



*Wastewater and Surface Water
Management
Annual Financial Report
For the fiscal year ended December 31, 2016
Prepared by the Finance Department*

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

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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, 2016 and 2015, 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, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, schedule of Division's proportionate share of net pension liability (asset), and schedule of Division's contributions 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 52 through 59 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

May 19, 2017

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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, 2016 and 2015

Introduction

The following discussion and analysis of City of Tacoma Wastewater and Surface Water Management Division's financial performance provides an overview of the financial activities for the years ended December 31, 2016 and 2015. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues, provide an overview of the financial activities, and identify changes in the financial position. We encourage readers to consider the information presented here in conjunction with the financial statements and notes taken as a whole.

The management of the Finance Department of the City of Tacoma is responsible for preparing the accompanying financial statements and for their integrity. The statements were prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America, applied on a consistent basis, and include amounts that are based on management's best estimates and judgments.

The basic financial statements, presented on a comparative basis for the years ended December 31, 2016 and 2015, include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows. The Statements of Net Position present information on all of City of Tacoma Wastewater and Surface Water Management Division's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses during the time periods indicated. The Statements of Cash Flows provide information on cash receipts and disbursements during the year and report changes in cash resulting from operating, non-capital financing, capital and related financing, and investing activities.

The Notes to Financial Statements provide additional disclosures that are essential to a full understanding of the data provided in the financial statements. They are an integral part of the Division's presentation of financial position, results of operations and changes in cash flows.

The Division adopted GASB Statement No. 72, Fair Value Measurement and Application, during fiscal year 2016. The statement provides guidance for determining fair value to certain investments and disclosures related to all fair value measurements, and requires accounting for investments at fair value (See note 3).

Financial Highlights

- Total net position is \$422.1 million at December 31, 2016 compared to \$409.3 million and \$396.4 million at year-end 2015 and 2014, respectively.
- Operating revenues were \$104.3 million in 2016, \$96.4 million in 2015 and \$90.2 million in 2014.
- Cash and equity in pooled investments was \$77.7 million at December 31, 2016 compared to \$60.0 million in 2015 and \$49.1 million in 2014.

Financial Analysis – Condensed Statements of Net Position

Net position may serve over time as a useful indicator of an entity’s financial position. The following condensed statement of net position provides a comparison of net position for the last three years.

	December 31,		
	2016	2015	2014
Current, restricted, and other assets	\$ 131,654,327	\$ 138,271,626	\$ 79,432,390
Net capital assets	575,975,737	556,525,347	535,991,568
Total assets	707,630,064	694,796,973	615,423,958
Deferred outflows of resources	14,723,782	5,989,822	1,037,058
Total assets and deferred outflows of resources	<u>\$ 722,353,846</u>	<u>\$ 700,786,795</u>	<u>\$ 616,461,016</u>
Long-term liabilities	256,177,254	248,294,752	178,757,671
Other liabilities	18,355,075	17,006,452	16,344,610
Total liabilities	274,532,329	265,301,204	195,102,281
Deferred inflows of resources	25,766,997	26,181,543	25,000,000
Total liabilities and deferred inflows of resources	<u>300,299,326</u>	<u>291,482,747</u>	<u>220,102,281</u>
Net position:			
Net investment in capital assets	392,364,966	392,427,935	401,733,880
Restricted	14,542,374	15,713,989	9,691,158
Unrestricted	15,147,180	1,162,124	(15,066,303)
Total net position	<u>422,054,520</u>	<u>409,304,048</u>	<u>396,358,735</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 722,353,846</u>	<u>\$ 700,786,795</u>	<u>\$ 616,461,016</u>

The assets and deferred outflows of the Division exceeded liabilities and deferred inflows by \$422.1 million in 2016, compared to \$409.3 million in 2015, and \$396.4 million in 2014. The Division’s net position increased by \$12.8 million to \$422.1 million in 2016 compared to an increase of \$12.9 million to \$409.3 million in 2015 and an increase of \$10 million to \$396.4 million in 2014. However, the largest component of net position reflects the Division’s net investment in capital assets (e.g. land, buildings, machinery, and equipment). The net investment in capital assets component of net position was \$392.4 million in 2016, \$395.7 million in 2015, and \$401.7 million in 2014. The Division uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Division’s net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The restricted portion of the Division’s net position is \$14.5 million for 2016, compared to \$15.7 million in 2015, and \$ 9.7 million in 2014 and represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$15.1 million for 2016, \$(2.1) million for 2015, and \$(15.1) million for 2014 is unrestricted.

