



*Wastewater and Surface Water
Management
2014 Financial Report*

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Independent Auditor's Report

REPORT OF INDEPENDENT AUDITORS

Honorable Mayor and City Council
City of Tacoma, Environmental Services, Wastewater and Surface Water Management
Tacoma Washington

Report on the Financial Statements

We have audited the accompanying financial statements of City of Tacoma, Environmental Services, Wastewater and Surface Water Management (the Division), which comprise the statements of net position as of December 31, 2014 and 2013, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

REPORT OF INDEPENDENT AUDITORS (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 7 through 13 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information presented on pages 43 through 52 are not a required part of the financial statements, but are supplemental information presented for the purposes of additional analysis. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.



Tacoma, Washington
May 19, 2015

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Management's Discussion and Analysis

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Management's Discussion and Analysis
December 31, 2014 and 2013

Introduction

The following is management's discussion and analysis (MD&A) of the financial activities of the City of Tacoma's Wastewater and Surface Water Management Division (the Division) for the years ended December 31, 2014 and 2013. The MD&A is designed to focus on significant financial transactions and activities and to identify changes in financial position. This information should be read in conjunction with the financial statements taken as a whole. The financial statements are prepared on a full accrual basis of accounting.

Financial Highlights

- Total net position is \$396.4 million at December 31, 2014 compared to \$386.4 million and \$369.5 million at year-end 2013 and 2012, respectively.
- The change in net position is \$10.0 million in 2014, \$13.9 million in 2013 and \$6.6 million in 2012.
- Total assets and deferred outflows of resources are \$616.5 million, an increase of \$9.9 million in 2014 compared to \$606.6 million in 2013, an increase of \$12.3 million from \$594.2 in 2012.
- Liabilities and deferred inflows of resources are \$220.1 million, a decrease of \$103,000 in 2014 compared to \$220.2 million in 2013, a decrease of \$4.6 million from \$224.8 million in 2012.

Financial Analysis – Condensed Statements of Net Position

	December 31,		
	2014	2013	2012 (as restated)
Current, restricted, and other assets	\$ 79,432,390	\$ 96,634,377	\$ 121,015,523
Capital assets	535,991,568	508,831,233	472,068,087
Deferred outflows of resources	1,037,058	1,098,362	1,159,666
Total assets and deferred outflows of resources	<u>\$ 616,461,016</u>	<u>\$ 606,563,972</u>	<u>\$ 594,243,276</u>
Current liabilities and liabilities payable from restricted assets	\$ 16,344,610	\$ 13,474,553	\$ 13,993,493
Noncurrent liabilities	178,757,671	181,730,999	185,762,831
Deferred inflows of resources	25,000,000	25,000,000	25,000,000
Total liabilities and deferred inflows of resources	<u>220,102,281</u>	<u>220,205,552</u>	<u>\$ 224,756,324</u>
Net investment in capital assets	401,733,880	379,249,919	345,790,613
Restricted for bond reserves	9,691,158	9,573,274	8,227,353
Unrestricted	(15,066,303)	(2,464,773)	15,468,986
Total net position	<u>396,358,735</u>	<u>386,358,420</u>	<u>369,486,952</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 616,461,016</u>	<u>\$ 606,563,972</u>	<u>\$ 594,243,276</u>

Current, restricted, and other assets

Current, restricted, and other assets decreased \$17.2 million in 2014 and \$24.4 million in 2013. The primary reason for the 2014 decrease was a \$19.0 million decrease in cash due to capital spending of \$36.7 million funded by \$7.4 million from the 2006 Sewer Revenue Bonds and \$29.3 million from cash generated from operating activities.

In 2013, cash decreased \$26.0 million due to capital spending of \$39.5 million funded by \$7.5 million from the 2006 Sewer Revenue Bonds and \$32.0 million from cash generated from operating activities.

Other changes in 2014 include a \$470,000 increase in unbilled revenue, which was projected based upon the 2014 billing posted in 2015 at the prior years' unbilled rate. Other noncurrent assets increased \$709,000 primarily due to a prepaid rental of \$563,000 for a 10 year lease on the Cavanaugh Building for the Tagro operation.

Deferred outflows of resources

Deferred outflows of resources include unamortized refunding costs on the 2006 and 2011 revenue bonds. The same amount of \$61,000 was amortized in 2014 and 2013.

Current liabilities and liabilities payable from restricted assets

Total current liabilities including those payables from restricted assets increased \$2.9 million in 2014 compared to a \$519,000 decrease in 2013. The primary reason for the 2014 increase was due to a \$2.3 million increase in account payable; payments to vendors increased \$1.8 million and account payable accrual increased \$441,000. The 2013 change was due in part to a \$793,000 decrease in accounts payable and a \$247,000 increase in due to other funds.

Noncurrent liabilities

Noncurrent liabilities decreased \$3.0 million in 2014 and \$4.0 million in 2013. The 2014 decrease was primarily due to payments on the State Revolving Funds (SRF) loans of \$3.6 million. This decrease was offset in part by a net increase of \$883,000 in capital lease obligation due to an allocation rate change based upon actual usage among Wastewater, Surface Water, and Solid Waste for the Urban Waters building; 40.4% from 43% for Wastewater, 44.1% from 37% for Surface Water, and 15.5% from 20% for Solid Waste. The 2013 decrease was primarily due to payments on the SRF loans of \$3.5 million.

Deferred inflows of resources

Deferred inflows of resources includes rate stabilization credit of \$25.0 million, which has no change in 2014 and 2013.

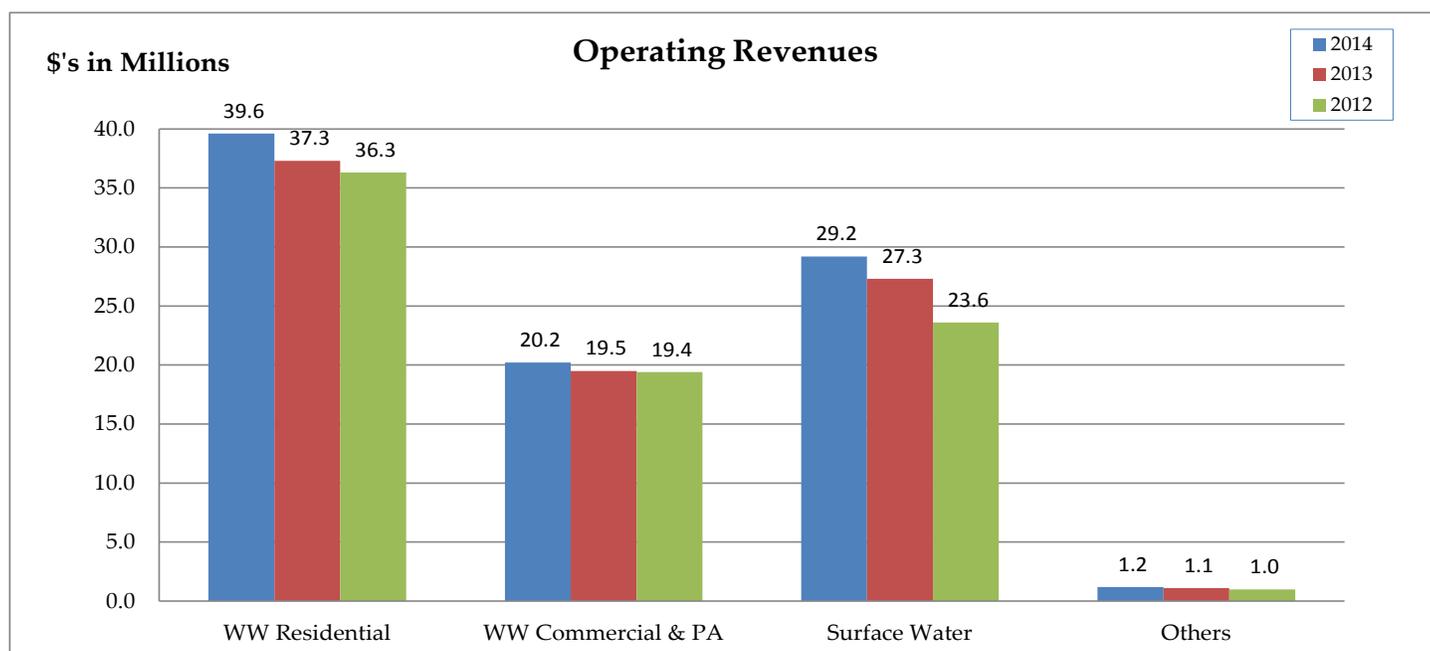
Financial Analysis - Condensed Statements of Revenues, Expenses and Changes in Net Position

Year-to-Date December 31,

	2014	2013	2012 (as restated)
Operating revenues	\$ 90,232,247	\$ 85,108,081	\$ 80,201,594
Operating expenses	74,658,894	68,772,885	68,125,720
Net operating income	15,573,353	16,335,196	12,075,874
Nonoperating revenues (expenses)	(4,435,405)	(5,201,731)	(4,285,494)
Income before contributions and transfers	11,137,948	11,133,465	7,790,380
Contributions	6,234,402	12,431,437	4,872,655
Transfers & gross earnings tax	(7,372,035)	(6,693,434)	(6,016,156)
Change in net position	10,000,315	16,871,468	6,646,879
Total net position - beginning	386,358,420	369,486,952	362,840,073
Total net position - ending	\$ 396,358,735	\$ 386,358,420	\$ 369,486,952

Operating revenues

The following graph provides a comparison of operating revenues for the three years.

