



*Wastewater and Surface Water
Management
2015 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, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditors' 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.

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

REPORT OF INDEPENDENT AUDITORS (continued)

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, 2015 and 2014, 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.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective January 1, 2015, the Division adopted requirements of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The beginning net position has been adjusted for this change. Our opinion is not modified with respect to this matter.

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 8 through 13, schedule of Division's proportionate share of net pension liability (asset), and schedule of Division's contributions on page 47 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 51 through 58 is not a required part of the financial statements, but is 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
April 25, 2016

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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, 2015 and 2014

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, 2015 and 2014. 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.

As further described in Note 2, the Division implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result, the 2015 beginning net position has been adjusted to conform to the new reporting and accounting requirements. The year 2014 has not been restated due to the unavailability of the historic information from the plan.

Financial Highlights

- Total net position is \$409.3 million at December 31, 2015 compared to \$396.4 million and \$386.4 million at year-end 2014 and 2013, respectively.
- The change in total net position is \$12.9 million in 2015, \$10.0 million in 2014 and \$16.9 million in 2013.
- Total assets and deferred outflows of resources are \$700.8 million, an increase of \$84.3 million in 2015 compared to \$616.5 million in 2014, an increase of \$9.9 million from \$606.6 in 2013.
- Liabilities and deferred inflows of resources are \$291.5 million, an increase of \$71.4 million in 2015 compared to \$220.1 million in 2014, a decrease of \$103,000 from \$220.2 million in 2013.

Financial Analysis – Condensed Statements of Net Position

| | December 31, | | |
|--|-----------------------|-----------------------|-----------------------|
| | 2015 | 2014 | 2013 |
| Current and restricted assets | \$ 133,065,175 | \$ 75,206,771 | \$ 93,117,312 |
| Noncurrent assets | 5,206,451 | 4,225,619 | 3,517,065 |
| Capital assets | 556,525,347 | 535,991,568 | 508,831,233 |
| Deferred outflows of resources | 5,989,822 | 1,037,058 | 1,098,362 |
| Total assets and deferred outflows of resources | <u>\$ 700,786,795</u> | <u>\$ 616,461,016</u> | <u>\$ 606,563,972</u> |
| Current liabilities and liabilities payable from restricted assets | \$ 17,006,452 | \$ 16,344,610 | \$ 13,474,553 |
| Noncurrent liabilities | 248,294,752 | 178,757,671 | 181,730,999 |
| Deferred inflows of resources | 26,181,543 | 25,000,000 | 25,000,000 |
| Total liabilities and deferred inflows of resources | <u>291,482,747</u> | <u>220,102,281</u> | <u>\$ 220,205,552</u> |
| Net investment in capital assets | 392,427,935 | 401,733,880 | 379,249,919 |
| Restricted for: | | | |
| Debt service | 14,594,770 | 9,691,158 | 9,573,274 |
| Net pension asset | 1,119,219 | - | - |
| Unrestricted | 1,162,124 | (15,066,303) | (2,464,773) |
| Total net position | <u>409,304,048</u> | <u>396,358,735</u> | <u>386,358,420</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 700,786,795</u> | <u>\$ 616,461,016</u> | <u>\$ 606,563,972</u> |

Current and restricted assets

Current and restricted assets increased \$57.9 million in 2015, as compared to a decrease of \$17.9 million in 2014. The primary reason for the 2015 increase was a \$57.0 million increase in cash due to cash proceeds of \$75.2 million from 2015 Sewer Revenue and Refunding bonds issued in March. Capital spending on projects reached \$36.6 million of which \$30.1 million was funded from the 2015 Sewer Revenue Bonds and \$6.5 million from cash generated from operating activities. Due from other governments increased \$625,000 primarily due to the \$1.2 million receivable recorded for the second reimbursement submitted to Metro Parks Tacoma for the Schuster Parkway Promenade project.

In 2014, cash decreased \$19.0 million 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.

Noncurrent assets

Noncurrent assets include prepaid rental, conservation loans, capital deferred debits, and net pension assets. As a result of implementation of GASB 68 in 2015, the Division is reporting \$1.1 million for net pension asset. Please refer to Note 2 for the additional details.

Deferred outflows of resources

Deferred outflows of resources include unamortized loss on refunding and deferred outflow of resources related to pensions. Unamortized loss on refunding increased by \$2.3 million after reporting all transactions associated with the issuance of the 2015 Sewer Revenue and Refunding Bonds. To comply with GASB 68, a deferred outflow of resources related to pensions was calculated and reported at \$2.7 million in 2015.

Current liabilities and liabilities payable from restricted assets

Total current liabilities including payables from restricted assets increased \$662,000 in 2015 compared to a \$2.9 million increase in 2014. The primary reason for the 2015 increase was a \$3.5 million increase in bond principal payable on the 2006 and 2015 Sewer Revenue and Refunding bonds. This increase was offset in part by a \$1.9 million decrease in accounts payable and a \$949,000 decrease in accrued wages and benefits payable.

Noncurrent liabilities

Noncurrent liabilities increased by \$69.5 million from 2014. In 2015, the City issued \$109.3 million in new sewer revenue and refunding bonds to finance a portion of the cost of the capital improvement program. Additionally, a portion of the proceeds amounting to \$39.3 million was used to advance refund and defease a portion of the 2006 Bonds leaving \$15.6 million in aggregate principal amount outstanding.

Deferred inflows of resources

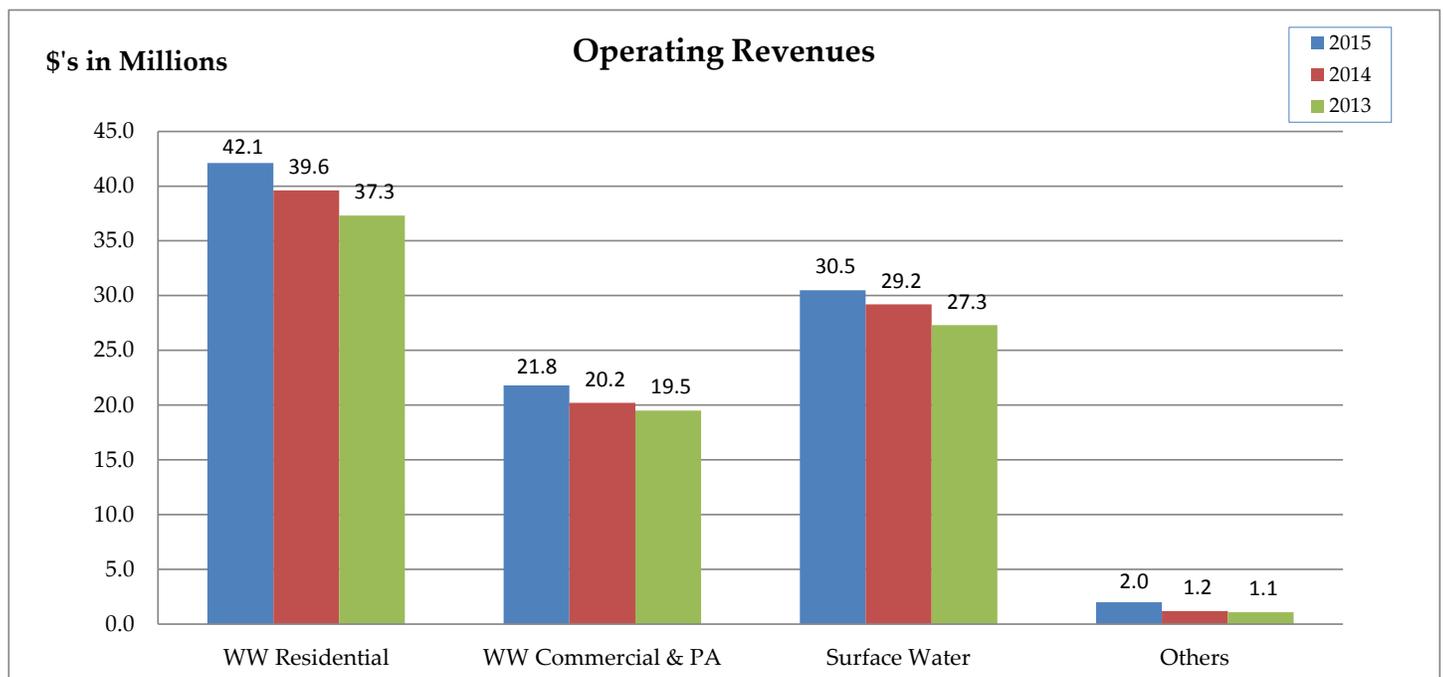
Deferred inflows of resources include rate stabilization and deferred inflows related to pensions. There is no change in rate stabilization which is \$25.0 million in 2015 and 2014. Due to the implementation of GASB 68, the Division reported \$1.2 million of deferred inflow of resources related to pensions.