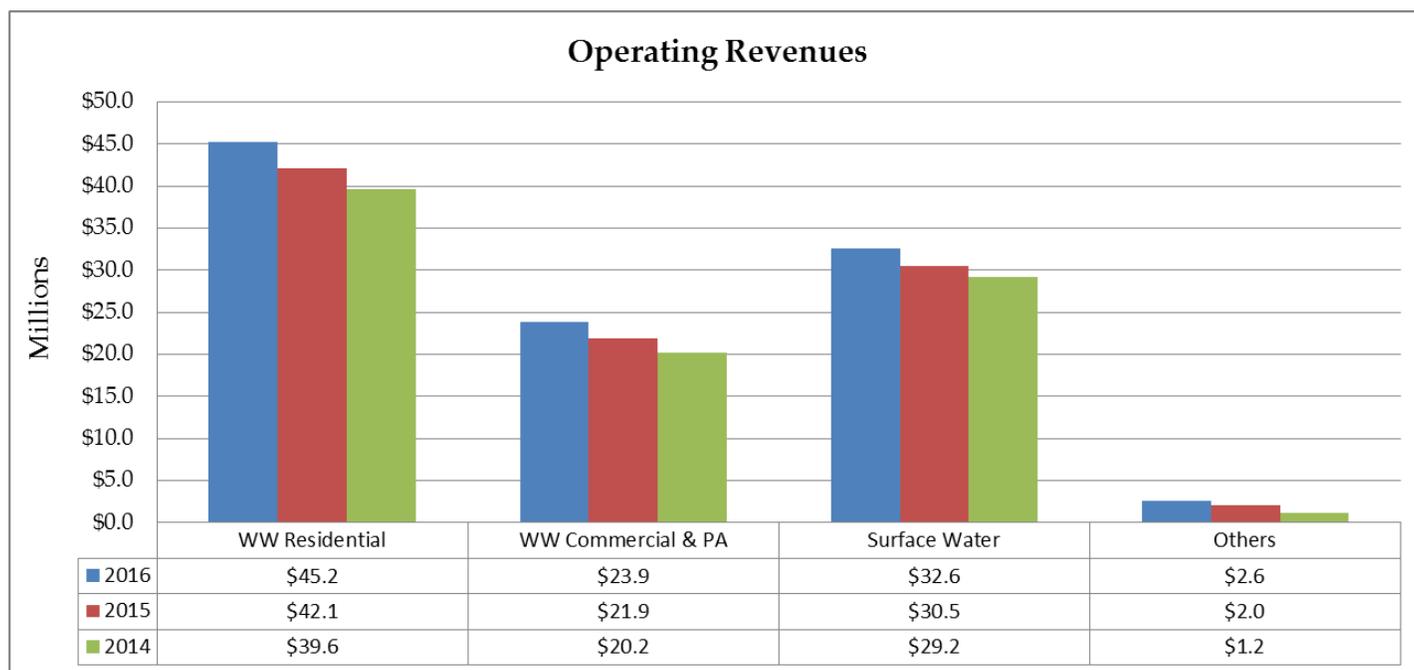
Financial Analysis - Condensed Statements of Revenues, Expenses and Changes in Net Position

Year Ended December 31,

	2016	2015	2014
Operating revenues	\$ 104,279,617	\$ 96,399,523	\$ 90,232,247
Operating expenses	84,577,168	76,456,455	74,658,894
Net operating income	19,702,449	19,943,068	15,573,353
Nonoperating revenues (expenses)	(4,843,543)	(6,474,992)	(4,435,405)
Increase (decrease) in net position before transfers	14,858,906	13,468,076	11,137,948
Capital contributions	5,957,003	5,642,860	6,234,402
Transfers	(8,065,437)	(7,541,902)	(7,372,035)
Increase (decrease) in net position	12,750,472	11,569,034	10,000,315
Net position - beginning of year	409,304,048	396,358,735	386,358,420
Accumulated adjustment for change in accounting principle	-	1,376,279	-
Net position - beginning of year, adjusted	409,304,048	397,735,014	386,358,420
Net position - ending	\$ 422,054,520	\$ 409,304,048	\$ 396,358,735

Operating revenues

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



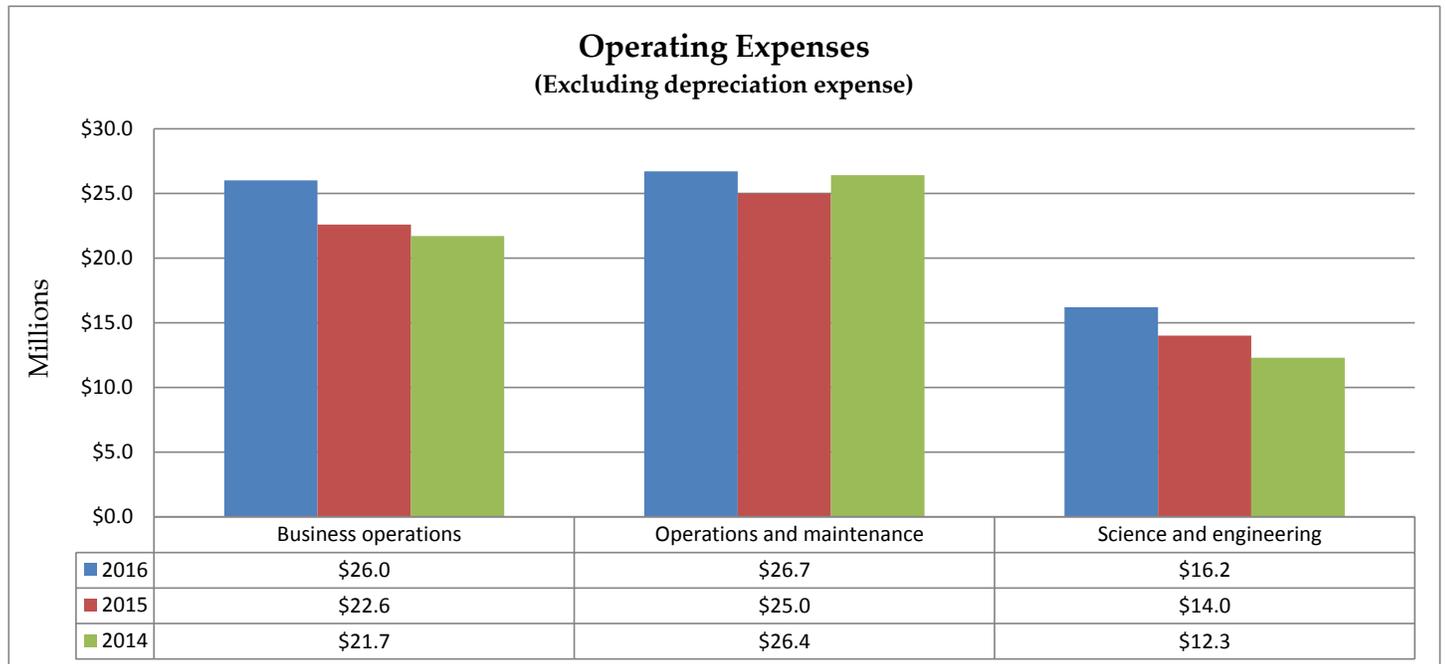
Operating revenues were \$104.3 million in 2016 compared to \$96.4 million in 2015 and \$90.2 million in 2014. The approved average rate increases for year 2016 and 2015 were 6% for Wastewater and 5.5% for Surface Water. The 2014 rate increase was 4.8% for Wastewater and 6% for Surface water. The rate increases went into effect January 1st of each year.