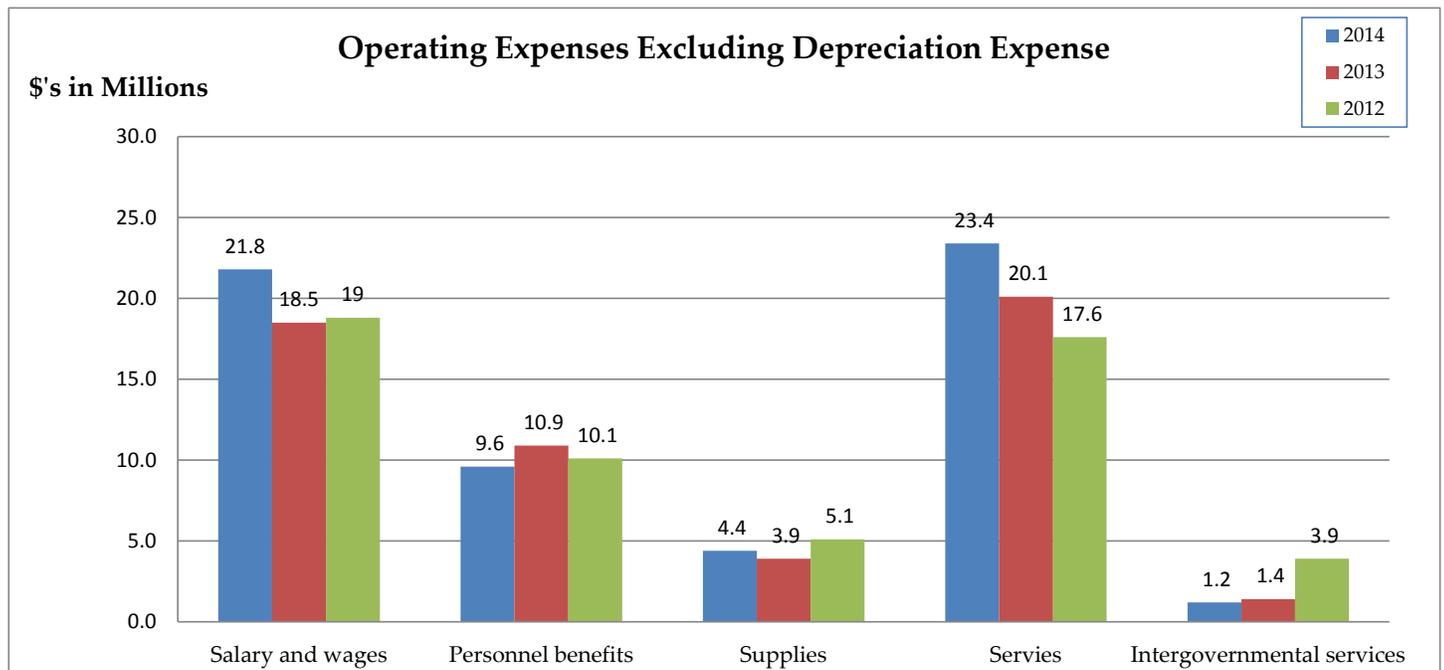


Operating revenues were \$90.2 million in 2014 compared to \$85.1 million in 2013 and \$80.2 million in 2012. The 2012 surface water revenues excluded a transfer of \$2.5 million to the Rate Stabilization Fund. The approved average revenue increase for Wastewater was 4.8% for each of the years 2014, 2013, and 2012, and for Surface Water was 6% for each of the years 2014 and 2013, and 5.4% for the year 2012.

The 2014 rate increase went into effect January 1st while the 2013 rate increase went into effect March 1st. Wastewater residential revenues increased \$2.3 million (6%) in 2014 compared to \$1.0 million (3%) in 2013, and Wastewater commercial and public authority (PA) revenues increased \$765,000 (4%) in 2014 compared to \$80,000 (0%) in 2013. Surface Water increased \$1.9 million (7%) in 2014 compared to \$3.8 million (14%) in 2013; however, the actual increase in 2013 was \$1.9 million (5%) if the \$2.5 million transfer to the Rate Stabilization fund was included in 2012.

Operating expenses

The graph below shows a three year comparison of operating expenses excluding depreciation.



2014 Activity

Operating expenses were \$74.6 million in 2014 and \$68.8 million in 2013, an increase of \$5.8 million.

- Salary and wages increased \$3.3 million due in part to \$1.7 million reclassification of 30% of the total labor credit to benefit. As a result, personnel benefits decreased \$1.3 million. The number of full-time employees increased from 220 to 223 in Wastewater and from 96 to 99 in Surface Water. The retro pay for employees classified under Local 160 and 313 was processed in September and November.
- Supplies increased \$445,000 due to increased costs of materials and parts of \$229,000 used for repairs and maintenance work on pump stations and treatment plants. Operating supplies increased \$176,000 for laboratory work and treatment plants.
- Services increased \$3.4 million due to increased external contracts of \$1.4 million; the payment to the Washington State Department of Ecology increased \$130,000 for maintenance and restoration of the City's habitat restoration sites and open spaces, and a payment of \$413,000 for web-based software for processing permits including on-going maintenance. External maintenance services increased \$454,000, which included coating, testing, inspection, disposal, asphalt patching, and cleaning. Assessments from other departments increased \$1.1 million primarily due to changes in allocating payroll costs of accounting staff, which were charged directly to environmental service cost centers in prior years but now they were charged through assessments. Spending on expense projects of the Hilltop Diversitree and Sprague Enhancement totaled \$451,000.
- Intergovernmental services included costs related to the business and occupation taxes, utility taxes, and payments to Pierce County for wastewater treatment charges. There was no significant change in these activities.

2013 Activity

Operating expenses were \$68.8 million in 2013 and \$68.1 million in 2012, an increase of \$647,000.

- Salary and wages decreased \$282,000 while personnel benefits increased \$710,000, a net increase of \$428,000. The number of full time employees decreased from 222 to 220 in Wastewater and increased from 90 to 96 in Surface Water.
- Supplies decreased \$1.2 million primarily due to reduced material costs for maintenance and repairs as a result of the mild winter conditions, an absence of major line failures, and no major maintenance on pumps.

Nonoperating revenues (expenses)

Nonoperating revenues and expenses consist principally of interest income from investments, rental income, operating grant revenues, and interest expense. Net expenses of \$4.4 million were reported in 2014, a decrease of \$766,000 (15%) from the net expenses of \$5.2 million in 2013. Significant changes include:

- Interest and other earnings increased \$382,000 primarily due to increased interest income from investments although the cash balance was much less than last year. The reason for this increase was due to the mark to market adjustment at year-end, which increased the investment income by \$32,000 compared to a \$695,000 decrease in 2013.
- Loss on disposition of property reported \$44,000, a decrease of \$181,000 from \$225,000 in 2013.

Contributions

The Division reported \$2.3 million of capital related grants in 2014, which included the Hood Street Treatment Retrofit and "A" Street Storm-water Retrofit projects from the State of Washington Ecology Department. In 2013, \$1.2 million was reported as capital related grants mainly for the Cheney Stadium Storm-water LID Retrofit project from the State of Washington Ecology Department.

Donated lines were recorded for \$3.5 million in 2014 compared to \$1.0 million in 2013 and \$3.6 million in 2012.

Transfers from the City's General Fund were \$211,000 in 2014 compared to \$8.4 million in 2013 for land designated as "Open Space".

Transfers

Transfers include both capital and operating transfers, and gross earnings tax. Capital related transfer occurred in 2014 for an additional fund of \$116,000 transferred to Fleet for vehicle purchases. In 2013, capital related transfer was \$1.9 million; \$1.5 million from Public Works for the Pacific Avenue Streetscape Project and \$314,000 from Public Assembly Facilities for land designated as "Open Space". Gross earnings tax was reported \$7.4 million in 2014 compared to \$7.1 million in 2013.

Capital Assets

Capital assets increased \$27.2 million compared to \$36.8 million in 2013. (See Note 3.)

2014 Activity

Capital assets increased \$27.2 million over the prior year. Land and easements increased \$366,000 due to recording "Open Space" land transferred and donated easements. Capital lease building increased \$1.5 million due to the TES allocation rate change. Machinery and equipment increased \$9.2 million primarily due to the capitalization of the Lincoln & Alexander Pump Station and Pump Station Control Panel upgrade projects. Transmission lines and other improvements increased \$27.7 million: 7,096 feet of donated lines were recorded for \$3.3 million, 20,085 feet of old lines were retired at the historical cost of \$255,000, and 26,695 feet of new replacement lines and extended sewer lines were recorded for \$21.0 million. Other improvements reported \$3.7 million including the Cheney Stadium LID Retrofit project recorded for \$2.5 million of which \$1 million was grant funded. Accumulated depreciation increased \$14.0 million and construction in progress increased \$1.9 million.

2013 Activity

Capital assets increased \$36.8 million over the prior year. Land increased \$8.9 million mainly due to recording "Open Space" land transferred to Surface Water. Machinery and equipment increased \$10.1 million primarily due to the capitalization of the Lincoln & Marine View Drive Pump Station and High Purity Oxygen Generation Facility projects. Transmission lines and other improvements increased \$27.5 million: 4,146 feet of donated lines were recorded for \$1.0 million, 66,452 feet of old lines were retired at the historical cost of \$255,000, and 76,156 feet of new replacement lines and extended sewer lines were recorded for \$18.7 million. Other improvements include the Pacific Avenue Streetscape Project recorded for the value of \$4.0 million of which \$1.5 million was grant funded. Accumulated depreciation increased \$13.8 million and construction in progress increased \$3.4 million.

Debt Administration

At December 31, 2014, the Division had \$148.8 million outstanding in long-term debt: \$55.6 million of this is junior lien debt consisting of SRF loans and \$89.3 million is senior parity bond debt. This compares to \$152.7 million in 2013 and \$156.6 million in 2012. The rating agencies maintained the Division's underlying credit ratings on parity bonds of Aa2, AA+, and AA+ from Moody's, Standard & Poor's, and Fitch respectively.

Debt Service Coverage

The bond coverage ratio is calculated by dividing net revenue by debt service as defined by bond covenants. The SRF loans are junior lien debt and excluded from the debt service in the bond coverage ratio calculation. However, 100% of the capital lease obligation on the Urban Waters building was included as parity debt although 20% for 2014 and 15.5% for 2015 onwards are expected to be received from the Solid Waste Division.

The bond coverage ratio is 4.43 at the end of 2014 from a ratio of 4.46 at the end of 2013 and 2.75 at the end of 2012. A bond coverage ratio of 1.3 is required by bond covenants for the Division.

Summary

This Management Discussion and Analysis should be read in conjunction with the accompanying financial statements and notes. This report is prepared by our Financial Services Team. Moss Adams LLP independently audited the financial statements and notes. Environmental Services and Finance are jointly responsible for the information contained in this report, including the financial statements and notes.

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Financial Statements

**City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Net Position**

	December 31,	
	2014	2013
ASSETS		
Current Assets:		
Cash and cash equivalents (C&CE)	\$ 49,138,289	\$ 60,770,595
Accounts receivable (net)	12,146,221	11,348,546
Due from other funds	444,580	108,426
Due from other governments	1,205,554	1,086,120
Inventory	1,014,100	894,085
Prepayments	290,854	573,806
Current restricted assets:		
C&CE - debt service, deposits and replacements	10,055,911	9,938,025
C&CE - construction accounts	911,262	8,293,031
Customer deposits - detention ponds	-	104,678
Total restricted assets	10,967,173	18,335,734
Total current assets	75,206,771	93,117,312
Non-current assets:		
Other non-current assets	4,225,619	3,517,065
Capital assets:		
Land and easements	19,621,412	19,255,327
Property, plant, and equipment	714,533,859	675,605,874
Less: accumulated depreciation	(221,487,000)	(207,463,950)
Construction work in progress	23,323,297	21,433,982
Total capital assets net of depreciation	535,991,568	508,831,233
Total non-current assets	540,217,187	512,348,298
TOTAL ASSETS	615,423,958	605,465,610
DEFERRED OUTFLOW OF RESOURCES		
Unamortized loss on refunding	1,037,058	1,098,362
TOTAL DEFERRED OUTFLOW OF RESOURCES	1,037,058	1,098,362
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 616,461,016	\$ 606,563,972

The accompanying notes are an integral part of the financial statements.