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

| | Year-to-Date December 31, | | |
|--|---------------------------|----------------|----------------|
| | 2015 | 2014 | 2013 |
| Operating revenues | \$ 96,399,523 | \$ 90,232,247 | \$ 85,108,081 |
| Operating expenses | 76,456,455 | 74,658,894 | 68,772,885 |
| Net operating income | 19,943,068 | 15,573,353 | 16,335,196 |
| Nonoperating revenues (expenses) | (6,474,992) | (4,435,405) | (5,201,731) |
| Income before contributions and transfers | 13,468,076 | 11,137,948 | 11,133,465 |
| Contributions | 5,642,860 | 6,234,402 | 12,431,437 |
| Transfers & gross earnings tax | (7,541,902) | (7,372,035) | (6,693,434) |
| Change in net position | 11,569,034 | 10,000,315 | 16,871,468 |
| Net position - beginning of year | 396,358,735 | 386,358,420 | 369,486,952 |
| Accumulated adjustment for change in accounting principle | 1,376,279 | - | - |
| Net position - beginning of year, adjusted | 397,735,014 | 386,358,420 | 369,486,952 |
| Net position - ending | \$ 409,304,048 | \$ 396,358,735 | \$ 386,358,420 |

Operating revenues

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

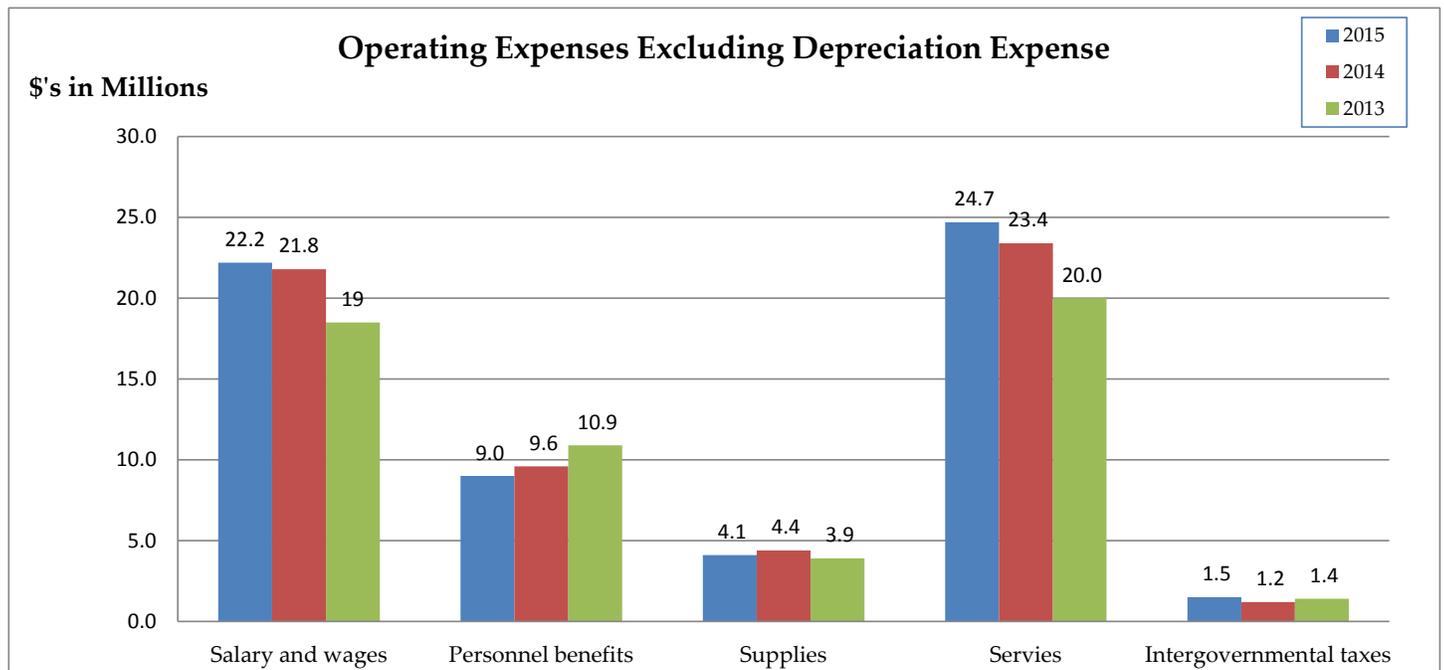


Operating revenues were \$96.4 million in 2015 compared to \$90.2 million in 2014, and \$85.1 million in 2013. The approved average rate increase for Wastewater was 6% for 2015 and 4.8% for each of the years 2014 and 2013, and for Surface Water was 5.5% for 2015 and 6% for 2014 and 2013. The 2015 and 2014 rate increase went into effect January 1st while the 2013 rate increase went into effect March 1st.

Wastewater residential revenues increased \$2.5 million (6%) in 2015 compared to \$2.3 million (6%) in 2014, and Wastewater commercial and public authority (PA) revenues increased \$1.6 million (8%) in 2015 compared to \$765,000 (4%) in 2014. Surface Water increased \$1.3 million (5%) in 2015 compared to \$1.9 million (7%) in 2014. Other revenues increased \$722,000 (58%) in 2015 due to revenues from septic tank disposals and taking leachates from Yelm, Thurston County, and Darigold.

Operating expenses

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



2015 Activity

Operating expenses were \$76.5 million in 2015 and \$74.7 million in 2014, an increase of \$1.8 million.

- Salary and wages increased \$362,000 while personnel benefits decreased by \$545,000. The number of full-time employees reflected the same number of 223 for Wastewater compared to last year. Surface Water decreased one employee, 98 from 99 in 2014. Personnel benefits decreased mainly due to the GASB 68 adjustment reported for \$1.2 million. This decrease was offset in part by increases in benefit accounts associated with medical and pension.
- Services increased \$1.2 million. The significant changes include \$466,000 for the expensed capital project of Energy Management System in November. Additional rental costs for the Center for Urban Water building increased \$268,000 after a new maintenance agreement finalized. The payment to Pierce Co. for the wastewater treatment charges increased \$241,000. Bad debt expenses increased \$216,000, which is adjusted based upon the actual aged accounts.
- Intergovernmental taxes increased \$285,000 due to the State Business and Occupation, and Utility tax adjustment that occurred in 2014 according to the audit results by the Department of Revenue.

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 ongoing maintenance. External maintenance services increased \$454,000, which included coating, testing,

inspection, disposal, asphalt patching, and cleaning. Assessments from other departments increased \$741,000. Spending on expense projects of the Hilltop Diversitree and Sprague Enhancement totaled \$451,000.

- Intergovernmental taxes included the State Business and Occupation taxes and Utility taxes. There was no significant change in these activities.

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 \$6.5 million were reported in 2015 and \$4.4 million for 2014. Significant changes include a \$2.8 million increase in interest and other related costs primarily due to debt issuance costs and increased interest expenses for the new debt.

Capital contributions

The Division reported \$5.6 million of capital related grants in 2015 compared to \$6.0 million in 2014 from the State of Washington Ecology Department. The grants received in 2015 were primarily for the Pt. Defiance Regional Treatment Project and Asotin Court Levy Improvement District (LID) Retrofit project while the 2014 grants were for the Hood Street Treatment Retrofit and "A" Street Storm-water Retrofit projects. The Pierce County Flood Control Zone District took a part of costs incurred for the Central Treatment Plant's Flood Protection Improvement project per an inter-local agreement and \$2 million was recorded as a capital contribution.

The Division recorded \$1.8 million in capital contributions related to donated sewer lines in 2015, which is a decrease from \$3.5 million in 2014.

Capital Assets

Capital assets increased \$20.5 million compared to \$27.2 million in 2014. (See Note 3.)

2015 Activity

Capital assets increased \$20.5 million over the prior year. Buildings increased \$10.3 million for the Central Treatment Plant Solids Dewatering Facility Upgrade project and Point Defiance Regional Treatment Facility project. Transmission lines and other improvements increased \$22.0 million: 8,177 feet of donated lines were recorded for \$1.8 million, 11,473 feet of old lines were retired at the historical cost of \$44,000, and 10,019 feet of new replacement lines and extended sewer lines were recorded for \$10.8 million. Other improvements reported \$9.3 million for the Central Treatment Plant's Flood Protection Improvement project. Accumulated depreciation increased \$14.6 million and construction in progress increased \$1.2 million.

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.