Wastewater residential revenues increased \$3.1 million (7%) in 2016 compared to \$2.5 million (6%) in 2015, and Wastewater commercial and public authority (PA) revenues increased \$2.0 million (9%) in 2016 compared to \$1.7 million (8%) in 2015.

Surface Water increased \$2.1 million (7%) in 2016 compared to \$1.3 million (5%) in 2015. Other revenues increased \$600,000 (31%) in 2016 compared to \$722,000 (58%) in 2015.

Operating expenses

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



2016 Activity

Operating expenses were \$84.6 million in 2016 and \$76.5 million in 2015, an increase of \$8.1 million.

- Business operation expenses increased \$3.4 million. The significant events were:
 - Labor expenses including all payroll associated costs increased \$731,000. Of this amount, \$473,000 is related to entries for GASB 68, Accounting and Financial Reporting for Pensions.
 - Vehicle replacement fees from Fleet Services increased \$509,000 due to additional fleet costs for vehicles transferred from the Construction division.
 - Assessment charges from other departments, including Customer Service and IT, for their internal services increased \$1.5 million.
 - Administrative and General (A&G) charges to capital projects decreased \$543,000 due to less spending on capital projects.
- Operations and maintenance expenses increased \$1.8 million. The significant events were:
 - GASB 68, Accounting and Financial Reporting for Pensions adjustments in labor expenses increased \$1.3 million, which was allocated based upon last year’s labor expenses of each division.
 - Operating supplies and maintenance materials used for their services increased \$550,000.
 - External contract services decreased \$541,000 due to reduced contract services for the North End Treatment Plant (NETP) and pump station maintenance, engineering, and site development.
- Science and engineering expenses increased \$2.3 million. The significant events were:
 - Labor expenses including all payroll associated costs increased \$2.4 million; the GASB 68, Accounting and Financial Reporting for Pensions adjustment increased \$1.2 million, and labor expenses allocated to capital projects or outside activities decreased \$1.5 million.
 - Professional service expenses increased \$335,000, which includes the inspection services rendered by Ace Pipe Cleaning Inc. for the Wastewater Trunk Line Condition Assessment project.
 - Capital impairment decreased \$364,000, which results from expensing canceled projects.

2015 Activity

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

- Business operation expenses increased \$812,000. The significant events were:
 - The State Business and Occupation (B&O), and utility taxes increased \$285,000.
 - Bad debts expenses increased \$216,000, which was adjusted based upon the actual aged accounts.
 - Public liability insurance costs for the City's self-insurance program increased \$197,000.
- Operations and maintenance expenses decreased \$1.4 million. The significant events were:
 - Labor expenses including all payroll associated costs decreased \$1.4 million; the GASB 68 adjustments reported a credit balance of \$542,000 after the GASB 68 implementation, and accrued salaries and wages decreased \$497,000.
 - Operating supplies and maintenance materials used for their services decreased \$283,000.
- Science and engineering costs increased \$1.7 million. The significant events were:
 - Labor expenses including all payroll associated costs increased \$1.2 million; labor charges allocated to capital projects or other activities decreased \$812,000, and the GASB 68 adjustments reported \$496,000 as a contra account of expense.
 - Capital projects related to Energy Management System were expensed for \$466,000.

Capital Assets

Capital assets increased \$19.5 million in 2016 compared to \$20.5 million in 2015. (See Note 4.)

2016 Activity

Capital assets increased \$19.5 million over the prior year. Buildings increased \$5.2 million due to the value of the Solid Waste's share of the Center for Urban Waters capital lease building transferring to Wastewater and \$37.8 million was reclassified from capital lease building to building. Machinery and equipment increased \$34.0 million primarily due to the Plant Control System Upgrade project and Cleveland Pump Stations Upgrade project. Transmission lines and other improvements increased \$11.2 million: 4,397 feet of donated lines were recorded for \$1.2 million, 18,825 feet of old lines were retired at the historical cost of \$73,000, and 20,019 feet of new replacement lines and extended sewer lines were recorded for \$10.0 million. Accumulated depreciation increased \$16.6 million and construction in progress decreased \$18.5 million.

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.

Debt Administration

At December 31, 2016, the Division had \$248.8 million outstanding in long-term debt: \$48.2 million of this is junior lien debt consisting of State Revolving Fund (SRF) loans and the remaining balance is senior parity bonds debt. This compares to \$222.9 million in 2015 and \$148.8 million in 2014.

In 2016, the Division issued \$43.8 million in new Sewer revenue and refunding bonds. In June 2016, the 2016A Sewer Revenue refunding bonds were issued in the amount of \$31.9 million to provide funds necessary to advance refund and defease the outstanding TES Bonds for debt service savings, to make a deposit to the Reserve Fund, and to pay costs of issuance of the 2016A Bonds. In September 2016, the 2016B Sewer Revenue Refunding Bonds were issued in the amount of \$11.9 Million to provide funds necessary to refund on a current basis a portion of the City's outstanding 2006 Bonds for debt service saving, and to pay costs of issuance of the 2016B bonds.

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.

Additional information on the Division's long-term debt can be found in Note 5 of the financial statements.

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.

The Division is required by its bond covenants to maintain a debt service coverage ratio of 1.3. The debt service coverage ratio is 2.98 at the end of 2016. This compares to a ratio of 4.18 in 2015 and 4.41 in 2014.