**City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Net Position**

	December 31,	
	2014	2013
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 5,911,913	\$ 3,624,854
Due to other funds	1,783,425	1,320,027
Due to other governments	490,403	490,971
Interest payable	253,002	269,220
Accrued wages	1,392,489	1,246,815
Accrued benefits	294,019	298,235
Accrued taxes	730,886	689,760
Environmental liability - current	604,346	678,580
Notes & leases - current	4,323,757	4,198,773
Unearned revenue	195,619	187,889
Current payables from restricted assets:		
Debt interest payable	364,751	364,751
Deposits and other payables	-	104,678
Total current liabilities	16,344,610	13,474,553
Non-current liabilities:		
Revenue bonds payable (net)	93,183,227	93,502,552
Compensated absences	2,646,180	2,684,113
Environmental liability - non-current	400,000	500,000
Notes & leases - non-current	80,296,661	83,076,692
Net OPEB obligation	2,231,603	1,967,642
Total non-current liabilities	178,757,671	181,730,999
TOTAL LIABILITIES	195,102,281	195,205,552
 DEFERRED INFLOW OF RESOURCES		
Rate stabilization	25,000,000	25,000,000
TOTAL DEFERRED INFLOW OF RESOURCES	25,000,000	25,000,000
 NET POSITION		
Net investment in capital assets	401,733,880	379,249,919
Restricted for debt	9,691,158	9,573,274
Unrestricted	(15,066,303)	(2,464,773)
TOTAL NET POSITION	396,358,735	386,358,420
 TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES RESOURCES, AND NET POSITION	\$ 616,461,016	\$ 606,563,972

The accompanying notes are an integral part of the financial statements.

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended December 31,	
	2014	2013
OPERATING REVENUES		
Wastewater residential	\$ 39,575,060	\$ 37,259,592
Wastewater commercial and public authorities	20,231,739	19,466,323
Surface water	29,188,607	27,331,797
Other revenues	1,236,841	1,050,369
TOTAL OPERATING REVENUES	<u>90,232,247</u>	<u>85,108,081</u>
OPERATING EXPENSES		
Salary and wages	21,862,742	18,524,269
Personnel benefits	9,532,902	10,851,033
Supplies	4,364,643	3,919,531
Services	23,436,690	20,050,094
Intergovernmental taxes	1,214,261	1,447,144
Depreciation	14,247,656	13,980,814
TOTAL OPERATING EXPENSES	<u>74,658,894</u>	<u>68,772,885</u>
OPERATING INCOME	<u>15,573,353</u>	<u>16,335,196</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest and other earnings	618,519	237,027
Interest and other related costs	(5,684,999)	(5,856,182)
Amortization of bond premium and loss on refunding	258,021	258,029
Other non revenues and (expenses)	417,414	384,797
Loss on disposition of property	(44,360)	(225,402)
NON OPERATING REVENUE NET OF EXPENSE	<u>(4,435,405)</u>	<u>(5,201,731)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	<u>11,137,948</u>	<u>11,133,465</u>
Capital contributions - interfund	211,165	9,905,696
Capital contributions - federal/state/local	5,814,669	2,419,084
Capital contributions - private	208,568	106,657
Transfer in	750	395,595
Transfer (out) & gross earnings tax	(7,372,785)	(7,089,029)
Total contributions and transfers	<u>(1,137,633)</u>	<u>5,738,003</u>
CHANGES IN NET POSITION	<u>10,000,315</u>	<u>16,871,468</u>
NET POSITION		
NET POSITION - JANUARY 1	386,358,420	369,486,952
NET POSITION - DECEMBER 31	<u>\$ 396,358,735</u>	<u>\$ 386,358,420</u>

The accompanying notes are an integral part of the financial statements.

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City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Cash Flows

	Year Ended December 31,	
	2014	2013
CASH FLOW FROM OPERATING ACTIVITIES:		
Receipt from customer and users	\$ 89,289,492	\$ 84,727,955
Receipts from interfund services provided	(336,154)	(93,167)
Payment to suppliers	(15,790,241)	(15,971,857)
Payments to employees	(31,028,158)	(28,622,928)
Payments for interfund services used	(9,932,923)	(9,394,969)
Payments for taxes	(1,214,075)	(1,435,574)
Other operating or non-operating revenue	415,881	(331,925)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	31,403,822	28,877,535
CASH FLOWS FROM NONCAPAL FINANCING ACTIVITIES		
Transfer from (to) other funds	(7,214,723)	(7,053,353)
Grant received	10,978	580
Debt service related to environmental	(1,915,194)	(1,915,194)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(9,118,939)	(8,967,967)
CASH FLOW FROM CAPITAL FINANCING ACTIVITIES		
Transfer from (to) other fund	94,795	10,307,904
Acquisition and construction of capital assets	(41,458,101)	(50,969,364)
Proceeds from sale of capital assets	5,750	-
Principal paid on capital debt	(3,596,773)	(3,532,270)
Interest and Issuance costs paid on capital debt	(3,786,024)	(3,252,428)
Capital lease obligation	941,726	(578,000)
Contributions and donations	5,892,825	1,885,432
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	(41,905,802)	(46,138,726)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and dividends received	610,838	838,040
Investment others	9,214	(601,021)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	620,052	237,019
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(19,000,867)	(25,992,139)
CASH & CASH EQUIVALENTS, JANUARY 1	79,106,329	105,098,468
CASH & CASH EQUIVALENTS, DECEMBER 31	\$ 60,105,462	\$ 79,106,329

The accompanying notes are an integral part of the financial statements.

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Cash Flows

	Year Ended December 31,	
	2014	2013
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income	\$ 15,573,353	\$ 16,335,196
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	14,247,656	13,980,814
(Increase) decrease in accounts receivable	(942,754)	(380,125)
(Increase) decrease in due from other funds	(336,154)	(93,167)
(Increase) decrease in inventory	(120,015)	(37,640)
(Increase) decrease in prepayments	(280,521)	(460,331)
Increase (decrease) in deposits and other payables	(104,678)	(5,584)
Increase (decrease) in accounts payable	2,287,242	(780,983)
Increase (decrease) in accrued wages and benefits	141,458	215,988
Increase (decrease) in compensated absences	226,028	536,273
Increase (decrease) in due to other funds	462,830	247,216
Increase (decrease) in unearned revenue	7,730	8,832
Increase (decrease) in other current liabilities	(74,234)	(307,029)
Increase (decrease) in long term liabilities	(100,000)	(50,000)
Miscellaneous non-operating revenues	415,881	(331,925)
Total adjustments	15,830,469	12,542,339
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 31,403,822	\$ 28,877,535
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Donated fixed assets	\$ 3,314,367	\$ 9,615,554
Transfers - capital related	-	1,856,869
	\$ 3,314,367	\$ 11,472,423

The accompanying notes are an integral part of the financial statements.

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Notes to Financial Statements

City of Tacoma, Washington
Environmental Services Department
Wastewater & Surface Water Management
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

NOTE 1 OPERATIONS

OPERATIONS OF THE WASTEWATER AND SURFACE WATER MANAGEMENT DIVISION - The Wastewater and Surface Water Management Division (the Division) is presented as an enterprise fund within the Environmental Services Department under the provisions of the City of Tacoma's (the City) Charter and is included in the City's Comprehensive Annual Financial Report.

The Division is responsible for the planning, design, construction, operation, and maintenance of the wastewater and surface water facilities owned by the City. In addition to providing wastewater service within the City, the Division provides sewage treatment and disposal services by contract to the towns of Fife, Ruston, and Fircrest, and portions of Pierce County.

The Division receives certain services from other departments and agencies of the City including those normally considered to be general and administrative. The Division is charged for services received from other City departments and agencies and, additionally, must pay gross earnings tax to the City. These transactions are required to be arms-length transactions by law.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION - The financial statements of the Division are prepared under the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

CASH AND CASH EQUIVALENTS - The Division's fund cash balances are a "deposit" with the City Treasurer's Tacoma Investment Pool (TIP) for the purpose of maximizing interest earnings through pooled investment activities. Cash and equity in pooled investments in the TIP are reported at fair value and changes in unrealized gains and losses are recorded in the Statements of Revenues, Expenses and Changes in Net Position. Interest earned on such pooled investments is allocated daily to the participating funds based on each fund's daily equity in the TIP.

The TIP operates like a demand deposit account in that all City departments, including the Division, have fund balances which are their equity in the TIP. Accordingly, balances are considered to be cash equivalents.

The City of Tacoma Investment Policy permits legal investments as authorized by state law including Certificates of Deposit with qualified public depositories (as defined in Chapter 39.58 RCW), obligations of the U.S. Treasury, Government Sponsored Agencies and Instrumentalities, bonds issued by Washington State and its Local Governments with an A or better rating, general obligation bonds issued by any State or Local Government with an A or better rating, Bankers' Acceptances, Commercial Paper, Repurchase and Reverse Repurchase agreements, and the Washington State Local Government Investment Pool (LGIP).

Wastewater & Surface Water Management Notes to Financial Statements Continued

Daily liquidity requirement to meet the City's daily obligations is maintained by investing a portion of the TIP in the Washington State LGIP and/or a Municipal Investor interest bearing demand deposit account maintained with U.S. Bank.

The Division's equity in that portion of the TIP held in qualified public depositories at December 31, 2014 and 2013 is entirely covered by the Federal Deposit Insurance Corporation (FDIC) and the Washington State Public Deposit Protection Commission (PDPC).

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, longer term investments have greater exposure to changes in market interest rates. The City of Tacoma's Investment Policy allows for authorized investments up to 60 months to maturity. One method the City manages its exposure to interest rate risk is by timing cash flows from maturities so that portions of the portfolio are maturing over time to provide cash flow and liquidity needed for operations.

Credit risk is generally the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The minimum legal requirement is AAA for bankers acceptance notes, and fixed rate callable and non-callable agency securities, and A for fixed rate non-callable municipal securities. The Bank Certificates of Deposit (CD) and Demand Deposit Accounts (DDA) are protected by the FDIC insurance up to \$250,000. All CD and DDA deposits not covered by FDIC are covered by the Washington State PDPC. The PDPC is a statutory authority established under the Revised Code of Washington (RCW) 39.58. The State Treasurers LGIP is authorized by RCW 43.250 and operates like a 2A7 fund and is collateralized by short term legal investments. Detailed disclosure information is available in the City of Tacoma's CAFR.

Concentration risk disclosure is required for all investments in a single issuer that is 5% or more of the total of the City's investments. Detailed disclosure information is available in the City of Tacoma's CAFR.

Custodial credit risk is the risk of unauthorized transactions by the custodian of investments. The City policy states that all security transactions will be settled "delivery versus payment" by the City's safekeeping bank.