Debt Administration

At December 31, 2015, the Division had \$222.9 million outstanding in long-term debt: \$52.0 million of this is junior lien debt consisting of SRF loans and \$159.2 million is senior parity bonds debt. This compares to \$148.8 million in 2014 and \$152.7 million in 2013. 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 bonds coverage ratio is calculated by dividing net revenue by debt service as defined by bonds covenants. The SRF loans are junior lien debt and excluded from the debt service in the bonds coverage ratio calculation. However, 100% of the capital lease obligation on the Urban Waters building was included as parity debt although 15.5% of total debts were allocated to the Solid Waste Division.

The bonds coverage ratio is 4.18 at the end of 2015 from a ratio of 4.41 at the end of 2014 and 4.46 at the end of 2013. A bonds coverage ratio of 1.3 is required by bonds 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 Accounting 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, | |
|---|----------------|----------------|
| | 2015 | 2014 |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents (C&CE) | \$ 59,970,143 | \$ 49,138,289 |
| Accounts receivable (net) | 12,445,650 | 12,146,221 |
| Due from other funds | 401,047 | 444,580 |
| Due from other governments | 1,830,582 | 1,205,554 |
| Inventory | 1,012,955 | 1,014,100 |
| Prepayments | 226,460 | 290,854 |
| Current restricted assets: | | |
| C&CE - debt service, deposits and replacements | 15,497,951 | 10,055,911 |
| C&CE - construction accounts | 41,680,387 | 911,262 |
| Total restricted assets | 57,178,338 | 10,967,173 |
| Total current assets | 133,065,175 | 75,206,771 |
| Non-current assets: | | |
| Net pension asset | 1,119,219 | - |
| Other non-current assets | 4,087,232 | 4,225,619 |
| Total non-current assets | 5,206,451 | 4,225,619 |
| Capital assets: | | |
| Land and easements | 19,628,654 | 19,621,412 |
| Property, plant, and equipment | 748,486,505 | 714,533,859 |
| Less: accumulated depreciation | (236,073,097) | (221,487,000) |
| Construction work in progress | 24,483,285 | 23,323,297 |
| Total capital assets, net of depreciation | 556,525,347 | 535,991,568 |
| Total non-current assets | 561,731,798 | 540,217,187 |
| TOTAL ASSETS | 694,796,973 | 615,423,958 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Unamortized loss on refunding | 3,332,605 | 1,037,058 |
| Deferred outflow - pensions | 2,657,217 | - |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 5,989,822 | 1,037,058 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 700,786,795 | \$ 616,461,016 |

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, | |
|---|-----------------------|-----------------------|
| | 2015 | 2014 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 4,030,803 | \$ 5,911,913 |
| Due to other funds | 1,310,794 | 1,783,425 |
| Due to other governments | 528,849 | 490,403 |
| State Revolving Loan interest payable | 236,465 | 253,002 |
| Accrued wages and benefits payable | 737,650 | 1,686,508 |
| Accrued taxes | 653,731 | 730,886 |
| Environmental liability - current | 648,000 | 604,346 |
| Notes & leases - current | 4,414,062 | 4,323,757 |
| Revenue bonds - current | 3,542,917 | - |
| Unearned revenue | - | 195,619 |
| Current payable from restricted assets: | | |
| Debt principal payable | 322,083 | - |
| Debt interest payable | 581,098 | 364,751 |
| Total current liabilities | 17,006,452 | 16,344,610 |
| Non-current liabilities: | | |
| Revenue bonds payable (net) | 167,051,061 | 93,183,227 |
| Compensated absences | 2,691,710 | 2,646,180 |
| Environmental liability - non-current | 150,000 | 400,000 |
| Notes & leases - non-current | 75,882,600 | 80,296,661 |
| Net OPEB obligation | 2,519,381 | 2,231,603 |
| Total non-current liabilities | 248,294,752 | 178,757,671 |
| TOTAL LIABILITIES | 265,301,204 | 195,102,281 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Rate stabilization | 25,000,000 | 25,000,000 |
| Deferred inflow - pensions | 1,181,543 | - |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 26,181,543 | 25,000,000 |
| NET POSITION | | |
| Net investment in capital assets | 392,427,935 | 401,733,879 |
| Restricted for: | | |
| Debt service | 14,594,770 | 9,691,160 |
| Net pension asset | 1,119,219 | - |
| Unrestricted | 1,162,124 | (15,066,304) |
| TOTAL NET POSITION | 409,304,048 | 396,358,735 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES | | |
| RESOURCES, AND NET POSITION | \$ 700,786,795 | \$ 616,461,016 |

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, | |
|---|-------------------------|-----------------------|
| | 2015 | 2014 |
| OPERATING REVENUES | | |
| Wastewater residential | \$ 42,086,028 | \$ 39,575,060 |
| Wastewater commercial and public authorities | 21,850,624 | 20,231,739 |
| Surface water | 30,504,327 | 29,188,607 |
| Other revenues | 1,958,544 | 1,236,841 |
| Total operating revenues | <u>96,399,523</u> | <u>90,232,247</u> |
| OPERATING EXPENSES | | |
| Salary and wages | 22,225,184 | 21,862,742 |
| Personnel benefits | 8,988,049 | 9,532,902 |
| Supplies | 4,100,443 | 4,364,643 |
| Services | 24,686,417 | 23,436,690 |
| Intergovernmental taxes | 1,498,801 | 1,214,261 |
| Depreciation | 14,957,561 | 14,247,656 |
| Total operating expenses | <u>76,456,455</u> | <u>74,658,894</u> |
| Net operating income | <u>19,943,068</u> | <u>15,573,353</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest and other earnings | 631,313 | 618,519 |
| Interest and other related costs | (8,526,797) | (5,684,999) |
| Amortization of bond premium and loss on refunding | 671,737 | 258,021 |
| Operating contributions - federal/state/local | 267,610 | - |
| Other non revenues | 511,307 | 417,414 |
| Loss on disposition of property | (30,162) | (44,360) |
| Total nonoperating revenues (expenses) | <u>(6,474,992)</u> | <u>(4,435,405)</u> |
| Net income before contributions and transfers | <u>13,468,076</u> | <u>11,137,948</u> |
| Capital contributions - interfund | - | 211,165 |
| Capital contributions | 5,642,860 | 6,023,237 |
| Transfer in | 282,399 | 750 |
| Transfer out & gross earnings tax | (7,824,301) | (7,372,785) |
| Total contributions and transfers | <u>(1,899,042)</u> | <u>(1,137,633)</u> |
| CHANGES IN NET POSITION | 11,569,034 | 10,000,315 |
| NET POSITION, BEGINNING OF YEAR | 396,358,735 | - |
| Accumulated adjustment for change in accounting principle | 1,376,279 | - |
| NET POSITION - BEGINNING OF YEAR, ADJUSTED | 397,735,014 | 386,358,420 |
| NET POSITION - ENDING | <u>\$ 409,304,048</u> | <u>\$ 396,358,735</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, | |
|--|-------------------------|----------------------|
| | 2015 | 2014 |
| CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Receipt from customer and users | \$ 96,144,570 | \$ 89,289,492 |
| Receipt from interfund services provided | 43,533 | (336,154) |
| Payment to suppliers | (22,922,509) | (15,790,241) |
| Payments to employees | (31,828,783) | (31,028,158) |
| Payments for interfund services used | (10,864,017) | (9,932,923) |
| Payments for taxes | (1,515,351) | (1,214,075) |
| Other operating or non-operating revenue | 511,307 | 415,881 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | 29,568,750 | 31,403,822 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: | | |
| Transfer from (to) other funds | (7,991,246) | (7,214,723) |
| Grant received | 317,610 | 10,978 |
| Debt service related to environmental clean-up | (1,616,044) | (1,915,194) |
| NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES | (9,289,680) | (9,118,939) |
| CASH FLOW FROM CAPITAL FINANCING ACTIVITIES: | | |
| Transfer from (to) other fund | 388,740 | 94,795 |
| Acquisition and construction of capital assets | (35,521,502) | (41,458,101) |
| Proceeds from sale of capital assets | - | 5,750 |
| Principal paid on capital debt | (41,807,544) | (3,596,773) |
| Interest and issuance costs paid on capital debt | (6,710,943) | (3,786,024) |
| Proceeds from the issuance of revenue and refunding bonds | 114,254,023 | - |
| Capital lease obligation | (661,212) | 941,726 |
| Contributions and donations | 6,191,073 | 5,892,825 |
| NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES | 36,132,635 | (41,905,802) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment income | 631,314 | 620,052 |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | 631,314 | 620,052 |
| NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS | 57,043,019 | (19,000,867) |
| CASH & CASHEQUIVALENTS, JANUARY 1 | 60,105,462 | 79,106,329 |
| CASH & CASH EQUIVALENTS, DECEMBER 31 | \$ 117,148,481 | \$ 60,105,462 |