Summary

The management of the Finance Department of the City of Tacoma is responsible for preparing the accompanying financial statements and for their integrity. We prepared the financial statements according to GAAP in the United States of America, and they fairly portray the City of Tacoma Solid Waste Management's financial position and operating results. The Notes to Financial Statements are an integral part of the basic financial statements and provide additional financial information. The financial statements have been audited by Moss Adams LLP. We have made available to them all pertinent information necessary to complete the audit.

Management considers and takes appropriate action on audit recommendations. Management has established and maintains a system of controls which includes organizational, administrative and accounting processes. These controls provide reasonable assurance that records and reports are complete and reliable, that assets are used appropriately and that business transactions are carried out as authorized.

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Financial Statements

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

	December 31,	
	2016	2015
ASSETS		
Current Assets:		
Cash and equity in pooled investments	\$ 77,657,289	\$ 59,970,143
Accounts receivable, net	13,756,642	12,445,650
Due from other funds	85,078	401,047
Due from other governments	901,326	1,830,582
Inventory	1,028,565	1,012,955
Prepayments	225,886	226,460
Current restricted assets:		
Bond reserves and debt service funds	15,599,798	15,497,951
Construction funds	21,162,655	41,680,387
Total restricted cash and equity in pooled investments	36,762,453	57,178,338
Total current assets	130,417,239	133,065,175
Non-current assets:		
Net pension asset	-	1,119,219
Other non-current assets	1,237,088	4,087,232
Total non-current assets	1,237,088	5,206,451
Capital assets:		
Land and easements	23,575,775	19,628,654
Property, plant, and equipment	799,151,515	748,486,505
Less: accumulated depreciation	(252,711,033)	(236,073,097)
Construction work in progress	5,959,480	24,483,285
Total capital assets, net	575,975,737	556,525,347
Total noncurrent assets	577,212,825	561,731,798
TOTAL ASSETS	707,630,064	694,796,973
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow - loss on refunding bonds	3,066,732	3,332,605
Deferred outflows - pensions	11,657,050	2,657,217
TOTAL DEFERRED OUTFLOWS OF RESOURCES	14,723,782	5,989,822
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 722,353,846	\$ 700,786,795

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,	
	2016	2015
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 3,373,137	\$ 4,030,803
Due to other funds	1,852,218	1,310,794
Due to other governments	1,228,368	528,849
Accrued SRF loan interest payable	219,603	236,465
Accrued wages payable and compensated absences	850,069	737,650
Accrued taxes payable	924,265	653,731
Accrued environmental liability	300,000	648,000
Current portion of SRF loan and capital leases	3,798,001	4,414,062
Current portion of revenue bonds payable	4,427,499	3,542,917
Unearned revenue	324,491	-
Current payable from restricted assets:		
Current portion of revenue bonds payable	402,501	322,083
Accrued revenue bond interest payable	654,923	581,098
Total current liabilities	18,355,075	17,006,452
Noncurrent liabilities:		
Long-term debt - revenue bonds, net	195,665,359	167,051,061
Long-term accrued compensated absences	2,891,479	2,691,710
Long-term accrued environmental liability	300,000	150,000
Long-term SRF loan and capital leases	44,442,536	75,882,600
Net pension liability	10,094,045	-
Net OPEB obligation	2,783,835	2,519,381
Total noncurrent liabilities	256,177,254	248,294,752
TOTAL LIABILITIES	274,532,329	265,301,204
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization	25,000,000	25,000,000
Deferred inflows - gain on refunding bonds	91,256	-
Deferred inflows - pensions	675,741	1,181,543
TOTAL DEFERRED INFLOWS OF RESOURCES	25,766,997	26,181,543
NET POSITION		
Net investment in capital assets	392,364,966	392,427,935
Restricted for:		
Debt service	14,542,374	14,594,770
Net pension asset	-	1,119,219
Unrestricted	15,147,180	1,162,124
TOTAL NET POSITION	422,054,520	409,304,048
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 722,353,846	\$ 700,786,795

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

	December Year-to-Date	
	2016	2015
OPERATING REVENUES		
Wastewater residential	\$ 45,223,969	\$ 42,086,028
Wastewater commercial and public authorities	23,930,833	21,850,624
Surface water	32,565,853	30,504,327
Other revenues	2,558,962	1,958,544
Total operating revenues	<u>104,279,617</u>	<u>96,399,523</u>
OPERATING EXPENSES		
Business operations	26,020,054	22,579,954
Operations and maintenance	26,743,208	24,964,970
Science and engineering	16,238,793	13,953,970
Depreciation	15,575,113	14,957,561
Total operating expenses	<u>84,577,168</u>	<u>76,456,455</u>
Net operating income	<u>19,702,449</u>	<u>19,943,068</u>
NONOPERATING REVENUES (EXPENSES)		
Investment and other earnings	1,080,340	631,313
Interest expenses and other related costs	(8,382,463)	(8,526,797)
Amortization of bond premium and gain/loss on refunding	770,646	671,737
Other nonoperating revenues	1,667,686	778,917
Gain or (loss) on termination of capital lease	57,855	-
Gain or (loss) on sale/disposal of capital assets	(37,607)	(30,162)
Total nonoperating revenues (expenses)	<u>(4,843,543)</u>	<u>(6,474,992)</u>
Net income before contributions and transfers	<u>14,858,906</u>	<u>13,468,076</u>
Capital contributions	5,957,003	5,642,860
Transfer in	2,276,566	282,399
Transfer out & gross earnings tax	(10,342,003)	(7,824,301)
Total contributions and transfers	<u>(2,108,434)</u>	<u>(1,899,042)</u>
CHANGE IN NET POSITION	12,750,472	11,569,034
NET POSITION, BEGINNING OF YEAR	409,304,048	396,358,735
Accumulated adjustment for change in accounting principle	-	1,376,279
NET POSITION - BEGINNING OF YEAR, ADJUSTED	409,304,048	397,735,014
NET POSITION - ENDING	<u>\$ 422,054,520</u>	<u>\$ 409,304,048</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,	
	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 102,976,633	\$ 96,144,570
Receipts from interfund services provided	315,969	43,533
Payments to suppliers	(14,095,000)	(22,922,509)
Payments to employees	(34,828,747)	(31,828,783)
Payments for interfund services used	(11,317,609)	(10,864,017)
Payments for taxes	(1,634,026)	(1,515,351)
Other operating or non-operating revenue	1,646,896	511,307
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	43,064,116	29,568,750
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfer from (to) other funds	(8,204,479)	(7,991,246)
Grant received	24,911	317,610
Debt service related to environmental clean-up	-	(1,616,044)
Contribution and donation	19,713	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(8,159,855)	(9,289,680)
CASH FLOW FROM CAPITAL FINANCING ACTIVITIES:		
Transfer from (to) other fund	327,282	388,740
Acquisition and construction of capital assets	(35,063,111)	(35,521,502)
Principal paid on revenue bonds	(21,054,612)	(41,807,544)
Interest and issuance costs paid on capital debt	(8,229,622)	(6,710,943)
Proceeds from the issuance of revenue and refunding bonds	47,936,197	114,254,023
Capital lease obligation disposition	(28,326,514)	(661,212)
Contributions and donations	5,639,184	6,191,073
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	(38,771,196)	36,132,635
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	1,138,196	631,314
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	1,138,196	631,314
NET INCREASE (DECREASE) IN CASH & EQUITY IN POOLED INVESTMENTS	(2,728,739)	57,043,019
CASH & EQUITY IN POOLED INVESTMENTS, JANUARY 1	117,148,481	60,105,462
CASH & EQUITY IN POOLED INVESTMENTS, DECEMBER 31	\$ 114,419,742	\$ 117,148,481