ACCOUNTS RECEIVABLE AND UNBILLED REVENUE - Accounts receivable consist of amounts owed by private individuals and organizations for goods delivered or services rendered in the regular course of business operations. Receivables are shown net of allowances for doubtful accounts. The Division accrues an estimated amount for services that have been provided but not billed, which is included in account receivable.

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS - A reserve has been established for uncollectible accounts receivable based on historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. Generally, accounts receivable are considered past due after 30 days. The Division estimated \$3.7 million for uncollectible accounts receivable in 2014 compared to \$4.4 million in 2013.

INTERFUND AND INTERGOVERNMENTAL TRANSACTIONS - Unsettled transactions between entities at year end are recorded as due to or due from either other funds or other governmental units as appropriate.

INVENTORY - Materials and supplies consist primarily of items for capital construction and maintenance of Division assets and are valued at the lower of average cost or fair market value.

Wastewater & Surface Water Management Notes to Financial Statements Continued

RESTRICTED CASH AND EQUITY IN POOLED INVESTMENTS - In accordance with bond resolutions, agreements and laws, separate restricted funds have been established. These funds consist of cash and investments in pooled investments with restrictions externally imposed and legally enforceable, established by the City Council. Generally, restricted assets include bond construction, reserve and debt service funds, and customer deposits.

BOND PREMIUM AND REFUNDING COSTS - Bond premium is amortized over the life of the bonds using the weighted average of the bonds outstanding. Bond refunding costs are amortized on a straight-line basis over the applicable bond period.

CAPITAL ASSETS AND DEPRECIATION - Capital assets consist of utility plant and are stated at original cost, which includes both direct costs of construction or acquisition and indirect costs. The cost of capital assets contributed is recorded at donated fair value. The cost of maintenance and repairs is charged to expense as incurred while the costs of improvements, additions and major renewals that extend the life of an asset are capitalized.

Assets are capitalized when costs exceed \$5,000 and the useful life exceeds one year.

Depreciation is recorded using the straight-line method based upon estimated useful lives of the assets. The original cost of property together with removal cost, less salvage, is charged to accumulated depreciation at such time as property is retired and removed from service.

The estimated useful lives range as follows:

	Years
Collection and Transmission Mains	75
Structures and Improvements	50
Land Improvements	25
Intangible Plant	7 - 20
Equipment	3 - 20

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.

ASSET VALUATION - The Division periodically reviews the carrying amount of its long-lived assets for impairment. An asset is considered impaired when estimated future cash flows are less than the carrying amount of the asset. In the event the carrying amount of such asset is not deemed recoverable, the asset is adjusted to its estimated fair value. Fair value is generally determined based on discounted future cash flows.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) - AFUDC represents the cost of borrowed funds used for the construction of utility plant, net of interest earned on unspent construction funds. Capitalized AFUDC is shown as part of the cost of utility plant and as a reduction of interest income and expense.

CONTRIBUTED CAPITAL - Capital grants and contributed capital assets are recorded as capital contributions.

Wastewater & Surface Water Management Notes to Financial Statements Continued

COMPENSATED ABSENCES - The City has two different policies for compensated absences. The City's original policy allows employees to accrue vacation based on the number of years worked with a maximum accrual equal to the amount earned in a two-year period. These employees also accrue one day of sick leave per month without any ceiling on the maximum accrued. The City implemented a new policy in 1998 allowing employees to earn PTO (personal time off) without distinction between vacation and sick leave. Employees who worked for the City prior to the change could choose to stay with the original policy or opt to convert to the new policy.

The amount of PTO earned is based on years of service. The maximum accrual for PTO is 960 hours, and upon termination, employees are entitled to compensation for unused PTO at 100%. The liability and expense for accumulated unused PTO is adjusted each year based on each employee's current compensation level.

Employees in the original policy accumulate sick leave at the rate of one day per month with no maximum accumulation specified. Employees receive 25% of the value at retirement or 10% upon termination for any other reason. In the event of death, beneficiaries receive 25% of the value. The accrued liability for earned vacation is computed at 100% and earned sick leave is computed at 10%, which is considered the amount vested. The liability and expense for accumulated unused vacation and sick leave is adjusted each year based on each employee's current compensation level.

Liability and expense for compensated absences are recorded including 100% of compensated time earned based on each employee's current compensation level.

RATE STABILIZATION FUND - The Division has established a rate stabilization account to better match revenues and expenses which may reduce volatility in rates. Amounts deposited into the account are excluded from the Statement of Revenues, Expenses and Changes in Net Position in accordance with regulated operations. Revenue will be recognized in subsequent periods when it is withdrawn in accordance with rate decisions.

OPERATING REVENUES - Revenues are derived from providing wastewater and surface water services. Wastewater services include the collection and treatment of wastewater to produce clean water and biosolids that are then used to produce TAGRO, planting soil amendments. Wastewater rates are based on volume of flow and strength. Total suspended solids (TSS) and biological oxygen demand (BOD) are strength determinants. Customers are billed on bi-monthly or monthly billing cycles.

Surface water services include flooding and erosion control, pollution prevention and control, environmental cleanup and restoration, and street drainage. Surface water rates are based on the area of the parcels and level of development with reductions for direct discharge and approved detention systems.

The rate structure is designed to meet the Division's needs and obligations on a cost-of-service basis while adhering to legal requirements. These legal requirements include computing rates on a reasonable basis, charging rates uniformly within classes, and using the revenues for utility and regulatory purposes. In addition, there may be laws imposed by the State, City Charter or to meet grant or bond requirements.

The City has a parity bond ordinance that it will establish, maintain and collect rates or charges in connection with the ownership and operation of the utility that will be fair and nondiscriminatory and adequate to provide gross revenues sufficient for 1) the payment of the principal and interest on all parity bonds and all amounts that the City is obligated to set aside in the bond fund, 2) the proper operation and maintenance of the utility, 3) the payment of any and all amounts that the City may now or hereafter become obligated to pay from gross revenues.

Wastewater & Surface Water Management Notes to Financial Statements Continued

NON-OPERATING REVENUES AND EXPENSES – The Division reports transactions not directly related to primary services as non-operating revenues and expenses. Significant items include investment and rental income and interest expense.

TAXES - The City charges the Division a gross earnings tax at the rate of 8.0%, which was reported in transfer. In addition, the Division pays a 3.852% public utility tax to the State on wastewater collection revenues and the 1.5% business and occupation tax to the State on wastewater transmission and treatment and surface water service revenues. The Division is exempt from payment of federal income tax.

NET POSITION - The Statement of Net Position reports all financial and capital resources. The difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources is net position. There are three components of net position: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, less accumulated depreciation, reduced by the bonds, loans or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted for bond reserves are restricted when constraints placed on 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.

Unrestricted are not “net investment in capital assets” or “restricted for bond reserves”.

ARBITRAGE REBATE REQUIREMENT - The Division is subject to the Internal Revenue Code (IRC) related to its tax-exempt revenue bonds. The IRC requires that earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed will be surrendered to the Internal Revenue Service. As such, the Division would record such a rebate as a liability. The Division had no liability in the current or prior year.

ENVIRONMENTAL REMEDIATION COSTS - The Division recognizes environmental obligations and accruals for expected pollution remediation outlays which are recorded when one of the five obligating events occurs and are adjusted as further information develops or circumstances change.

The five obligating events are applied when the Division is: 1) compelled to take action because of an imminent endangerment, 2) the Division is in violation of a pollution prevention-related permit or license, 3) the Division is named or evidence indicates that it will be named by a regulator as a responsible party or potentially responsible party, 4) named in a lawsuit to compel participation in pollution remediation or 5) the Division commences or legally obligates itself to commence pollution remediation.

Costs related to environmental remediation are charged to operating expense when the liability is recognized; outlays are capitalized when goods and services are acquired under specific circumstances. Measurement is based on the current value of the outlays for the individual remediation components using the expected cash flow technique, adjusted for recoveries from other parties and insurance.

SHARED SERVICES - The Division is charged for services received from other departments and agencies of the City, including those normally considered to be general and administrative.

Wastewater & Surface Water Management

Notes to Financial Statements Continued

USE OF ESTIMATES - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. The Division used estimates in determining reported unbilled revenues, allowance for doubtful accounts, accrued compensated absences, depreciation, Other Post Employment Benefits (OPEB), self-insurance liabilities and other contingencies. Actual results may differ from these estimates.

SIGNIFICANT RISKS AND UNCERTAINTIES - The Division 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, weather and natural disaster-related disruptions, collective bargaining labor disputes, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance and/or licensing of facilities.

RECLASSIFICATIONS - Changes have been made to prior year account classifications as needed to conform to the current year presentation format.

NOTE 3 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2014 and 2013 follows:

	2013	Additions	Retirements	Transfers	2014
Nondepreciable:					
Land and easements	\$ 19,255,327	\$ 366,085	\$ -	\$ -	\$ 19,621,412
Buildings	151,293,170	-	-	419,793	151,712,963
Buildings - capital lease	30,272,000	-	-	1,541,726	31,813,726
Machinery and equipment	152,561,487	-	(197,721)	9,425,309	161,789,075
Transmission lines and other improvements	333,647,503	3,314,367	(76,994)	24,453,849	361,338,725
Computer software	7,831,714	-	-	47,656	7,879,370
Assets in service	694,861,201	3,680,452	(274,715)	35,888,333	734,155,271
Accumulated depreciation	(207,463,950)	(14,248,093)	225,043	-	(221,487,000)
Assets in service, net	487,397,251	(10,567,641)	(49,672)	35,888,333	512,668,271
Construction work in progress	21,433,982	36,235,922	-	(34,346,607)	23,323,297
Total capital assets	<u>\$ 508,831,233</u>	<u>\$ 25,668,281</u>	<u>\$ (49,672)</u>	<u>\$ 1,541,726</u>	<u>\$ 535,991,568</u>
	2012	Additions	Retirements	Transfers	2013
Nondepreciable:					
Land and easements	\$ 10,321,617	\$ 8,933,710	\$ -	\$ -	\$ 19,255,327
Buildings	151,378,623	165,165	(250,618)	-	151,293,170
Buildings - capital lease	30,272,000	-	-	-	30,272,000
Machinery and equipment	142,498,431	-	-	10,063,056	152,561,487
Transmission lines and other improvements	306,140,187	1,421,993	(254,736)	26,340,059	333,647,503
Computer software	7,165,274	666,440	-	-	7,831,714
Assets in service	647,776,132	11,187,308	(505,354)	36,403,115	694,861,201
Accumulated depreciation	(193,705,228)	(14,002,662)	243,940	-	(207,463,950)
Assets in service, net	454,070,904	(2,815,354)	(261,414)	36,403,115	487,397,251
Construction work in progress	17,997,183	39,839,914	-	(36,403,115)	21,433,982
Total capital assets	<u>\$ 472,068,087</u>	<u>\$ 37,024,560</u>	<u>\$ (261,414)</u>	<u>\$ -</u>	<u>\$ 508,831,233</u>