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, | |
|---|-------------------------|---------------|
| | 2015 | 2014 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | |
| Net operating income | \$ 19,943,068 | \$ 15,573,353 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation expense | 14,957,561 | 14,247,656 |
| (Increase) decrease in accounts receivable | (254,955) | (942,754) |
| (Increase) decrease in intergovernmental receivable | (1,223,240) | |
| (Increase) decrease in due from other funds | 43,533 | (336,154) |
| (Increase) decrease in inventory | 1,145 | (120,015) |
| (Increase) decrease in prepayments | 158,306 | (280,521) |
| (Increase) decrease in other assets | (3,776,436) | - |
| Increase (decrease) in deposit and other payables | - | (104,678) |
| Increase (decrease) in accounts payable | (1,897,660) | 2,287,242 |
| Increase (decrease) in accrued wages and benefits | (948,858) | 141,458 |
| Increase (decrease) in compensated absences | 333,308 | 226,028 |
| Increase (decrease) in due to other funds | (434,186) | 462,830 |
| Increase (decrease) in unearned revenue | (195,619) | 7,730 |
| (Increase) decrease in other current liabilities | 43,654 | (74,234) |
| (Increase) decrease in long term liabilities | 2,307,822 | (100,000) |
| Miscellaneous non-operating revenues | 511,307 | 415,881 |
| Total adjustments | 9,625,682 | 15,830,469 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ 29,568,750 | \$ 31,403,822 |
| NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES | | |
| Donated capital assets | \$ 1,800,071 | \$ 3,314,367 |

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 and Surface Water Management
Notes to Financial Statements
Years Ended December 31, 2015 and 2014

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.

CHANGE IN ACCOUNTING PRINCIPLE – Effective for fiscal year 2015 reporting, the Division implemented new accounting standards issued by the Governmental Accounting Standards Board (GASB). GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68. The primary objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pension, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Prior to implementing GASB Statement No. 68, employers participating in a cost-sharing plan recognized annual pension expense essentially equal to their contractually required contribution to the plan. Upon adoption of GASB Statement No. 68, employers participating in cost-sharing plans recognize their proportionate share of the collective pension amounts for all benefits provided through the plan based on an allocation methodology. GASB Statement No. 71 amends GASB Statement No. 68 regarding the deferred outflows of resources for governments whose current year pension contributions are reported subsequent to the measurement date. The collective financial impact resulting from the implementation of GASB Statements No. 68 and 71 is the adjustment of 2015 beginning net position balances by \$1,376,279 for the Division's portion of the net pension liability incurred in prior years. See Note 7 for further details.

Wastewater and Surface Water Management Notes to Financial Statements

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).

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, 2015 and 2014 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 accounts receivable.

Wastewater and Surface Water Management Notes to Financial Statements

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.

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.

RESTRICTED CASH AND EQUITY IN POOLED INVESTMENTS - In accordance with bonds 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 bonds construction, reserve and debt service funds, and customer deposits.

BONDS PREMIUM AND LOSS ON REFUNDING - Bond premiums are amortized over the life of the bonds using the weighted average of the bonds outstanding. Losses on bond refunding 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.

Wastewater and Surface Water Management Notes to Financial Statements

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.

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 bonds requirements.

Wastewater and Surface Water Management Notes to Financial Statements

The City has a parity bonds 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 bonds 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.

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 as a 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.

Net position components are reported as restricted when constraints placed on net position use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of all net position that does not meet the definition of "restricted" or "net investment in capital assets."

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.

Wastewater and Surface Water Management

Notes to Financial Statements

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.

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, environmental liabilities, depreciation, Other Post Employment Benefits (OPEB), self-insurance liabilities, net pension asset 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.

Wastewater and Surface Water Management Notes to Financial Statements

NOTE 3 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2015 and 2014 follows:

| | 2014 | Additions | Retirements | Transfers | 2015 |
|---|-----------------------|----------------------|--------------------|---------------------|-----------------------|
| Nondepreciable: | | | | | |
| Land and easements | \$ 19,621,412 | \$ 7,242 | \$ - | \$ - | \$ 19,628,654 |
| Buildings | 151,712,963 | - | - | 10,282,769 | 161,995,732 |
| Buildings - capital lease | 31,813,726 | - | - | - | 31,813,726 |
| Machinery and equipment | 161,789,075 | - | (345,525) | 1,943,355 | 163,386,905 |
| Transmission lines and other improvements | 361,338,725 | 1,792,829 | (43,979) | 20,213,493 | 383,301,068 |
| Computer software | 7,879,370 | - | - | 109,704 | 7,989,074 |
| Assets in service | 734,155,271 | 1,800,071 | (389,504) | 32,549,321 | 768,115,159 |
| Accumulated depreciation | (221,487,000) | (14,957,561) | 371,464 | - | (236,073,097) |
| Assets in service, net | 512,668,271 | (13,157,490) | (18,040) | 32,549,321 | 532,042,062 |
| Construction work in progress | 23,323,297 | 34,630,899 | - | (33,470,911) | 24,483,285 |
| Total capital assets | <u>\$ 535,991,568</u> | <u>\$ 21,473,409</u> | <u>\$ (18,040)</u> | <u>\$ (921,590)</u> | <u>\$ 556,525,347</u> |

| | 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> |

**Wastewater and Surface Water Management
Notes to Financial Statements**

NOTE 4 LONG-TERM DEBT

Long-term debt activity for the years ended December 31, 2015 and 2014 follows:

| | 2014 | Additions | Reductions | 2015 | Due within One Year |
|----------------------------|-----------------------|-----------------------|------------------------|-----------------------|------------------------|
| Revenue bonds | \$ 89,265,000 | \$ 109,300,000 | \$ (39,390,000) | \$ 159,175,000 | \$ 3,865,000 |
| Plus: Unamortized premium | 3,918,227 | 9,177,376 | (1,354,542) | 11,741,061 | - |
| State Revolving Fund loans | 55,632,691 | 3,662,543 | - | 51,970,148 | 3,729,611 |
| Long-term debt | <u>\$ 148,815,918</u> | <u>\$ 122,139,919</u> | <u>\$ (40,744,542)</u> | <u>\$ 222,886,209</u> | <u>\$ 7,594,611</u> |
| Capital lease | 28,987,727 | 661,213 | - | 28,326,514 | 684,451 |
| Total long-term debt | <u>\$ 177,803,645</u> | <u>\$ 122,801,132</u> | <u>\$ (40,744,542)</u> | <u>\$ 251,212,723</u> | <u>\$ 8,279,062</u> |
| | 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> |

Wastewater and Surface Water Management Notes to Financial Statements

The Division's long-term debt at December 31, 2015 and 2014 consists of the following payable from revenues of the Division.

| | 2015 | 2014 |
|--|---------------|---------------|
| Parity bonds, senior lien: | | |
| 2006 Revenue and Refunding Bonds, with interest rates ranging from 3% to 5%, due in yearly installments of \$2,345,000 to \$2,840,000 between 2016 and 2021. 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. Original par value \$55,000,000 with a call date of December 1, 2016. Portions of the bonds with a par value of \$39,390,000 were called for redemption in advance of their scheduled maturities and retired with the proceeds of the 2015 Revenue and Refunding Bonds. | \$ 15,560,000 | \$ 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 |
| 2015 Revenue and Refunding Bonds, with interest rates ranging from 3% to 5%, due in yearly installments of \$1,245,000 to \$9,485,000 between 2016 and 2045. Original par value \$109,300,000 with a call date of June 1, 2025. Purpose was to finance a portion of the costs of the City's capital improvement program, (b) to refund a portion of the City's outstanding 2006 Revenue and Refunding Bonds, (c) to make a deposit to the debt service reserve fund, and (d) to pay costs of issuance of the Bonds. | 109,300,000 | - |
| Total parity bonds, senior lien | 159,175,000 | 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. | 51,583,235 | 55,225,478 |
| 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. | 386,913 | 407,213 |
| Total junior lien debt | 51,970,148 | 55,632,691 |
| Total outstanding debt | 211,145,148 | 144,897,691 |
| Less: | | |
| Current portion | (7,594,611) | (3,662,544) |
| Plus: Unamortized premium | 11,741,061 | 3,918,227 |
| Total long-term debt | \$215,291,598 | \$145,153,374 |

Wastewater and Surface Water Management Notes to Financial Statements

Annual debt service requirements to maturity are as follows:

| | Principal | Interest on Debt | Total Debt Service |
|-----------|-----------------------|-----------------------|-----------------------|
| 2016 | \$ 7,594,611 | \$ 7,913,390 | \$ 15,508,001 |
| 2017 | 7,833,001 | 7,676,650 | 15,509,651 |
| 2018 | 8,092,742 | 7,422,059 | 15,514,801 |
| 2019 | 8,368,863 | 7,139,688 | 15,508,551 |
| 2020 | 8,636,393 | 6,875,741 | 15,512,134 |
| 2021-2025 | 46,666,398 | 29,858,145 | 76,524,543 |
| 2026-2030 | 42,523,140 | 22,143,156 | 64,666,296 |
| 2030-2035 | 41,550,000 | 13,381,331 | 54,931,331 |
| 2035-2040 | 21,680,000 | 5,750,256 | 27,430,256 |
| 2041-2045 | 18,200,000 | 2,241,000 | 20,441,000 |
| | <u>\$ 211,145,148</u> | <u>\$ 110,401,416</u> | <u>\$ 321,546,564</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.