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,	
	2016	2015
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Net operating income	\$ 19,702,449	\$ 19,943,068
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	15,575,113	14,957,561
(Increase) decrease in accounts receivable	(1,302,985)	(254,955)
(Increase) decrease in intergovernmental receivable	1,223,240	(1,223,240)
(Increase) decrease in due from other funds	315,969	43,533
(Increase) decrease in inventory	(15,610)	1,145
(Increase) decrease in prepayments	94,486	158,306
(Increase) decrease in other assets	(5,132,389)	(3,776,436)
Increase (decrease) in accounts payable	(575,372)	(1,897,660)
Increase (decrease) in accrued wages and benefits	112,419	(948,858)
Increase (decrease) in compensated absences	464,223	333,308
Increase (decrease) in due to other funds	1,240,943	(434,186)
Increase (decrease) in unearned revenue	324,491	(195,619)
Increase (decrease) in other current liabilities	(348,000)	43,654
Increase (decrease) in long term liabilities	9,738,243	2,307,822
Miscellaneous non-operating revenues	1,646,896	511,307
Total adjustments	23,361,667	9,625,682
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 43,064,116	\$ 29,568,750
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Donated capital assets	\$ 1,407,416	\$ 1,800,071

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
For the years ended December 31, 2016 and 2015

NOTE 1 OPERATIONS

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CASH AND EQUITY IN POOLED INVESTMENTS - 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.

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 certificate of deposit maintained with East West Bank.

Wastewater and Surface Water Management Notes to Financial Statements

The Division's equity in that portion of the TIP held in qualified public depositories at December 31, 2016 and 2015 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 Investment Policy allows for authorized investments up to 60 months to maturity. One method the City uses to manage 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.

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

Wastewater and Surface Water Management Notes to Financial Statements

BOND PREMIUM AND GAIN/LOSS ON REFUNDING - Bond premiums are amortized over the life of the bonds using the weighted average of the bonds outstanding. Gains or losses on bond refunding represent the difference between reacquisition price and the carrying value of the old debt and are amortized on a straight-line basis over the applicable bond period, and are presented as deferred outflows on the statement of net position.

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

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

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

The estimated useful lives range as follows:

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

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

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

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

CAPITAL CONTRIBUTIONS- In accordance with GASB No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", capital grants and capital contributions 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)

Wastewater and Surface Water Management Notes to Financial Statements

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%. Vacation pay and PTO are recorded as a liability and expense in the year earned.

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. Sick leave pay is recorded as a liability and expense in the year earned.

The accrued liability is computed at 100% vacation and PTO while sick leave is accrued at 10%, which is considered the amount vested or 25% if the employee meets retirement criteria. Based on historical information, 10% of compensated absences are considered short term.

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.

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.

Wastewater and Surface Water Management

Notes to Financial Statements

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 assets, deferred outflows of resources, liabilities, deferred inflows of resources, with the difference of the elements reported as 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.

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 liability and other contingencies. Actual results may differ from these estimates.

Wastewater and Surface Water Management Notes to Financial Statements

SIGNIFICANT RISKS AND UNCERTAINTIES - The Division is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include, but are not limited to, weather and natural disaster-related disruptions, collective bargaining labor disputes, Environmental Protection Agency regulations, federal government regulations or orders concerning the operation, maintenance and/or licensing of facilities.

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

NOTE 3 INVESTMENTS MEASURED AT FAIR VALUE

The City measures and records its investments within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on the valuation inputs used to measure the fair value of the asset, where fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1 - Level 1 inputs are quoted (adjusted) prices in active markets for identical assets or liabilities that the government can access at the measurement data. Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.

- Level 2 - Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs are sourced from pricing vendors using models that are market-based and corroborated by observable market data including: quoted prices; nominal yield spreads; benchmark yield curves; and other corroborated inputs.

- Level 3 - Level 3 inputs are unobservable inputs for the asset or liability and should only be used when relevant Level 1 or Level 2 inputs are unavailable.

The fair value evaluations of City's investments in TIP are provided by Interactive Data. Interactive Data utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, Interactive Data's evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. In addition, Interactive Data uses model processes, such as the Option Adjusted Spread model to assess interest rate impact and development payment scenarios. Their models and processes take into account market convention. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models.