Wastewater & Surface Water Management Notes to Financial Statements Continued

NOTE 4 LONG-TERM DEBT

Long-term debt activity for the years ended December 31, 2014 and 2013 follows:

	2013	Additions	Payments	2014	Due within One Year
Revenue bonds	\$ 89,265,000	\$ -	\$ -	\$ 89,265,000	\$ -
Plus: Unamortized premium	4,237,552	-	(319,325)	3,918,227	-
State Revolving Fund loans	59,229,465	-	(3,596,774)	55,632,691	3,662,544
Long-term debt	<u>\$ 152,732,017</u>	<u>\$ -</u>	<u>\$ (3,916,099)</u>	<u>\$ 148,815,918</u>	<u>\$ 3,662,544</u>
Capital lease	28,046,000	2,133,089	(1,191,362)	28,987,727	661,213
Total long-term debt	<u>\$ 180,778,017</u>	<u>\$ 2,133,089</u>	<u>\$ (5,107,461)</u>	<u>\$ 177,803,645</u>	<u>\$ 4,323,757</u>

	2012	Additions	Payments	2013	Due within One Year
Revenue bonds	\$ 89,265,000	\$ -	\$ -	\$ 89,265,000	\$ -
Plus: Unamortized premium	4,556,885	-	(319,333)	4,237,552	-
State Revolving Fund loans	62,761,734	-	(3,532,269)	59,229,465	3,596,773
Long-term debt	<u>\$ 156,583,619</u>	<u>\$ -</u>	<u>\$ (3,851,602)</u>	<u>\$ 152,732,017</u>	<u>\$ 3,596,773</u>
Capital lease	28,624,000	-	(578,000)	28,046,000	602,000
Total long-term debt	<u>\$ 185,207,619</u>	<u>\$ -</u>	<u>\$ (4,429,602)</u>	<u>\$ 180,778,017</u>	<u>\$ 4,198,773</u>

Wastewater & Surface Water Management Notes to Financial Statements Continued

The Division's long-term debt at December 31 consists of the following payable from revenues of the Division.

	2014	2013
Parity bonds, senior lien:		
2006 Revenue & Refunding Bonds, with interest rates ranging from 4.5% to 5.125%, due in yearly installments of \$470,000 to \$6,890,000 between 2016 and 2036. Original par value \$55,000,000 with a call date of December 1, 2016. Purpose was to fund a portion of the capital improvement plan, refund certain maturities of the 2001 Series A bonds, and pay the costs of issuance.	\$ 54,950,000	\$ 54,950,000
2011 Refunding Bonds, with interest rates ranging from 4.00% to 5.00%, due in yearly installments of \$2,765,000 to \$4,205,000 between 2022 and 2031. Original par value \$34,315,000 with a call date of December 1, 2021. Purpose was to refund the 2001 Series A bonds and pay the costs of issuance.	34,315,000	34,315,000
Total parity bonds, senior lien	89,265,000	89,265,000
Junior lien debt:		
State Revolving Fund loans A & B, with an interest rate of 1.5% and 2.6%, respectively, due in semi annual installments of \$3,450,000 to \$4,500,000 through 2028; this debt is junior lien and is secured by net operating revenue. The original amount issued totaled \$75,178,000 to reimburse a portion of costs related to the Central Treatment Plant Upgrade project.	55,225,478	58,802,532
State Revolving Fund loan 2011, with an interest rate of 2.9% in semi-annual installments of \$16,017 through 2030; this debt is junior lien and is secured by net operating revenue. The original amount issued totaled \$473,806 to reimburse a portion of costs related to surface water line retrofit projects.	407,213	426,933
Total junior lien debt	55,632,691	59,229,465
Total outstanding debt	144,897,691	148,494,465
Less:		
Current portion	(3,662,544)	(3,596,773)
Plus: Unamortized premium	3,918,227	4,237,552
Total long-term debt	\$ 145,153,374	\$ 149,135,244

**Wastewater & Surface Water Management
Notes to Financial Statements Continued**

Annual debt service requirement to maturity follows:

	Principal	Interest on Debt	Total Debt Service
2015	\$ 3,662,544	\$ 5,384,298	\$ 9,046,842
2016	6,349,610	5,317,231	11,666,841
2017	6,548,001	5,117,842	11,665,843
2018	6,757,742	4,910,601	11,668,343
2019	6,968,863	4,694,980	11,663,843
2020-2024	37,511,526	20,048,536	57,560,062
2025-2029	36,138,059	13,947,924	50,085,983
2030-3034	27,506,346	7,732,013	35,238,359
2035-2036	13,455,000	1,034,475	14,489,475
	<u>\$ 144,897,691</u>	<u>\$ 68,187,900</u>	<u>\$ 213,085,591</u>

The carrying amounts of the State Revolving Fund loans approximate the fair value since such loans are exclusive and have not market.

The Division's current underlying credit ratings are Aa2, AA+, and AA+ from Moody's, Standard and Poor's, and Fitch, respectively.

Defeased and outstanding bonds constitute a contingent liability of the Division only to the extent that cash and investments presently in the control of the refunding trustees are not sufficient to meet debt service requirements and therefore are excluded from the financial statements because the likelihood of additional funding requirements is considered remote. As of December 31, 2014, no bonds were defeased and outstanding.

The Division's revenue bonds are secured by net operating revenue and cash and equity in pooled investment balances in the bond construction, reserve, and debt service funds. The bonds are also subject to certain financial and non-financial covenants. Arbitrage calculations were prepared and no arbitrage was due in 2014 or 2013.

NOTE 5 CAPITAL LEASE

By Ordinance No. 27783 passed on January 20, 2009, the City approved a property agreement and project lease with TES Properties and issuance by TES Properties of \$37,840,000 aggregate principal amount of its Lease Revenue Bonds, 2009 (Bonds). TES Properties is a single purpose Washington nonprofit corporation and subordinate organization of NDC Housing and Economic Development Corporation. The Environmental Services Department determined the appropriate pro-rata share for the Environmental Services divisions to share in all revenue, costs and cash requirements based on usage of the Urban Waters building to be: Wastewater (43%), Surface Water (37%) and Solid Waste (20%).

Environmental service department changed the percentage split based on the floor space utilization of the Center for Urban Water building as Wastewater (40.4%), Surface Water (44.1%) and Solid Waste (15.5%) effective date December 31, 2014 which resulted in the change in the future capital lease obligation and associated capital asset of \$1.5 million.

Wastewater & Surface Water Management Notes to Financial Statements Continued

The three divisions have included their pro-rata share of the capital lease and lease obligation for the building in their respective financial statements. The building has a useful life of 50 years and the lease agreement is for 29 years which exactly matches the debt service schedule of the Bonds. The land on which the building was constructed has been transferred to TES Properties and reclassified on the divisions' statements of net position in other noncurrent assets. All assets revert to the City at the end of the lease.

The future payments of the lease obligation as of December 31, 2014 total \$62,642,038. The Division's portion of the future lease payments is presented in the following table:

Years	Capital Lease Payments
2015	2,205,307
2016	2,204,293
2017	2,206,490
2018	2,207,504
2019	2,205,476
2020-2024	11,024,530
2025-2029	11,031,058
2030-3034	11,028,042
2035-2038	8,764,897
	\$ 52,877,597
Less interest	23,889,870
Principal	\$ 28,987,727

The sub-lease agreements for the space in the Urban Waters building include agreements with two tenants: the University of Washington Tacoma (UWT) and the Puget Sound Partnership (PSP). Both are for ten year periods effective in 2010 with the possibility of five year extensions. The revenue are shared across the utilities on the same prorated basis as the building lease. The UWT agreement provides revenue of \$293,640 per year, adjusted annually for inflation, and the PSP agreement provides a total of \$1,615,000 in revenue spread over the ten year lease period.

NOTE 6 INSURANCE

The major risks to the Division are flooding, recontamination, wind damage, chemical spills, and earthquakes. Mitigating controls and emergency and business resumption plans are in place. To the extent damage or claims exceed insured values, rates may be impacted.

The City of Tacoma has established a Self-insurance Fund (the Fund) to insure the Division and other divisions within the City for certain losses arising from personal and property damage claims by third parties. The Division participates in the City's self-insurance program for claims that arise during the normal course of business. Environmental and tax claims generally are paid for out of revenue of the Division and not from the Fund. The Division is required to make payments to the Fund to cover claims incurred by the Division and administrative expenses of the Fund. The Division's premium payments totaled \$211,399 for 2014 and 2013. The Division only recognizes expense for premium payments because the risk of loss transfers to the Fund.

Wastewater & Surface Water Management Notes to Financial Statements Continued

The City maintains an excess general liability policy with limits of \$15 million, subject to a self-insured retention of \$3 million and a \$30 million dollar aggregate. The City has an excess policy to cover extraordinary workers' compensation claims with Statutory Limits and with a \$1 million self-insured retention plus a \$250,000 of total loss each 12 month policy period. The City carries property insurance coverage with a maximum single occurrence limit of \$500,000,000 with a \$150,000 deductible per occurrence, with exceptions. This policy renews July 1st of each year. The Division's cost for these policies \$253,165 in 2014 and \$240,859 in 2013.

NOTE 7 TACOMA EMPLOYEES' RETIREMENT SYSTEM (TERS OR THE SYSTEM)

Employees of the Division are covered by the Tacoma Employees' Retirement System (the System), an actuarially funded system operated by the City. The following information is provided on a city-wide basis.

This note emphasizes the employer disclosures and detailed information presented in an independent CAFR issued by the Retirement System. Further detailed information regarding these disclosures can be found in that report which may be obtained by writing to Tacoma Employees' Retirement System, 3628 South 35th Street, Tacoma, Washington 98409.

PLAN DESCRIPTION - The System is a cost-sharing multiple- employer, defined benefit retirement plan covering substantially all employees of the City of Tacoma, with the exception of police officers, firefighters, Tacoma Rail employees who are covered by state or federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as certain employees of the Pierce Transit and South Sound 911 who established membership in the System when these agencies were still City of Tacoma departments, are also members. It is administered in accordance with RCW Chapter 41.28 and Chapter 1.30 of the Tacoma Municipal Code. There are 2,166 retirees and beneficiaries currently receiving benefits, 459 vested terminated members entitled to future benefits and 2,884 active members of the Tacoma Employees' Retirement System, as of December 31, 2014.

BASIS OF ACCOUNTING - The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Benefit payments and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

METHOD USED TO VALUE INVESTMENTS - Equity securities, fixed income securities, real estate and short-term investments are all reported at fair market value. Fair market value was determined by our custodian bank utilizing standard industry practices. Private equity investments are reported by the managers subject to their fair value policies. No investment in any one corporation or organization exceeded five percent of net assets available for benefits.