ADVANCED REFUNDING – During 2015 the Division issued \$109,300,000 in revenue and refunding bonds with interest rates ranging from 3.0% to 5.0%. A portion of the proceeds were used to advance refund \$39,390,000 of outstanding 2006 Sewer Revenue and Refunding bonds which had interest rates ranging from 4.5% to 5%. A portion of net proceeds in the amount of \$42,950,043 was deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, a portion of 2006 Sewer Revenue and Refunding bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$2,776,067. This amount is presented as a deferred outflow of resources and amortized over the remaining life of the refunding debt. The Division advance refunded a portion of the 2006 Sewer Revenue and Refunding bonds to reduce its total debt service payments over 20 years by \$5,910,280 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$4,428,064.

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, 2015, 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 bonds 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 2015 or 2014.

Wastewater and Surface Water Management Notes to Financial Statements

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. 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, 2015 total \$62,642,038. The Division's portion of the future lease payments is presented in the following table:

| Years | Capital Lease Payments |
|---------------|---------------------------|
| 2016 | 2,204,293 |
| 2017 | 2,206,490 |
| 2018 | 2,207,504 |
| 2019 | 2,205,476 |
| 2020 | 2,204,484 |
| 2021-2025 | 11,025,375 |
| 2026-2030 | 11,031,206 |
| 2031-2035 | 11,026,326 |
| 2036-2038 | 6,559,024 |
| | \$ 50,670,176 |
| Less interest | 22,343,662 |
| Principal | \$ 28,326,514 |

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 prorata 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.

Wastewater and Surface Water Management Notes to Financial Statements

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 \$378,274 for 2015 compared to \$211,399 for 2014. The Division only recognizes expense for premium payments because the risk of loss transfers to the Fund.

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 \$223,286 in 2015 and \$253,165 in 2014.

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

The Tacoma Employees' Retirement System (TERS), a pension trust fund of the City of Tacoma, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information may be obtained by writing to:

Tacoma Employee's Retirement System
3628 South 35th Street
Tacoma, WA 98409

Or the TERS CAFR may be downloaded from the TERS website at www.cityoftacoma.org/retirement.

ADMINISTRATION OF THE SYSTEM - The Tacoma Employees' Retirement 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, and Tacoma Rail employees who are covered by state and federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as, certain employees of the Pierce Transit, and South Sound 911 (formerly known as Law Enforcement Support Agency) who established membership in the System when these agencies were still City of Tacoma departments, are also members. The Board of Administration of the Tacoma Employees' Retirement System administers the plan and derives its authority in accordance with Chapter 41.28 Revised Code of Washington and Chapter 1.30 of the Tacoma City Code.

Wastewater and Surface Water Management Notes to Financial Statements

At the direction of the City Council, the System is administered by the Board of Administration (the Board) consisting of nine regular members and one alternate member. The members of the Board are: the Mayor, who serves as Chair; the Director of Finance; the City Manager (or designee); the Public Utilities Director (or designee); three elected employee representatives; one elected retired representative; and one City resident (not employed by the City) elected by the other eight members. The nine Board members appoint a TERS member, either active or retired, as an alternate Board member. The Board is required by the Tacoma Municipal Code to make annual reports to the City Council on the financial condition of the Retirement System. The Board, subject to City Council approval, appoints the Director who is responsible for managing the daily operations of the System.

MEMBERSHIP - Substantially all employees of the City of Tacoma are members of the System, with the exception of police officers, firefighter, and Tacoma Rail employees, who are covered by state or federal retirement plans. Other members include employees of the Tacoma-Pierce County Health Department, and certain employees of the Pierce Transit and the South Sound 911 who established membership in the System when these agencies were still City of Tacoma departments. The breakdown of membership as of January 1, 2015 is as follows:

| | | |
|---|-------|-------|
| Retirees and beneficiaries currently receiving benefits | | 2,167 |
| Terminated vested and other terminated participants | | 627 |
| Active members: | | |
| City of Tacoma | 2,622 | |
| South Sound 911 | 4 | |
| Pierce Transit | 6 | |
| Tacoma-Pierce County Health Department | 252 | |
| Total active members | | 2,884 |
| Total membership | | 5,678 |

BENEFITS - There are two formulas to calculate the retirement benefits. The benefit paid will be issued 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 based on the member's age and years of service. The other formula is an annuity based on member contributions. There are several options available for the retiree to provide for their beneficiaries. The System also provides death, disability and deferred retirement. Additionally, the System provides cost of living adjustment (COLA) increases up to 2.125% as of July 1st of each year; the actual COLA granted is dependent on the Consumer Price Index (Seattle Area – all items) over the preceding calendar year.

Any active member who has not retired, and has five or more years of service as a member may purchase up to five additional years of service at the time of retirement. Total service including service purchased cannot exceed 30 years.

The System participates in the portability of public retirement benefits in Washington State public retirement. As provided under Chapter 4154 of the RCW, this allows a member to use all years of service with qualified Washington systems to determine retirement eligibility and percentage factor for benefits under the System.

Wastewater and Surface Water Management Notes to Financial Statements

CONTRIBUTIONS - The participating employers are responsible for funding the System at a level sufficient to pay obligations and ensure the actuarial and financial soundness of the System. Contribution rates for the employer and the employee are recommended by the Board of Administration and final approval rests with the Tacoma City Council. Currently, the required contribution rate for employees is 9.20% of their regular gross pay; the employer contributes 10.80%, for a combined total of 20.00% which is sufficient to amortize the UAAL of the System if future experience follows all actuarial assumptions. Changes to the contribution rate are subject to Sections 1.30.340 and 1.30.360 of the Tacoma Municipal Code.

SIGNIFICANT ASSUMPTIONS - The following actuarial methods were used in the funding valuation.

| | |
|---------------------------|--|
| Measurement Date | December 31, 2014 |
| Valuation Date | January 1, 2015 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | <p>Funding is based on statutory contributions rate.</p> <p>This amount is compared to a 30-year amortization for the purposes of calculating the Actuarially Determined Contribution.</p> <p>The amortization method for the ADC is as follows:</p> <ul style="list-style-type: none"> · Level percent · Open periods · 30 year amortization period at 01/01/2015 · 4% amortization growth rate |
| Asset Valuation Method | 4 year smoothing period; Corridor - None |
| Inflation | 3% |
| Salary Increases | 4% general wage increase assumption |
| Investment Rate of Return | 7.25% |
| Cost of Living Adjustment | 2.13% |
| Retirement Age | Varies by age, gender, eligibility |
| Turnover | Varies by age, gender, eligibility |
| Mortality | RP-2000 mortality for healthy and disabled annuitants, with age adjustments |

BENEFIT AND ASSUMPTION CHANGES - The comparability of the data from year to year can be affected by changes in actuarial assumptions, benefit provisions, accounting policies, and other factors. Between January 1, 2014 and January 1, 2015 no assumptions were changed.

Wastewater and Surface Water Management Notes to Financial Statements

TARGET ALLOCATION - The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting volatility and correlation. The capital market assumptions are per Milliman's (the System's actuary) investment consulting practice as of June 30, 2014. The target asset allocation is based on TERS Investment Policy Statement dated February 2014.

| Asset Class | Target Allocation | Long-term Expected Arithmetic Real Rate of Return |
|---|-------------------|---|
| Investment grade fixed income | 15.0% | 2.03% |
| US inflation-indexed bonds | 5.0 | 1.41 |
| High yield bonds | 9.0 | 4.49 |
| Emerging market debt | 5.0 | 5.05 |
| Global equity | 41.5 | 6.02 |
| Public real estate | 2.0 | 6.38 |
| Private real estate | 2.5 | 3.72 |
| Private equity | 10.0 | 9.02 |
| Master limited partnerships | 4.0 | 4.46 |
| Timber | 2.0 | 3.84 |
| Infrastructure | 2.0 | 5.88 |
| Agriculture | 2.0 | 4.38 |
| Assumed inflation - mean | | 3.00 |
| Assumed inflation - standard deviation | | 1.85 |
| Portfolio arithmetic real mean return | | 5.11 |
| Portfolio median nominal geometric return | | 7.21 |
| Portfolio standard deviation | | 12.02 |
| Long-term expected rate of return, net of investment expenses | | 7.25 |

SENSITIVITY ANALYSIS - The following presents the Division's proportionate share of the net pension asset of the System, calculated using the discount rate of 7.25%, as well as what the Division's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate.

| | 1% Decrease 6.25% | Current Discount Rate 7.25% | 1% Increase 8.25% |
|-------------------------------|-------------------------|-----------------------------------|-------------------------|
| Net pension liability (asset) | \$ 19,256,477 | \$ (1,119,219) | \$ (18,268,537) |

Detailed information about the pension plan's fiduciary net position is available in the separately issued TERS CAFR.