Source: Interactive Data "Summary of Inputs by Asset Class Fixed Income Evaluations, Fair Value Information Service and Valuations of Certain Other Instruments" dated January 2016.

Cash and cash equivalents include highly liquid investments including short-term investment funds. Cash and cash equivalents are valued at cost and, therefore, excluded from the fair value schedule.

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

Data regarding the City's investments in the TIP, valued and categorized according to the above outlined levels, is below:

Debt Securities:	As of			
	12/31/2016	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 146,824,628	\$ -	\$ 146,824,628	\$ -
U.S. Agency Securities	544,579,831	-	544,579,831	-
Municipal Bonds	61,450,051	-	61,450,051	-
Total	\$ 752,854,510	\$ -	\$ 752,854,510	\$ -

Debt Securities:	As of			
	12/31/2015	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 108,647,159	\$ -	\$ 108,647,159	\$ -
U.S. Agency Securities	541,730,185	-	541,730,185	-
Municipal Bonds	119,200,942	-	119,200,942	-
Total	\$ 769,578,286	\$ -	\$ 769,578,286	\$ -

The Division's share of the City's investments shown in the table above is 14.83% and 14.55% for 2016 and 2015.

Wastewater and Surface Water Management Notes to Financial Statements

NOTE 4 CAPITAL ASSETS

A summary of the balances and changes in capital assets for 2016 and 2015 follows:

	2015	Additions	Retirements	Transfers & Adjustments	2016
Capital assets, not being depreciated:					
Land and easements	\$ 19,628,654	\$ 3,678,506	\$ (1,844)	\$ 270,459	\$ 23,575,775
Construction work in progress	24,483,285	24,653,340	(102,029)	(43,075,116)	5,959,480
Total capital assets, not being depreciated	<u>44,111,939</u>	<u>28,331,846</u>	<u>(103,873)</u>	<u>(42,804,657)</u>	<u>29,535,255</u>
Capital assets, being depreciated:					
Buildings	161,995,732	-	-	36,997,494	198,993,226
Buildings - capital lease	31,813,726	-	-	(31,813,726)	-
Machinery and equipment	163,386,905	-	-	33,995,207	197,382,112
Transmission lines and other improvements	383,301,068	1,164,190	(71,502)	10,157,085	394,550,841
Computer software	7,989,074	-	-	236,262	8,225,336
Total capital assets, being depreciated	<u>748,486,505</u>	<u>1,164,190</u>	<u>(71,502)</u>	<u>49,572,322</u>	<u>799,151,515</u>
Less: accumulated depreciation	(236,073,097)	(15,575,113)	37,508	(1,100,331)	(252,711,033)
Total capital assets, being depreciated, net	<u>512,413,408</u>	<u>(14,410,923)</u>	<u>(33,994)</u>	<u>48,471,991</u>	<u>546,440,482</u>
Total capital assets, net	<u>\$ 556,525,347</u>	<u>\$ 13,920,923</u>	<u>\$ (137,867)</u>	<u>\$ 5,667,334</u>	<u>\$ 575,975,737</u>

	2014	Additions	Retirements	Transfers & Adjustments	2015
Capital assets, not being depreciated:					
Land and easements	\$ 19,621,412	\$ 7,242	\$ -	\$ -	\$ 19,628,654
Construction work in progress	23,323,297	34,630,899	(465,894)	(33,005,017)	24,483,285
Total capital assets, not being depreciated	<u>42,944,709</u>	<u>34,638,141</u>	<u>(465,894)</u>	<u>(33,005,017)</u>	<u>44,111,939</u>
Capital assets, being depreciated:					
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
Total capital assets, being depreciated	<u>714,533,859</u>	<u>1,792,829</u>	<u>(389,504)</u>	<u>32,549,321</u>	<u>748,486,505</u>
Less: accumulated depreciation	(221,487,000)	(14,957,561)	371,464	-	(236,073,097)
Total capital assets, being depreciated, net	<u>493,046,859</u>	<u>(13,164,732)</u>	<u>(18,040)</u>	<u>32,549,321</u>	<u>512,413,408</u>
Total capital assets, net	<u>\$ 535,991,568</u>	<u>\$ 21,473,409</u>	<u>\$ (483,934)</u>	<u>\$ (455,696)</u>	<u>\$ 556,525,347</u>

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

NOTE 5 LONG-TERM DEBT

Long-term debt activity for the years ended December 31, 2016 and 2015 follows:

	2015	Additions	Reductions	2016	Due within One Year
Revenue bonds	\$ 159,175,000	\$ 43,720,000	\$ (17,325,000)	185,570,000	\$ 4,830,000
Plus: Unamortized premium	11,741,061	4,216,197	(1,031,899)	14,925,359	-
State Revolving Fund loans	51,970,148	-	(3,729,612)	48,240,536	3,798,001
Long-term debt	<u>\$ 222,886,209</u>	<u>\$ 47,936,197</u>	<u>\$ (22,086,511)</u>	<u>\$ 248,735,895</u>	<u>\$ 8,628,001</u>
Capital lease	28,326,514	-	(28,326,514)	-	-
Total long-term debt	<u>\$ 251,212,723</u>	<u>\$ 47,936,197</u>	<u>\$ (50,413,025)</u>	<u>\$ 248,735,895</u>	<u>\$ 8,628,001</u>

	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>

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.

