could result in the termination of any of our participation in the SCERS-defined benefit plan or multi-employer plans to which we contribute. We believe that the actuarial assumptions and methods used to measure the pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.

41. We agree with the work of specialists in evaluating the pension liabilities, other post employment benefit liabilities, pollution remediation liabilities, and provision for injuries and damages and have adequately considered the qualifications of specialists in determining amounts and disclosures used in the financial statements and underlying accounting records. We did not give any instructions, nor cause any instructions to be given, to specialists with respect to values or amounts derived in an attempt to bias their work, and we are not aware of any matters that have affected the independence or objectivity of the specialists.

42. We have complied with GASB No. 49, and believe that the estimate made for our pollution remediation liability is in accordance with this standard and reflect all known available facts at the time it was recorded.

43. Provision has been made for any loss to be sustained as a result of purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.

44. All charges to the property accounts consist of replacements or additions for the purpose of increasing capacity, extending facilities, reducing operating costs, or meeting changed operating conditions.

45. There were no items of physical property contained in the property accounts that were either (a) abandoned or (b) out of service and not regarded as either (i) standby property or equipment or (ii) property held for use only temporarily out of service, as that term is commonly understood in the public utility business.

46. The accumulated provision for depreciation has been determined in accordance with the orders of and the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. Based on the present operating conditions and the probable lives of the properties, we believe that the provisions being made using the depreciation rates in effect will be adequate to depreciate the properties over their respective useful lives.

47. All regulatory assets and liabilities have been recorded in accordance with the orders or other guidance of the regulatory commission, and they are probable of recovery or refund in accordance with the provisions with GASB 62 related to regulated operations. Regulatory assets represent incurred costs that are probable of recovery from future revenues. Regulatory liabilities represent amounts imposed by rate actions of the regulators that may require refunds to customers, represent amounts provided in current rates that are intended to recover costs that are expected to be incurred in the future for which we remain accountable, or represent a gain or other reduction of allowable costs to be given to customers over future periods.

48. Under the deferred compensation plan offered to City employees and officers, we do not accept nor assume any of the risks associated with the Plan and its administration.

49. All purpose and eligibility requirements have been met to assure proper recognition of capital fees and grant revenue in connection with the standards outlined by GASB Statement No. 33, *Accounting and Financial Report for Non Exchange Transactions*.

50. We properly disclosed the economic gain, cash savings, and accounting loss as a result of advanced refunding of revenue bonds in accordance with GASB Statement No. 7, *Advance Refunding from Defeasance of Debt*. The accounting losses for bonds refunded have been properly deferred in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by the Proprietary Activities*.

51. Interfund activity and balances have been appropriately classified and reported.

52. Deposits and investment securities are properly classified in category of custodial credit risk.

53. The operations and rate setting process meet the condition for application of accounting for regulated operations as outlined in GASB No. 62. All regulatory items included in the financial statements have been approved and are being accounted for in accordance with specific action taken by the regulatory body and as such the expectation of future recovery or refund is reasonable.

54. We have appropriately disclosed the Department's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding how restricted and unrestricted fund balance is used when an expenditure is incurred for which both restricted and unrestricted fund balance is available, including the spending hierarchy for committed, assigned, and unassigned amounts.

55. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

56. We have accounted for asset retirement obligations in accordance with FASB ASC 410, *Asset Retirement and Environmental Obligations*. All legal obligations, including those under the doctrine of promissory estoppels, associated with the retirement of tangible long-lived assets have been recognized. These obligations were recognized when incurred using management's best estimate of fair value.

Sincerely,

4/26/13
Jorge Carrasco — Date
Superintendent

4-25-13
Jeff Bishop — Date
Chief Financial Officer

4-22-13
Brian F. Brumfield — Date
Controller

FE:feb

Enclosure

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