Wastewater and Surface Water Management Notes to Financial Statements

As of December 31, 2015, the deferred inflows and outflows of resources are as follows:

| | Deferred Inflows of Resources | Deferred Outflows of Resources |
|---|----------------------------------|-----------------------------------|
| Differences between actual and expected experience | (1,551,159) | - |
| Changes in proportionate share | - | 7,096 |
| Net differences between projected and actual earnings | 369,616 | - |
| Contributions made subsequent to the measurement date | - | 2,650,121 |
| Total | \$ (1,181,543) | \$ 2,657,217 |

The net amount of deferred inflows and outflows, other than contributions made subsequent to the measurement date, will be recognized as pension expense in each of the next four years. Contributions made subsequent to the measurement date will offset net pension asset in the following year.

Amounts will be recognized in pension expense as follows:

| Year ended December 31 | |
|------------------------|-----------|
| 2016 | (370,037) |
| 2017 | (370,037) |
| 2018 | (370,037) |
| 2019 | (61,674) |
| Thereafter | - |

The Division's proportionate share of the collective net pension liability is 11.65%. Each employer in TERS contributes at the same rate of payroll. The proportionate share is based on actual contributions for the year, which provides a reasonable basis for each employer's projected long-term contribution effort.

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%).

Wastewater and Surface Water Management Notes to Financial Statements

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.

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 2014 year 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 amortization period for 2015 is 22 years.

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, 2015 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 Patient Protection and 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 are \$10,200 for single coverage and \$27,500 or 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 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.

GASB released two new statements for Post Employment Benefits Other than Pension Plans, or OPEB. The new GASB Statements 74 and 75 were released in June 2015 and will replace GASB 43 and 45. The statements are available via the GASB website. GASB 74 is effective for fiscal years beginning after June 15, 2016, and GASB 75 is effective for fiscal years beginning June 15, 2017. These statements will mean fundamental changes in financial reporting for OPEB.

SUMMARY OF CHANGES – As of the January 1, 2015 valuation, the total AAL of \$208,814,312 was 20% lower than expected. The City experienced a liability gain since the last valuation caused by numerous factors, including a clarification in spouse benefits, which cease once a member attains age 65. It was also caused by smaller than expected changes in medical costs, demographic experience, and a change to the assumption for future medical trends.

Wastewater and Surface Water Management Notes to Financial Statements

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

| | January 1, 2013 | January 1, 2015 |
|--------------------------------------|-----------------|-----------------|
| Total Membership: | | |
| Active employees | 3,335 | 3,404 |
| Terminated vested employees | 394 | 442 |
| Retired employees and Dependents | 846 | 744 |
| Total | 4,575 | 4,590 |
| Annual City Benefit Payments | \$ 9,887,335 | \$ 8,963,089 |
| Discount rate | 3.75% | 3.75% |
| Present Value of Benefits | \$ 326,742,538 | \$ 262,184,195 |
| Actuarial Accrued Liability | \$ 251,839,846 | \$ 208,814,312 |
| Assets | - | - |
| Unfunded Actuarial Accrued Liability | \$ 251,839,846 | \$ 208,814,312 |
| Normal Cost (End of year) | \$ 5,484,587 | \$ 3,832,131 |
| Annual Required Contribution | \$ 20,058,760 | \$ 16,966,964 |

The following table shows the total value of the benefits provided, the member paid premiums and the City paid benefits as of January 1, 2015.

| Value of Subsidy at 3.75% Interest Rate | Total Value of Benefits | Member Paid Premiums | City Paid Benefits |
|---|----------------------------|-------------------------|-----------------------|
| Present Value of Benefits | \$ 420,832,932 | \$ 158,648,737 | \$ 262,184,195 |
| Actuarial Accrued Liability | \$ 291,228,295 | \$ 82,413,983 | \$ 208,814,312 |
| Normal Cost | \$ 9,501,758 | \$ 5,669,627 | \$ 3,832,131 |
| Annual Benefit Payments | \$ 12,325,369 | \$ 3,362,280 | \$ 8,963,089 |

Wastewater and Surface Water Management Notes to Financial Statements

The following table shows the calculation of the Annual Required Contribution and Net OPEB Obligation for the City and for the Division as of January 1, 2015.

| | City | Division |
|---|----------------------|---------------------|
| Determination of Annual Required Contribution: | | |
| Normal Cost at Year-end | \$ 3,832,131 | \$ 289,506 |
| Amortization of UAAL | 13,134,833 | 98,165 |
| Annual Required Contribution | <u>\$ 16,966,964</u> | <u>\$ 387,671</u> |
| Determination of Net OPEB Obligation: | | |
| Annual Required Contribution | \$ 16,966,964 | \$ 387,671 |
| Interest on prior year Net OPEB Obligation | 2,480,183 | 83,685 |
| Adjustment to ARC | (3,492,760) | (98,894) |
| Annual OPEB Cost | <u>15,954,387</u> | <u>372,463</u> |
| Actual benefits paid | <u>8,963,091</u> | <u>84,685</u> |
| Increase in Net OPEB Obligation | 6,991,296 | 287,778 |
| Net OPEB Obligation - beginning of year | <u>66,138,206</u> | <u>2,231,603</u> |
| Net OPEB Obligation - end of year | <u>\$ 73,129,502</u> | <u>\$ 2,519,381</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 3.75% interest rate.

| Year Ended | Annual OPEB Cost | | Benefits Paid | | Net OPEB Obligation | |
|------------|------------------|------------|---------------|------------|---------------------|--------------|
| | City | Division | City | Division | City | Division |
| 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 |
| 12/31/2015 | \$ 15,954,387 | \$ 372,463 | \$ 8,963,091 | \$ 84,685 | \$ 73,129,502 | \$ 2,519,381 |

As of January 1, 2015, 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 \$208,814,312, and the actuarial value of assets was zero, resulting in an unfunded accrued liability of \$208,814,312.

The Division has included the liability in the other long term liabilities on the Statement of Net Position.

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 22 years.

Wastewater and Surface Water Management Notes to Financial Statements

Actuarial Methods and Significant Actuarial Assumptions:

| | |
|--------------------------------------|---|
| Valuation Date | January 1, 2015 |
| Census Date | January 1, 2015 |
| Actuarial Cost Method: | Entry Age |
| Amortization Method: | Combination of level percentage and level dollar amount, see note above. |
| Remaining Amortization Period: | 22 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 | 2015 | 6.9% |
| | 2016 | 6.6% |
| | 2017 | 5.9% |
| | 2020 | 5.5% |
| | 2030 | 5.9% |
| | 2040 | 5.7% |

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% |
|--------------------------|-------|

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
- Age 40 with 20 years of service

Wastewater and Surface Water Management Notes to Financial Statements

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 provided notification to the Trustees in 2013 that the obligations of the NRDA Consent Decree had been fulfilled. In the Trustees response, they indicated that monitoring of a related project needed to be complete before the Consent Decree could be closed out. Included in the financial statements for the years 2015 and 2014 were liabilities of \$198,000. This amount will carry over until the Consent Decree can be closed out. 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.

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, 2013 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 of \$296,346 as of December 31, 2015 and there is no liability remaining for this decree in 2016.

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 \$600,000 in 2015 and \$500,000 in 2014 have been recognized in the financial statements as environmental liabilities.

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.