Parity bond, senior lien:	2016	2015
2006 Revenue and Refunding Bonds, portions of the outstanding bonds with a par value of \$12,935,000 were refunded with proceeds from the 2016B Revenue Refunding Bonds. Following the 2016 payment, the remaining outstanding balance is \$5,000 due in 2036. The remaining bond has an interest rate of 5.125% and preserves a reserve surety policy in the amount of \$3,033,407.	\$ 5,000	\$ 15,560,000
2011 Revenue and 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 (a) finance a portion of the costs of the Division's capital improvement program, (b) to refund a portion of the 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.	108,055,000	109,300,000
2016A Revenue Refunding Bonds, with interest rates ranging from 1.75% to 5%, due in yearly installments of \$525,000 to \$2,010,000 between 2016 and 2038. Original par value \$31,855,000 with a call date of June 1, 2026. Purpose was to advance refund of the TES Properties, 2009 Lease Revenue Bonds and contemporaneously terminate the capital lease agreement with TES Properties. Proceeds were also used to fund the bond reserve and pay issuance costs.	31,330,000	-
2016B Revenue Refunding Bonds, with interest rates ranging from 4% to 5%, due in yearly installments of \$2,165,000 to \$2,605,000 between 2017 and 2021. Purpose was to refund a portion of the 2006 Revenue and Refunding Bonds and issuance costs.	11,865,000	-
	185,570,000	159,175,000
Total parity bonds, senior lien		

Continue on next page

Wastewater and Surface Water Management Notes to Financial Statements

Junior lien debt:

State Revolving Fund loans DOE L040006A & DOE L040006B, with an interest rate of 1.5% and 2.6%, respectively, due in semi annual installments of \$2,297,662 to \$4,532,452 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.	47,874,520	51,583,235
State Revolving Fund loan 2011 DOE L1000007, with an interest rate of 2.9% in semi-annual installments of \$21,511 to \$31,346 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.	366,016	386,913
Total junior lien debt	48,240,536	51,970,148
Total outstanding debt	233,810,536	211,145,148
Less:		
Current portion	(8,628,001)	(7,594,611)
Plus: Unamortized premium	14,925,359	11,741,061
Total long-term debt	\$ 240,107,894	\$ 215,291,598

Annual debt service requirements to maturity are as follows:

	Principal	Interest	Total Debt Service
2017	\$ 8,628,001	\$ 8,730,908	\$ 17,358,909
2018	8,892,742	8,477,717	17,370,459
2019	9,188,863	8,165,446	17,354,309
2020	9,511,393	7,848,866	17,360,259
2021	9,850,363	7,510,846	17,361,209
2022-2026	54,063,945	32,678,098	86,742,043
2027-2031	46,815,230	23,641,376	70,456,606
2032-2036	52,525,000	13,376,469	65,901,469
2037-2041	19,495,000	5,121,200	24,616,200
2042-2046	14,840,000	1,513,000	16,353,000
	\$ 233,810,536	\$ 117,063,925	\$ 350,874,461

ADVANCED REFUNDING – During 2016 the Division issued \$11,865,000 in revenue refunding bonds with interest rates ranging from 4.0% to 5.0%. A portion of the proceeds were used to advance refund \$12,935,000 of outstanding 2006 Sewer Revenue and Refunding bonds which had interest rates ranging from 4.55% to 5.0%. A portion of net proceeds in the amount of \$13,252,559 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.

Wastewater and Surface Water Management

Notes to Financial Statements

The reacquisition price exceeded the net carrying amount of the old debt by \$97,443. This amount is presented as a deferred inflow 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 \$1,407,438 resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,259,526.

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, 2016, no bonds were defeased and outstanding.

The Division's revenue bonds are secured by net operating revenue and cash and equity in pooled investment balances in the bond construction, reserve, and debt service funds. The bonds are also subject to certain financial and non-financial covenants. Arbitrage calculations were prepared and no arbitrage was due in 2016 or 2015.

NOTE 6 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 Center for Urban Waters (CUW) building to be: Wastewater (43%), Surface Water (37%) and Solid Waste (20%).

The three divisions included their pro-rata share of the capital lease building and lease obligation for the building in their respective financial statements. The land on which the building was constructed was transferred to TES Properties and reclassified on the utilities' balance sheets to a deferred debit. During June 2016, the TES Lease Revenue Bonds, Series 2009 were advance refunded and defeased with proceeds from the sale of City of Tacoma Sewer Revenue Refunding Bonds, Series 2016A. The bonds were issued mainly to terminate the capital lease obligation and to exercise the right to purchase the capital lease assets using bond proceeds. As a result, the project lease with TES was terminated and the ownership of the CUW building and land was conveyed back to the City of Tacoma.

The termination of the capital lease was accounted for by removing the capital lease building and lease obligation, with a gain of \$57,855 recognized for the difference.

The CUW land and building, representing amounts previously recorded as capital-lease building and deferred debits, were transferred to Wastewater at net book value. Wastewater is fully responsible for the new bond obligation and is now the owner of the building, the land, and additional improvements. As the property owner, Wastewater will charge rent to Surface Water and Solid Waste on a monthly basis

Wastewater and Surface Water Management Notes to Financial Statements

NOTE 7 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 2016 compared to \$211,399 for 2015. 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 \$20 million, subject to a self-insured retention of \$3 million and a \$20 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 maintains a Pollution Liability policy covering pollution events that emanate from premises as listed on the City's Property Insurance policy. The limit of liability is \$2,000,000 per pollution condition with a \$2,000,000 annual aggregate. 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 \$242,700 in 2016 and \$223,286 in 2015.

NOTE 8 TACOMA EMPLOYEES' RETIREMENT SYSTEM

The Tacoma Employees' Retirement System (TERS or System), 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, 2016 is as follows:

Retirees and beneficiaries currently receiving benefits		2,234
Terminated vested and other terminated participants		644
Active members:		
City of Tacoma	2,654	
South Sound 911	4	
Pierce Transit	7	
Tacoma-Pierce County Health Department	262	
Total active members		2,927
Total membership		5,805

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, 2015
Valuation Date	January 1, 2016
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 01/01/2016 · 4% amortization growth rate
Asset Valuation Method	4 year smoothing period; Corridor - None
Inflation	3%
Salary Increases	Varies by service; details in funding valuation report
Investment Rate of Return	7.25%
Cost of Living Adjustment	2.125%
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. Generation improvements per projection Scale AA.
Male members and male beneficiaries:	Combined table for healthy or disabled for males set back one year.
Female members and female beneficiaries:	Combined table for healthy or disabled for females set back one year.