INVESTMENTS AND CONTRACTS - The System has no securities of the employer and related parties included in the plan assets. The System has not made any loans to the employer in the form of notes, bonds, or other instruments.

BENEFITS - There are two formulas that are used for calculating retirement benefits. The benefit will be determined on the formula which provides the higher benefit. The most commonly applied formula, "service retirement", is a product of the member's average monthly salary for the highest consecutive 24-month period, the number of years of membership credit, and a percentage factor (2% maximum) that is determined based on the member's age and years of service. Several options are available for the retiree to provide for their beneficiaries. The System also provides death and disability retirement.

Wastewater & Surface Water Management Notes to Financial Statements Continued

CONTRIBUTIONS - Covered employees are required by Chapter 1.30 of the Tacoma City Code to contribute a percentage of their gross wages to the System, and the employer contributes an additional percentage.

The contribution rates are provided in the following table:

<u>Applicable Period</u>	<u>Employer Rate</u>	<u>Member Rate</u>	<u>Total Rate</u>
1/1/2001 to 02/01/2009	7.56%	6.44%	14.00%
2/2/2009 to 12/31/2009	8.64	7.36	16.00
1/1/2010 to 12/31/2010	9.72	8.28	18.00
1/1/2011 to 12/31/2011	10.26	8.74	19.00
1/1/2012 onward	10.80	9.20	20.00

FUNDING STATUS AND PROGRESS - Historical trend information about TERS is presented herewith as supplementary information. This information is based on the most recent actuarial valuation performed, dated January 1, 2014, and is intended to help assess TERS funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Schedule of Funding Progress (\$ in millions):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (c) = (b)-(a)</u>	<u>Funded Ratio (d) = (a) / (b)</u>	<u>Covered Payroll (e)</u>	<u>UAAL as of Percentage of Covered Payroll (f) = (c) / (e)</u>
1/1/2012	\$ 1,068.3	\$ 1,185.5	\$ 117.2	90.1%	\$ 219.4	53.4%
1/1/2013	1,187.1	1,306.6	119.5	90.9%	210.6	56.7%
1/1/2014	1,297.0	1,400.0	103.0	92.6%	213.8	48.2%

Both the City and employees made 100% of the required contributions. The City's required contributions for the years ended December 31st were:

2012	\$ 20,919,787
2013	21,188,984
2014	22,144,662

Wastewater & Surface Water Management Notes to Financial Statements Continued

ACTUARIAL METHODS AND SIGNIFICANT ACTUARIAL ASSUMPTIONS

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of the System's Projected Payroll
Amortization Period	30 years, Open, unless fixed rate amortizes less than 30 years
Asset Valuation Method	Assets are valued at market value, with a four year smoothing of all market value gains and losses.
Actuarial Assumptions:	
Investment Rate of Return	7.25%
Projected Salary Increases	4.00%
Includes Inflation at	3.00%
Postretirement Benefit Increases	2.125%

NOTE 8 OTHER POST EMPLOYMENT BENEFITS

PLAN DESCRIPTION - The City charges some early retirees not yet eligible for Medicare a health premium based on the claims experience of active employees and retirees rather than based on the claims experience of retirees only. This difference is a benefit to the retirees, since health claims costs generally increase with age. GAAP requires that the portion of age-adjusted expected retiree health claims costs that exceed the premium charged to retirees be recognized as a liability for accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and are subject to continual revision as results are compared to past expectation and new estimates are made about the future.

FUNDING POLICY - The City uses pay as you go funding; contributions to a separate trust are not required.

ANNUAL OPEB COST AND NET OPEB OBLIGATION - The Present Value of Benefits (PVB) is the present value of projected benefits discounted at the valuation interest rate (3.75%).

The Actuarial Accrued Liability (AAL) is the portion of the present value of benefits attributed to past service only. The portion attributed to future employee service is excluded.

For inactive employees, the AAL is equal to the present value of benefits. For active employees, the actuarial present value of the projected benefits of each individual is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age). The portion attributed to service between entry age and the valuation date is the actuarial accrued liability.

The Normal Cost is that portion of the City provided benefit attributable to employee service in the current year.

The Annual Required Contribution (ARC) is the amount the City is required to report as an expense for the year 2014 under GASB 45. The ARC is equal to the Normal Cost plus an amount to amortize the Unfunded Actuarial Accrued Liability (UAAL) on a closed basis of 30 years, beginning January 1, 2007. The remaining amortization period for 2014 is 23 years.

Wastewater & Surface Water Management Notes to Financial Statements Continued

The ARC represents an accounting expense, but the City is not required to contribute the ARC to a separate trust. If the City does not set aside funds equal to the ARC (less current year benefit payments) each year, then the ARC (less benefit payments) will accumulate as a non-current liability (Net OPEB Obligation) on the balance sheet. The City has a Net OPEB Obligation as of December 31, 2014 as the City has not set aside funds for OPEB.

EXCISE TAX FOR HIGH COST OR “CADILLAC” HEALTH PLANS IN 2018 AND BEYOND – An excise tax for high cost health coverage or “Cadillac” health plans was included in the Affordable Care Act (ACA) passed into law in March 2010. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. The 2018 annual thresholds for qualified retirees aged 55-64 are \$11,850 for single coverage and \$30,950 for a family plan. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted.

The City believes that the current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax is included in the valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

GASB Statement No. 45 indicates that the projection of benefits should include all benefits to be provided to retirees in accordance with the current “substantive” plan. The substantive plan refers to the plan terms as understood by the employer and plan members at the time of the valuation. For this reason, the City believes that the current provisions of the Patient Protection and Affordable Care Act (PPACA) should be reflected in the projection of benefits and therefore, the value of the excise tax is included in this valuation. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the tax.

SUMMARY OF CHANGES – As of January 1, 2011 (the date of the prior valuation), the AAL was \$248,571,791. The expected value as of January 1, 2013, based on the 2011 valuation, was \$260,708,000. The total AAL of \$251,839,846 was 3% lower than expected primarily due to lower than expected medical costs partially offset by the new excise tax for “Cadillac” health plans, demographic experience and assumptions, and economic assumptions.

The following table is a summary of valuation results with a comparison to the results from the last valuation.

	<u>January 1, 2011</u>	<u>January 1, 2013</u>
Total membership:		
Active employees	3,675	3,335
Terminated vested employees	363	394
Retired employees & Dependents	790	846
Total	<u>4,828</u>	<u>4,575</u>
Annual Benefit Payments	\$ 9,569,648	\$ 9,887,335
Discount rate	4.00%	3.75%
Present Value of Benefits	\$ 319,550,419	\$ 326,742,538
Actuarial Accrued Liability	\$ 248,571,791	\$ 251,839,846
Assets	\$ -	\$ -
Unfunded Actuarial Accrued Liability	<u>\$ 248,571,791</u>	<u>\$ 251,839,846</u>
Normal Cost	\$ 5,559,351	\$ 5,484,587
Annual Required Contribution	\$ 19,734,041	\$ 20,058,760

Wastewater & Surface Water Management Notes to Financial Statements Continued

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of December 31, 2013.

Value of Subsidy at 3.75% Interest Rate	Total Value of Benefits	Member Paid Premiums	City Paid Benefits
Present Value of Benefits	\$ 488,143,650	\$ 161,401,112	\$ 326,742,538
Actuarial Accrued Liability	\$ 331,339,973	\$ 79,500,127	\$ 251,839,846
Normal Cost	\$ 11,227,919	\$ 5,743,332	\$ 5,484,587
Annual Benefit Payments	\$ 13,500,240	\$ 3,612,905	\$ 9,887,335

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation for the City and for the Division as of December 31, 2014.

	City	Division
Determination of Annual Required Contribution:		
Normal Cost at Year-end	\$ 5,484,587	\$ 308,092
Amortization of UAAL	14,574,173	114,129
Annual Required Contribution	<u>\$ 20,058,760</u>	<u>\$ 422,221</u>
Determination of Net OPEB Obligation:		
Annual Required Contribution	\$ 20,058,760	\$ 422,221
Interest on prior year Net OPEB Obligation	2,104,155	73,786
Adjustments to ARC	(2,842,971)	(83,304)
Annual OPEB Cost	19,319,944	412,703
Actual benefits paid	9,292,539	148,742
Increase in Net OPEB Obligation	10,027,405	263,961
Net OPEB Obligation - beginning of year	56,110,801	1,967,642
Net OPEB Obligation - end of year	<u>\$ 66,138,206</u>	<u>\$ 2,231,603</u>

FUNDED STATUS AND FUNDING PROGRESS -

The following table shows the annual OPEB cost and net OPEB obligation for three years. This table is based upon a 4.00% interest rate for 2011 and 2013 and 3.75% for 2014.

Year Ended	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
	City	Division	City	Division	City	Division
12/31/2012	\$ 19,469,178	\$ 469,633	\$ 9,393,431	\$ 151,023	\$ 46,469,368	\$ 1,671,120
12/31/2013	\$ 19,528,767	\$ 417,168	\$ 9,887,334	\$ 120,646	\$ 56,110,801	\$ 1,967,642
12/31/2014	\$ 19,319,944	\$ 412,703	\$ 9,292,539	\$ 148,742	\$ 66,138,206	\$ 2,231,603

As of January 1, 2014, the most recent actuarial valuation date, the Plan was zero percent funded. Based upon a 3.75% interest rate, the actuarial accrued liability for benefits was \$251.8 million, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability of \$251.8 million.

Wastewater & Surface Water Management Notes to Financial Statements Continued

ACTUARIAL METHODS AND ASSUMPTIONS - The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit (until maximum retirement age).

The portion of the actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets, and (b) the actuarial present value of future normal costs is called the UAAL. In determining the ARC, the UAAL is amortized as a level percentage of expected payrolls for non-LEOFF 1 groups. For LEOFF 1, the UAAL is amortized as a level dollar amount. The amortization period was 30 years in 2007 and is now 23 years.

Actuarial Methods and Significant Actuarial Assumptions:

Valuation DateJanuary 1, 2013
 Census DateJanuary 1, 2013
 Actuarial Cost Method:Entry Age
 Amortization Method:Combination of level percentage and level dollar amount, see note above.
 Remaining Amortization Period:24 years, closed
 Demographic Assumptions:Demographic assumptions regarding retirement, disability, and turnover are based upon pension valuations for the various pension plans.

Actuarial Assumptions:

Discount Rate.....3.75% for pay-as-you-go funding
 Medical Cost Trend.....2013 8.9%
 2014 6.5%
 2015 5.8%
 2020 6.0%
 2030 5.9%
 2040 5.6%

The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.8% in 2083 and beyond. The first year trend reflects assumed increases based on ACA fees. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect increases in costs due to the excise tax.

Economic Assumptions – Discount
 Rate (Liabilities).....3.75%

Wastewater & Surface Water Management Notes to Financial Statements Continued

Demographic Assumptions.....Eligibility:

Disability – Five years of service are required for non-service connected disability.