Required Supplementary Information

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**Wastewater and Surface Water Management
Required Supplementary Information**

Schedule of the Division's Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

| | Fiscal Year Ended December 31, | |
|---|--------------------------------|-----------|
| | 2015 | 2014-2006 |
| Division's proportion of the net pension liability (asset) | 11.65% | N/A |
| Division's proportionate share of the net pension liability (asset) | \$ (1,119,219) | N/A |
| Division's covered-employee payroll | \$ 26,960,556 | N/A |
| Division's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | -4.15% | N/A |
| Plan fiduciary net position as a percentage of the total pension liability | 100.71% | N/A |

* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year

Schedule of Division Contributions
Last 10 Fiscal Years

| | Fiscal Year Ended December 31, | |
|--|--------------------------------|-----------|
| | 2015 | 2014-2006 |
| Contractually required contribution | \$ 2,650,121 | N/A |
| Contributions in relation to the contractually required contribution | (2,650,121) | N/A |
| Contribution deficiency (excess) | \$ - | N/A |
| Division's covered-employee payroll | \$ 26,960,556 | N/A |
| Contribution as a percentage of covered-employee payroll | 9.83% | N/A |

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Unaudited Supplemental Information

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Wastewater and Surface Water Management 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
City of Tacoma, Washington Revenue and Refunding Bonds, Series 2015

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

| | 2014 | 2015 |
|---|------|------|
| Parity Bonds Debt Service Coverage Ratio | 4.41 | 4.18 |
| Parity Bonds and Subordinate Lien Debt Service Coverage Ratio | 2.64 | 2.73 |

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 |
| 2014 | 57,599 | 3,749 | 13,592 | 74,940 | 59,425 | 11,087 | 70,512 |
| 2015 | 58,156 | 3,763 | 13,813 | 75,732 | 59,518 | 11,093 | 70,611 |

⁽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 2015 are shown in the following table.

| Customer Name | Amount | Percent of 2015 Operating Revenues (1) |
|------------------------------|---------------------|--|
| Port of Tacoma | \$ 2,140,606 | 2.22% |
| Tacoma School District | 1,517,837 | 1.57% |
| City of Tacoma | 1,187,500 | 1.23% |
| Puyallup Tribe | 827,594 | 0.86% |
| Darling International Inc | 754,151 | 0.78% |
| Pierce County Facilities | 622,029 | 0.65% |
| Metro Parks | 517,273 | 0.54% |
| St Joseph Hospital | 486,010 | 0.50% |
| Burlington Northern Railroad | 419,958 | 0.44% |
| Westridgets Apartments | 413,992 | 0.43% |
| Total | <u>\$ 8,886,952</u> | 9.22% |
| (1) Total system revenue | \$ 96,399,525 | |

Revenues by Service

The Systems revenues for 2014 and 2015 are shown in the following table.

| | 2014 | 2015 |
|-----------------------------------|----------------------|----------------------|
| Wastewater: | | |
| Residential | \$ 39,575,060 | \$ 42,086,028 |
| Commercial and public authorities | 20,231,739 | 21,850,624 |
| Other revenues | 1,063,296 | 1,732,666 |
| Surface Water: | | |
| Unmetered services | 29,188,607 | 30,504,327 |
| Other revenues | 173,545 | 225,878 |
| Total operating revenues | <u>\$ 90,232,247</u> | <u>\$ 96,399,523</u> |

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.

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, | |
|--|----------------------------|-----------------------|-------------------------------|-----------------------|
| | 2015 | 2014 | 2015 | 2014 |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents (C&CE) | \$ 32,995,067 | \$ 25,937,866 | \$ 26,975,076 | \$ 23,200,423 |
| Accounts receivable (net) | 8,564,036 | 8,225,917 | 3,881,614 | 3,920,304 |
| Due from other funds | 121,540 | 141,870 | 279,507 | 302,710 |
| Due from other governments | - | - | 1,830,582 | 1,205,554 |
| Inventory | 1,012,955 | 1,014,100 | - | - |
| Prepayments | 213,018 | 229,939 | 13,442 | 60,915 |
| Current restricted assets: | | | | |
| C&CE- debt service, deposits and replacements | 10,209,691 | 6,380,728 | 5,288,260 | 3,675,183 |
| C&CE- construction accounts | 31,595,476 | 720,589 | 10,084,911 | 190,673 |
| Total restricted assets | 41,805,167 | 7,101,317 | 15,373,171 | 3,865,856 |
| Total current assets | 84,711,783 | 42,651,009 | 48,353,392 | 32,555,762 |
| Non-current assets: | | | | |
| Net pension asset | 766,219 | - | 353,000 | - |
| Other non-current assets | 2,816,178 | 2,954,565 | 1,271,054 | 1,271,054 |
| Total non-current assets | 3,582,397 | 2,954,565 | 1,624,054 | 1,271,054 |
| Capital assets: | | | | |
| Land and easements | 7,572,520 | 7,561,938 | 12,056,134 | 12,059,474 |
| Property, plant, and equipment | 548,951,489 | 523,192,092 | 199,535,016 | 191,341,767 |
| Less: accumulated depreciation | (190,226,348) | (179,357,928) | (45,846,749) | (42,129,072) |
| Construction work in progress | 16,904,275 | 19,464,273 | 7,579,010 | 3,859,024 |
| Total capital assets, net of depreciation | 383,201,936 | 370,860,375 | 173,323,411 | 165,131,193 |
| Total non-current assets | 386,784,333 | 373,814,940 | 174,947,465 | 166,402,247 |
| TOTAL ASSETS | 471,496,116 | 416,465,949 | 223,300,857 | 198,958,009 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Unamortized loss on refunding | 1,151,431 | 309,553 | 2,181,174 | 727,505 |
| Deferred outflow - pensions | 1,819,135 | - | 838,082 | - |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 2,970,566 | 309,553 | 3,019,256 | 727,505 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 474,466,682 | \$ 416,775,502 | \$ 226,320,113 | \$ 199,685,514 |

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

| | Wastewater December 31, | | Surface Water December 31, | |
|---|----------------------------|-----------------------|-------------------------------|-----------------------|
| | 2015 | 2014 | 2015 | 2014 |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 2,047,344 | \$ 2,788,954 | \$ 1,983,459 | \$ 3,122,959 |
| Due to other funds | 700,678 | 893,336 | 610,116 | 890,089 |
| Due to other governments | 528,849 | 490,403 | - | - |
| State Revolving Loan interest payable | 236,465 | 253,002 | - | - |
| Accrued wages and benefits payable | 524,461 | 1,163,837 | 213,189 | 522,671 |
| Accrued taxes | 437,706 | 497,444 | 216,025 | 233,442 |
| Environmental liability - current | - | - | 648,000 | 604,346 |
| Notes & leases - current | 4,035,955 | 3,958,374 | 378,107 | 365,383 |
| Revenue bonds - current | 1,812,773 | - | 1,730,144 | - |
| Unearned revenue | - | 134,398 | - | 61,221 |
| Current payable from restricted assets: | | | | |
| Debt principal payable | 164,797 | - | 157,286 | - |
| Debt interest payable | 284,314 | 122,880 | 296,784 | 241,871 |
| Total current liabilities | <u>10,773,342</u> | <u>10,302,628</u> | <u>6,233,110</u> | <u>6,041,982</u> |
| Non-current liabilities: | | | | |
| Revenue bonds payable (net) | 83,409,156 | 30,741,356 | 83,641,905 | 62,441,871 |
| Compensated absences | 2,021,343 | 1,977,586 | 670,367 | 668,594 |
| Environmental liability - non-current | - | - | 150,000 | 400,000 |
| Notes & leases - non-current | 61,090,370 | 65,126,325 | 14,792,230 | 15,170,336 |
| Net OPEB obligation | 2,036,203 | 1,761,706 | 483,178 | 469,897 |
| Total non-current liabilities | <u>148,557,072</u> | <u>99,606,973</u> | <u>99,737,680</u> | <u>79,150,698</u> |
| TOTAL LIABILITIES | <u>159,330,414</u> | <u>109,909,601</u> | <u>105,970,790</u> | <u>85,192,680</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Rate stabilization | 17,000,000 | 17,000,000 | 8,000,000 | 8,000,000 |
| Deferred inflow - pensions | 808,886 | - | 372,657 | - |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>17,808,886</u> | <u>17,000,000</u> | <u>8,372,657</u> | <u>8,000,000</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 265,600,589 | 272,064,462 | 126,827,346 | 129,669,417 |
| Restricted for: | | | | |
| Debt service | 9,760,580 | 6,257,848 | 4,834,190 | 3,433,312 |
| Net pension asset | 766,219 | - | 353,000 | - |
| Unrestricted | 21,199,994 | 11,543,591 | (20,037,870) | (26,609,895) |
| TOTAL NET POSITION | <u>297,327,382</u> | <u>289,865,901</u> | <u>111,976,666</u> | <u>106,492,834</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES | | | | |
| RESOURCES, AND NET POSITION | <u>\$ 474,466,682</u> | <u>\$ 416,775,502</u> | <u>\$ 226,320,113</u> | <u>\$ 199,685,514</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, | |
| | 2015 | 2014 | 2015 | 2014 |
| OPERATING REVENUES | | | | |
| Wastewater residential | \$ 42,086,028 | \$ 39,575,060 | \$ - | \$ - |
| Wastewater commercial and public authorities | 21,850,624 | 20,231,739 | - | - |
| Surface water | - | - | 30,504,327 | 29,188,607 |
| Other revenues | 1,732,666 | 1,063,296 | 225,878 | 173,545 |
| Total operating revenues | <u>65,669,318</u> | <u>60,870,095</u> | <u>30,730,205</u> | <u>29,362,152</u> |
| OPERATING EXPENSES | | | | |
| Salary and wages | 15,380,698 | 15,491,518 | 6,844,486 | 6,371,224 |
| Personnel benefits | 6,338,517 | 7,018,143 | 2,649,532 | 2,514,759 |
| Supplies | 3,260,708 | 3,373,929 | 839,735 | 990,714 |
| Services | 16,275,107 | 15,280,509 | 8,411,310 | 8,156,181 |
| Intergovernmental taxes | 1,047,734 | 792,107 | 451,067 | 422,154 |
| Depreciation | 11,224,784 | 10,941,728 | 3,732,777 | 3,305,928 |
| Total operating expenses | <u>53,527,548</u> | <u>52,897,934</u> | <u>22,928,907</u> | <u>21,760,960</u> |
| Net operating income | <u>12,141,770</u> | <u>7,972,161</u> | <u>7,801,298</u> | <u>7,601,192</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest and other earnings | 392,468 | 351,073 | 238,845 | 267,446 |
| Interest and other related costs | (4,402,079) | (2,618,402) | (4,124,718) | (3,066,597) |
| Amortization of bond premium and loss on refunding | 321,372 | 57,162 | 350,365 | 200,859 |
| Operating contributions - federal/state/local | - | - | 267,610 | - |
| Other non revenues | 290,774 | 230,423 | 220,533 | 186,991 |
| Loss on disposition of property | (12,256) | (28,369) | (17,906) | (15,991) |
| Total nonoperating revenues (expenses) | <u>(3,409,721)</u> | <u>(2,008,113)</u> | <u>(3,065,271)</u> | <u>(2,427,292)</u> |
| Net income before contributions and transfers | <u>8,732,049</u> | <u>5,964,048</u> | <u>4,736,027</u> | <u>5,173,900</u> |
| Capital contributions - interfund | - | - | - | 211,165 |
| Capital contributions | 2,908,306 | 1,755,103 | 2,734,554 | 4,268,134 |
| Transfer in | 211,026 | - | 71,373 | 750 |
| Transfer out & gross earnings tax | (5,332,103) | (4,947,016) | (2,492,198) | (2,425,769) |
| Total contributions and transfers | <u>(2,212,771)</u> | <u>(3,191,913)</u> | <u>313,729</u> | <u>2,054,280</u> |
| CHANGES IN NET POSITION | 6,519,278 | 2,772,135 | 5,049,756 | 7,228,180 |
| NET POSITION, BEGINNING OF YEAR | 289,865,901 | - | 106,492,834 | - |
| Accumulated adjustment for change in accounting principle | 942,203 | - | 434,076 | - |
| NET POSITION - BEGINNING OF YEAR, ADJUSTED | <u>290,808,104</u> | <u>287,093,766</u> | <u>106,926,910</u> | <u>99,264,654</u> |
| NET POSITION - ENDING | <u>\$ 297,327,382</u> | <u>\$ 289,865,901</u> | <u>\$ 111,976,666</u> | <u>\$ 106,492,834</u> |

**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, | |
| | 2015 | 2014 | 2015 | 2014 |
| CASH FLOW FROM OPERATING ACTIVITIES: | | | | |
| Receipt from customer and users | \$ 65,375,674 | \$ 60,325,553 | \$ 30,768,896 | \$ 28,963,939 |
| Receipt from interfund services provided | 20,330 | (77,318) | 23,203 | (258,836) |
| Payment to suppliers | (14,678,546) | (12,273,071) | (8,243,963) | (3,517,170) |
| Payments to employees | (22,040,336) | (22,221,610) | (9,788,447) | (8,806,548) |
| Payments for interfund services used | (6,609,779) | (5,757,655) | (4,254,238) | (4,175,268) |
| Payments for taxes | (1,059,956) | (786,134) | (455,395) | (427,941) |
| Other operating or non-operating revenue | 290,774 | 228,933 | 220,533 | 186,948 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>21,298,161</u> | <u>19,438,698</u> | <u>8,270,589</u> | <u>11,965,124</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES: | | | | |
| Transfer from (to) other funds | (5,094,795) | (4,840,929) | (2,896,451) | (2,373,794) |
| Grant received | - | - | 317,610 | 10,978 |
| Debt service related to environmental clean-up | - | - | (1,616,044) | (1,915,194) |
| NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES | <u>(5,094,795)</u> | <u>(4,840,929)</u> | <u>(4,194,885)</u> | <u>(4,278,010)</u> |
| CASH FLOW FROM CAPITAL FINANCING ACTIVITIES: | | | | |
| Transfer from (to) other fund | (73,797) | (73,130) | 462,537 | 167,925 |
| Acquisition and construction of capital assets | (23,578,601) | (21,160,705) | (11,942,901) | (20,297,396) |
| Proceeds from sale of capital assets | - | - | - | 5,750 |
| Principal paid on capital debt | (19,201,710) | (3,577,053) | (22,605,834) | (19,720) |
| Interest and issuance costs paid on capital debt | (4,257,182) | (2,634,621) | (2,453,761) | (1,151,403) |
| Proceeds from the issuance of revenue and refunding bonds | 69,684,330 | - | 44,569,693 | - |
| Capital lease obligation | (316,130) | (1,215,505) | (345,082) | 2,157,231 |
| Contributions and donations | 2,908,306 | 1,755,103 | 3,282,767 | 4,137,722 |
| NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES | <u>25,165,216</u> | <u>(26,905,911)</u> | <u>10,967,419</u> | <u>(14,999,891)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Investment income | 392,469 | 352,561 | 238,845 | 267,491 |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | <u>392,469</u> | <u>352,561</u> | <u>238,845</u> | <u>267,491</u> |
| NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS | 41,761,051 | (11,955,581) | 15,281,968 | (7,045,286) |
| CASH & CASH EQUIVALENTS, JANUARY 1 | 33,039,183 | 44,994,764 | 27,066,279 | 34,111,565 |
| CASH & CASH EQUIVALENTS, DECEMBER 31 | <u>\$ 74,800,234</u> | <u>\$ 33,039,183</u> | <u>\$ 42,348,247</u> | <u>\$ 27,066,279</u> |

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, | |
| | 2015 | 2014 | 2015 | 2014 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | | | |
| Net operating income | \$ 12,141,770 | \$ 7,972,161 | \$ 7,801,298 | \$ 7,601,192 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation expense | 11,224,784 | 10,941,728 | 3,732,777 | 3,305,928 |
| (Increase) decrease in accounts receivable | (293,646) | (544,542) | 38,691 | (398,212) |
| (Increase) decrease in intergovernmental receivable | - | - | (1,223,240) | - |
| (Increase) decrease in due from other funds | 20,330 | (77,318) | 23,203 | (258,836) |
| (Increase) decrease in inventory | 1,145 | (120,015) | - | - |
| (Increase) decrease in prepayments | 110,833 | (252,292) | 47,473 | (28,229) |
| (Increase) decrease in other assets | (2,585,354) | - | (1,191,082) | - |
| Increase (decrease) in deposit and other payables | - | - | - | (104,678) |
| Increase (decrease) in accounts payable | (753,832) | 822,246 | (1,143,828) | 1,464,996 |
| Increase (decrease) in accrued wages and benefits | (639,375) | 90,808 | (309,483) | 50,650 |
| Increase (decrease) in compensated absences | 318,254 | 197,243 | 15,054 | 28,785 |
| Increase (decrease) in due to other funds | (154,213) | 174,435 | (279,973) | 288,395 |
| Increase (decrease) in unearned revenue | (134,398) | 5,311 | (61,221) | 2,419 |
| (Increase) decrease in other current liabilities | - | - | 43,654 | (74,234) |
| (Increase) decrease in long term liabilities | 1,751,089 | - | 556,733 | (100,000) |
| Miscellaneous non-operating revenues | 290,774 | 228,933 | 220,533 | 186,948 |
| Total adjustments | 9,156,391 | 11,466,537 | 469,291 | 4,363,932 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>\$ 21,298,161</u> | <u>\$ 19,438,698</u> | <u>\$ 8,270,589</u> | <u>\$ 11,965,124</u> |
| NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES | | | | |
| Donated capital assets | \$ 719,758 | \$ 1,588,765 | \$ 1,080,313 | \$ 1,725,602 |

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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.