Retirement – TERS members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits):

- Age 55 with 10 years of service
- 20 years of service

NOTE 9 ENVIRONMENTAL LIABILITIES

COMMENCEMENT BAY NATURAL RESOURCE DAMAGES - The City has resolved federal, state, and tribal natural resource damage claims associated with municipal storm water discharges in Commencement Bay through a Consent Decree that became effective on December 30, 1997. The stated value of the City’s settlement is approximately \$7,700,000. Under the Consent Decree (the NRDA Consent Decree), the City agreed to undertake five restoration projects within the Commencement Bay watershed and make certain cash payments. The construction has been completed on four projects and the City made a payment to the Port of Tacoma of \$134,692 to construct the fifth project.

The City closed out the Consent Decree in 2014. Ongoing monitoring and maintenance of the various projects will continue through 2014. Included in the financial statements for are liabilities of \$198,000 for 2014 and \$272,234 for 2013. Although the City resolved its NRDA liability, the City indemnified certain parties when it purchased real property along the Thea Foss Waterway in the late 1980’s and early 1990’s. The City expects that any financial obligation it may have related to these indemnities will be de minimus given the historical uses of the indemnified properties and the limited potential for releases from these properties to damage natural resources. The City’s understanding is a Thea Foss Waterway NRDA settlement between non-City parties and the Commencement Bay Natural Resource Trustees could be reached in 2015.

HYLEBOS WATERWAY CONSENT DECREE - In 2003 the City of Tacoma – General Government entered a Consent Decree settlement with EPA to resolve any liability it may have had for sediment contamination in the Hylebos Waterway. The majority of the City’s potential liability was attributed to municipal storm water discharges. Under the terms of its settlement, the City paid \$459,663 to “cash-out” its liability. This amount included a 50 percent premium, which obligated the City to pay a small percentage (i.e., 0.4397%) of any cost overruns if the remedial action work exceeded the project estimate of \$56,056,407 to complete such work. On January 11, 2012 the City was notified by the Hylebos Performing Party Group that the cost of the Hylebos Waterway remedial action project totaled \$110,991,511. This number has since been adjusted downward, setting the City’s share of cost overruns at \$224,683. The City also anticipates making an additional payment to the Hylebos Performing Party Group for around \$63,317, which would fully and finally resolve the City’s liability for any post-2013 costs overruns under its 2003 Hylebos Waterway Consent Decree settlement with EPA. The City recorded an expense and liability of \$306,346 as of December 31, 2014.

FOSS CONSENT DECREE – The City has an obligation under the Foss Consent Decree for continued monitoring until at least 2016. The results of this monitoring may result in additional cleanup efforts in the future. Obligations for future monitoring costs of \$500,000 in 2014 and \$600,000 in 2013 have been recognized in the financial statements as environmental liabilities.

Wastewater & Surface Water Management Notes to Financial Statements Continued

NOTE 10 COMMITMENTS AND CONTINGENCIES

LITIGATION AND CLAIMS - Because of the nature of its activities, the Division is subject to various pending and threatened legal actions which arise in the ordinary course of business. The Division believes, based on the information presently known, the ultimate liability for any legal actions, individually or in the aggregate, taking into account established accruals for estimated liabilities, will not be material to the financial position of the Division, but could be material to results of operations or cash flows for a particular annual period.

NOTE 11 SUBSEQUENT EVENTS

March 18, 2015 the Division issued 30 year 2015 Sewer Revenue and Refunding Bonds in the amount of \$109,300,000 for a true interest cost of approximately 3.54% in order to provide funds necessary to finance a portion of the capital improvement plan and to refund the outstanding 2006 Sewer Revenue and Refunding Bonds of \$39.4 million.

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Unaudited Supplemental Information

City of Tacoma, Washington Revenue and Refunding Bonds, Series 2006
TES Properties Lease Revenue Bonds, 2009
City of Tacoma, Washington Refunding Bonds, Series 2011

The following continuing disclosure information for 2014 is provided in accordance with SEC Rule 15c2-12(b)(5)

Wastewater and Surface Water Management Audited Financial Statements

Reference Financial Statements Section

Outstanding Sewer Bonds

Reference Note 4 in Notes to Financial Statements

Debt Service Coverage

	2013	2014
Parity Bond Debt Service Coverage Ratio	4.46	4.43
Parity Bond and Subordinate Lien Debt Service Coverage Ratio	2.67	2.65

Number of Customers by Type of Service

The System's number of customers by type of service is shown in the table below.

Year	Wastewater				Surface Water		
	Residential	Commercial/ Industrial	Contract ⁽¹⁾	Total	Residential	Commercial/ Industrial	Total
2013	57,030	3,728	13,618	74,376	59,381	11,078	70,459
2014	57,599	3,749	13,592	74,940	59,425	11,087	70,512

⁽¹⁾ Includes customers located in the city of Fife, the town of Ruston, the city of Fircrest and in certain areas of Pierce County served pursuant to interlocal agreements between the City and those jurisdictions.

Top Ten Customers

The System's ten largest customers for 2014 are shown in the following table.

Customer Name	Amount	Percent of 2014 Combined Gross Revenues ⁽¹⁾
Port of Tacoma	\$ 1,747,225	1.94%
Tacoma School District	1,414,415	1.57
City of Tacoma	1,066,534	1.18
Darling International Inc.	693,471	.77
Tacoma Metropolitan Park District	686,966	.76
Puyallup Tribe of Indians	569,023	.63
Pierce County Facilities Management	776,374	.86
BNSF Railway Company	452,754	.50
The Geo Group Inc.	412,538	.46
MultiCare Health Systems	411,442	.45
	\$ 8,230,742	9.12%

⁽¹⁾ Based on combined 2014 Gross Revenues for the wastewater and surface water utilities in the amount of \$90,232,247.

Revenues by Service

The Systems revenues for 2013 and 2014 are shown in the following table.

	2013	2014
Wastewater:		
Residential	\$ 37,259,592	\$ 39,575,060
Commercial and public authorities	19,466,323	20,231,739
Other revenues	826,395	1,063,296
Surface Water:		
Unmetered services	27,331,797	29,188,607
Other revenues	223,974	173,545
Total operating revenues	\$ 85,108,081	\$ 90,232,247

Wastewater and Surface Water Rates

Wastewater Rates

The 2015 and 2016 monthly rates for wastewater service inside the City, as adopted by the Council, are shown in the following table.

	2015 ⁽¹⁾	2016 ⁽¹⁾
Residential		
Monthly fixed charge	\$ 21.50	\$ 22.79
Flow charge ⁽²⁾	4.05	4.30
Commercial		
Monthly fixed charge	\$ 10.22	\$ 10.84
Flow charge ⁽³⁾	5.40-12.35	5.73-13.10

⁽¹⁾ Rates are effective January 1 of each year.

⁽²⁾ Per 100 cubic feet of water consumed.

⁽³⁾ The flow charges for commercial customers per 100 cubic feet of water consumption vary depending on the user group. The present rates contain eight different user groups as established pursuant to Tacoma Municipal Code Chapter 12.08.

Supplemental (Unaudited)

There is no fee for connection to the wastewater component of the System, except for the “in lieu of” assessment charge to properties that were not previously assessed for the cost of the transmission system under a local improvement district or a prior sanitary sewer improvement.

Surface Water Rates

Surface water rates are comprised of a fixed charge, plus an area charge per 500 square feet, depending on development type and whether the property is on the waterfront. The 2015 and 2016 monthly rates for surface water service, as adopted by the Council, are shown in the following table.

Category of Development	2015 ⁽¹⁾		2016 ⁽¹⁾	
	Monthly Fixed Charge	Rate per 500 Square Feet of Premises Area	Monthly Fixed Charge	Rate per 500 Square Feet of Premises Area
<i>Waterfront/Direct Discharge Parcels</i>				
Undeveloped-first acre or less	\$ 6.37	\$ 0.1253	\$ 6.73	\$ 0.1322
Undeveloped-area in excess of one acre	6.37	0.0563	6.73	0.0594
Light development	6.37	0.3755	6.73	0.3962
Moderate development	6.37	0.5228	6.73	0.5516
Heavy development	6.37	0.7508	6.73	0.7921
Very Heavy development	6.37	1.0009	6.73	1.0560
<i>All Other Parcels</i>				
Undeveloped area – one acre or less	\$ 6.37	\$ 0.2572	\$ 6.73	\$ 0.2714
Undeveloped area in excess of one acre	6.37	0.0563	6.73	0.0594
Light development	6.37	0.7714	6.73	0.8139
Moderate development	6.37	1.0507	6.73	1.1085
Heavy development	6.37	1.5426	6.73	1.6275
Very Heavy development	6.37	2.0568	6.73	2.1700

⁽¹⁾ Rates are effective January 1 of each year.

Single family residences are placed in the moderate classification of development. Rates for single family residential parcels in excess of 15,000 square feet are based on the moderate development rate for the first 15,000 square feet and at the undeveloped rate (one acre or less) for the remainder. All other customers are charged based on the customer’s level of development and measured area of the premises.

**City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Net Position**

	Wastewater December 31,		Surface Water December 31,	
	2014	2013	2014	2013
ASSETS				
Current Assets:				
Cash and cash equivalents (C&CE)	\$ 25,937,866	\$ 37,697,586	\$ 23,200,423	\$ 23,073,009
Accounts receivable (net)	8,225,917	7,826,453	3,920,304	3,522,093
Due from other funds	141,870	64,552	302,710	43,874
Due from other governments	-	-	1,205,554	1,086,120
Inventory	1,014,100	894,085	-	-
Prepayments	229,939	541,120	60,915	32,686
Current restricted assets:				
C&CE- debt service, deposits and replacements	6,380,728	6,448,596	3,675,183	3,489,429
C&CE- construction accounts	720,589	848,582	190,673	7,444,449
Customer deposits - detention ponds	-	-	-	104,678
Total restricted assets	<u>7,101,317</u>	<u>7,297,178</u>	<u>3,865,856</u>	<u>11,038,556</u>
Total current assets	<u>42,651,009</u>	<u>54,320,974</u>	<u>32,555,762</u>	<u>38,796,338</u>
Non-current assets:				
Other non-current assets	2,954,565	2,246,011	1,271,054	1,271,054
Capital assets:				
Land and easements	7,561,938	7,488,228	12,059,474	11,767,099
Property, plant, and equipment	523,192,092	505,926,018	191,341,767	169,679,856
Less: accumulated depreciation	(179,357,928)	(168,441,556)	(42,129,072)	(39,022,394)
Construction work in progress	19,464,273	15,697,075	3,859,024	5,736,907
Total capital assets net of depreciation	<u>370,860,375</u>	<u>360,669,765</u>	<u>165,131,193</u>	<u>148,161,468</u>
Total non-current assets	<u>373,814,940</u>	<u>362,915,776</u>	<u>166,402,247</u>	<u>149,432,522</u>
TOTAL ASSETS	<u>416,465,949</u>	<u>417,236,750</u>	<u>198,958,009</u>	<u>188,228,860</u>
DEFERRED OUTFLOW OF RESOURCES				
Unamortized loss on refunding	309,553	327,852	727,505	770,510
TOTAL DEFERRED OUTFLOW OF RESOURCES	<u>309,553</u>	<u>327,852</u>	<u>727,505</u>	<u>770,510</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 416,775,502</u>	<u>\$ 417,564,602</u>	<u>\$ 199,685,514</u>	<u>\$ 188,999,370</u>

Supplemental (Unaudited)

**City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Net Position**

	Wastewater December 31,		Surface Water December 31,	
	2014	2013	2014	2013
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 2,788,954	\$ 1,972,677	\$ 3,122,959	\$ 1,652,177
Due to other funds	893,336	718,333	890,089	601,694
Due to other governments	490,403	490,971	-	-
Interest payable	253,002	269,220	-	-
Accrued wages	944,106	847,966	448,383	398,849
Accrued benefits	219,731	225,063	74,288	73,172
Accrued taxes	497,444	458,516	233,442	231,244
Environmental liability - current	-	-	604,346	678,580
Notes & leases - current	3,958,374	3,900,628	365,383	298,145
Unearned revenue	134,398	129,087	61,221	58,802
Current payables from restricted assets:				
Debt interest payable	122,880	122,880	241,871	241,871
Deposits and other payables	-	-	-	104,678
Total current liabilities	<u>10,302,628</u>	<u>9,135,341</u>	<u>6,041,982</u>	<u>4,339,212</u>
Non-current liabilities:				
Revenue bonds payable (net)	30,741,356	30,816,817	62,441,871	62,685,735
Compensated absences	1,977,586	2,025,564	668,594	658,549
Environmental liability - non-current	-	-	400,000	500,000
Notes & leases - non-current	65,126,325	69,976,629	15,170,336	13,100,063
Net OPEB obligation	1,761,706	1,516,485	469,897	451,157
Total non-current liabilities	<u>99,606,973</u>	<u>104,335,495</u>	<u>79,150,698</u>	<u>77,395,504</u>
TOTAL LIABILITIES	<u>109,909,601</u>	<u>113,470,836</u>	<u>85,192,680</u>	<u>81,734,716</u>
DEFERRED INFLOW OF RESOURCES				
Rate stabilization	17,000,000	17,000,000	8,000,000	8,000,000
TOTAL DEFERRED INFLOW OF RESOURCES	<u>17,000,000</u>	<u>17,000,000</u>	<u>8,000,000</u>	<u>8,000,000</u>
NET POSITION				
Net investment in capital assets	272,064,463	257,152,125	129,669,417	122,097,794
Restricted for debt	6,257,846	6,325,716	3,433,312	3,247,558
Unrestricted	11,543,592	23,615,925	(26,609,895)	(26,080,698)
TOTAL NET POSITION	<u>289,865,901</u>	<u>287,093,766</u>	<u>106,492,834</u>	<u>99,264,654</u>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES RESOURCES, AND NET POSITION	<u>\$ 416,775,502</u>	<u>\$ 417,564,602</u>	<u>\$ 199,685,514</u>	<u>\$ 188,999,370</u>

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Revenues, Expenses, and Changes in Net Position

	Wastewater		Surface Water	
	Year Ended December 31,		Year Ended December 31,	
	2014	2013	2014	2013
OPERATING REVENUES				
Wastewater residential	\$ 39,575,060	\$ 37,259,592	\$ -	\$ -
Wastewater commercial and public authorities	20,231,739	19,466,323	-	-
Surface water	-	-	29,188,607	27,331,797
Other revenues	1,063,296	826,395	173,545	223,974
TOTAL OPERATING REVENUES	60,870,095	57,552,310	29,362,152	27,555,771
OPERATING EXPENSES				
Salary and wages	15,491,518	13,500,043	6,371,224	5,024,226
Personnel benefits	7,018,143	7,539,400	2,514,759	3,311,633
Supplies	3,373,929	3,043,620	990,714	875,911
Services	15,280,509	11,643,039	8,156,181	6,037,055
Intergovernmental taxes	792,107	3,410,617	422,154	406,527
Depreciation	10,941,728	10,558,559	3,305,928	3,422,255
TOTAL OPERATING EXPENSES	52,897,934	49,695,278	21,760,960	19,077,607
OPERATING INCOME	7,972,161	7,857,032	7,601,192	8,478,164
NON-OPERATING REVENUES (EXPENSES)				
Interest and other earnings	351,073	107,572	267,446	129,455
Interest and other related costs	(2,618,402)	(2,567,819)	(3,066,597)	(3,288,363)
Amortization of bond premium and loss on refunding	57,162	57,166	200,859	200,863
Other non revenues and (expenses)	230,423	246,535	186,991	138,262
Loss on disposition of property	(28,369)	(191,558)	(15,991)	(33,844)
NON OPERATING REVENUE NET OF EXPENSE	(2,008,113)	(2,348,104)	(2,427,292)	(2,853,627)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	5,964,048	5,508,928	5,173,900	5,624,537
Capital contributions - interfund	-	-	211,165	9,905,696
Capital contributions - federal/state/local	1,662,475	145,725	4,152,194	2,273,359
Capital contributions - private	92,628	-	115,940	106,657
Transfer in	-	-	750	395,595
Transfer (out) & gross earnings tax	(4,947,016)	(4,835,499)	(2,425,769)	(2,253,530)
Total contributions and transfers	(3,191,913)	(4,689,774)	2,054,280	10,427,777
CHANGES IN NET POSITION	2,772,135	819,154	7,228,180	16,052,314
NET POSITION				
NET POSITION - JANUARY 1	287,093,766	286,274,612	99,264,654	83,212,340
NET POSITION - DECEMBER 31	\$ 289,865,901	\$ 287,093,766	\$ 106,492,834	\$ 99,264,654

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Cash Flows

	Wastewater		Surface Water	
	Year Ended December 31,		Year Ended December 31,	
	2014	2013	2014	2013
CASH FLOW FROM OPERATING ACTIVITIES:				
Receipt from customer and users	\$ 60,325,553	\$ 57,387,001	\$ 28,963,939	\$ 27,340,954
Receipts from interfund services provided	(77,318)	(60,071)	(258,836)	(33,096)
Payment to suppliers	(12,273,071)	(13,909,615)	(3,517,170)	(2,062,242)
Payments to employees	(22,221,610)	(20,490,063)	(8,806,548)	(8,132,865)
Payments for interfund services used	(5,757,655)	(5,455,346)	(4,175,268)	(3,939,623)
Payments for taxes	(786,134)	(1,049,562)	(427,941)	(386,012)
Other operating or non-operating revenue	228,933	(1,831)	186,948	(330,094)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	19,438,698	16,420,513	11,965,124	12,457,022
CASH FLOWS FROM NONCAPAL FINANCING ACTIVITIES				
Transfer from (to) other funds	(4,840,929)	(4,816,419)	(2,373,794)	(2,236,934)
Grant received	-	-	10,978	580
Debt service related to environmental	-	-	(1,915,194)	(1,915,194)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(4,840,929)	(4,816,419)	(4,278,010)	(4,151,548)
CASH FLOW FROM CAPITAL FINANCING ACTIVITIES				
Transfer from (to) other fund	(73,130)	10,263	167,925	10,297,641
Acquisition and construction of capital assets	(21,160,705)	(26,838,039)	(20,297,396)	(24,131,325)
Proceeds from sale of capital assets	-	-	5,750	-
Principal paid on capital debt	(3,577,053)	(3,513,112)	(19,720)	(19,158)
Interest and Issuance costs paid on capital debt	(2,634,621)	(2,347,615)	(1,151,403)	(904,813)
Capital lease obligation	(1,215,505)	(310,675)	2,157,231	(267,325)
Contributions and donations	1,755,103	168,822	4,137,722	1,716,610
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	(26,905,911)	(32,830,356)	(14,999,891)	(13,308,370)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest and dividends received	348,442	491,320	262,396	346,720
Investment others	4,119	(383,757)	5,095	(217,264)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	352,561	107,563	267,491	129,456
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(11,955,581)	(21,118,699)	(7,045,286)	(4,873,440)
CASH & CASH EQUIVALENTS, JANUARY 1	44,994,764	66,113,463	34,111,565	38,985,005
CASH & CASH EQUIVALENTS, DECEMBER 31	\$ 33,039,183	\$ 44,994,764	\$ 27,066,279	\$ 34,111,565

Supplemental (Unaudited)

City of Tacoma, Washington
Environmental Services Department
Wastewater and Surface Water Management
Statements of Cash Flows

	Wastewater		Surface Water	
	Year Ended December 31,		Year Ended December 31,	
	2014	2013	2014	2013
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income	\$ 7,972,161	\$ 7,857,032	\$ 7,601,192	\$ 8,478,164
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	10,941,728	10,558,559	3,305,928	3,422,255
(Increase) decrease in accounts receivable	(544,542)	(165,307)	(398,212)	(214,818)
(Increase) decrease in due from other funds	(77,318)	(60,071)	(258,836)	(33,096)
(Increase) decrease in inventory	(120,015)	(37,640)	-	-
(Increase) decrease in prepayments	(252,292)	(432,421)	(28,229)	(27,910)
Increase (decrease) in deposits and other payables	-	-	(104,678)	(5,584)
Increase (decrease) in accounts payable	822,246	(1,948,160)	1,464,996	1,167,177
Increase (decrease) in accrued wages and benefits	90,808	128,424	50,650	87,564
Increase (decrease) in compensated absences	197,243	420,843	28,785	115,430
Increase (decrease) in due to other funds	174,435	114,429	288,395	132,787
Increase (decrease) in unearned revenue	5,311	5,918	2,419	2,914
Increase (decrease) in other current liabilities	-	(19,262)	(74,234)	(287,767)
Increase (decrease) in long term liabilities	-	-	(100,000)	(50,000)
Miscellaneous non-operating revenues	228,933	(1,831)	186,948	(330,094)
Total adjustments	11,466,537	8,563,481	4,363,932	3,978,858
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 19,438,698	\$ 16,420,513	\$ 11,965,124	\$ 12,457,022
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Donated fixed assets	\$ 1,588,765	\$ 145,725	\$ 1,725,602	\$ 9,469,829
Transfers - capital related	-	-	-	1,856,869
	\$ 1,588,765	\$ 145,725	\$ 1,725,602	\$ 11,326,698



The City of Tacoma does not discriminate on the basis of disability in any of its programs, activities, or services. To request this information in an alternative format or to request a reasonable accommodation, please contact the City Clerk's Office at (253) 591-5505. TTY or speech to speech users please dial 711 to connect to Washington Relay Services.