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, 2015 and January 1, 2016 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%	2.00%
US inflation-indexed bonds	5.0%	1.41%
High yield bonds	9.0%	4.22%
Emerging market debt	5.0%	5.06%
Global equity	41.5%	5.72%
Public real estate	2.0%	6.07%
Private real estate	2.5%	3.60%
Private equity	10.0%	9.29%
Master limited partnerships	4.0%	3.98%
Timber	2.0%	3.73%
Infrastructure	2.0%	5.14%
Agriculture	2.0%	4.30%
Assumed inflation - mean		3.00%
Assumed inflation - standard deviation		1.89%
Portfolio arithmetic real mean return		4.94%
Portfolio median nominal geometric return		7.06%
Portfolio standard deviation		11.84%
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 liability/(asset) of the System, calculated using the discount rate of 7.25%, as well as what the Division's net pension liability/(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)	\$ 31,303,343	\$ 10,094,045	\$ (7,766,563)

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	\$ (675,614)	\$ -
Changes in assumptions	\$ -	\$ -
Net differences between projected and actual earnings	\$ -	\$ 8,896,542
Contributions made subsequent to the measurement date	NA	\$ 2,753,195
Changes in employer proportion	\$ (127)	\$ 7,313
Total	\$ (675,741)	\$ 11,657,050

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 liability (asset) in the following year.

Amounts will be recognized in pension expense as follows:

Year ended December 31	
2017	\$ 1,989,633
2018	1,989,633
2019	2,285,820
2020	(26,605)
	\$ 6,238,481

The Division's proportionate share of the System's collective net pension liability (asset) is 11.66%. 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 9 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 2016 is 21 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, 2016 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.

Wastewater and Surface Water Management Notes to Financial Statements

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.

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	<u>4,575</u>	<u>4,590</u>
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	<u>\$ 251,839,846</u>	<u>\$ 208,814,312</u>
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	\$ 8,539,402

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 December 31, 2016.

	City	Division
Determination of Annual Required Contribution:		
Normal Cost at Year-end	\$ 3,803,090	\$ 289,506
Amortization of UAAL	15,665,117	98,165
Annual Required Contribution	\$ 19,468,207	\$ 387,671
Determination of Net OPEB Obligation:		
Annual Required Contribution	\$ 19,468,207	\$ 387,671
Interest on prior year Net OPEB Obligation	2,666,468	94,477
Adjustment to ARC	(3,983,647)	(117,105)
Annual OPEB Cost	18,151,028	365,043
Actual benefits paid	8,539,402	100,588
Increase in Net OPEB Obligation	9,611,626	264,455
Net OPEB Obligation - beginning of year	73,129,502	2,519,381
Net OPEB Obligation - end of year	\$ 82,741,128	\$ 2,783,835

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
12/31/2014	\$ 19,319,944	\$ 417,168	\$ 9,887,334	\$ 120,646	\$ 56,110,801	\$ 1,967,642
12/31/2015	\$ 15,954,387	\$ 412,703	\$ 9,292,539	\$ 148,742	\$ 66,138,206	\$ 2,231,603
12/31/2016	\$ 18,151,028	\$ 365,043	\$ 8,539,402	\$ 100,588	\$ 82,741,128	\$ 2,783,835

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 non current 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 21 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:	21 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%
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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 10 ENVIRONMENTAL LIABILITIES

COMMENCEMENT BAY NATURAL RESOURCE DAMAGES - The City resolved federal, state, and tribal natural resource damage claims associated with municipal storm water discharges in Commencement Bay through a Consent Decree, effective December 30, 1997. The stated value of the City's settlement was 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 was completed on four projects and the City made a payment to the Port of Tacoma of \$134,692 to construct the fifth project. This final project, Place of Circling Waters, was built in 2010 and the monitoring period was completed in 2016.

The City provided notification to the Trustees in 2013 that the obligations of the NRDA Consent Decree were fulfilled. In the Trustees response, they indicated that monitoring of Place of Circling Waters needed to be complete before the Consent Decree could be closed out. Included in the financial statements for the years 2016 and 2015 are liabilities of \$200,000 and \$198,000 respectively. This amount will carry over until the Consent Decree can be closed out. Now that the monitoring was completed, it is currently anticipated the closeout will occur in 2017.

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.

FOSS CONSENT DECREE – The City completed initial post-construction monitoring under the Foss Consent Decree in 2016 and is currently working with the Environmental Protection Agency to develop the monitoring plan for the next ten years. The City has an obligation under the Foss Consent Decree for continued monitoring until at least 2028. The results of this monitoring may result in additional cleanup efforts in the future. Included in the financial statements for the years 2016 and 2015 are liabilities of \$400,000 and \$600,000 respectively.

NOTE 11 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,	
	2016	2015
Division's proportion of the net pension liability (asset)	11.66%	11.65%
Division's proportionate share of the net pension liability (asset)	\$ 10,094,045	\$ (1,119,219)
Division's covered-employee payroll	\$ 25,955,557	\$ 26,960,556
Division's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	38.89%	-4.15%
Plan fiduciary net position as a percentage of the total pension liability	93.94%	100.71%

Schedule of Division Contributions
Last 10 Fiscal Years*

	Fiscal Year Ended December 31,	
	2016	2015
Contractually required contribution	\$ 2,753,194	2,650,121
Contributions in relation to the contractually required contribution	(2,753,194)	(2,650,121)
Contribution deficiency (excess)	\$ -	\$ -
Division's covered-employee payroll	\$ 25,955,557	26,960,556
Contribution as a percentage of covered-employee payroll	10.61%	9.83%

* Fiscal year 2015 was the first year of implementation; therefore, only two years are shown.

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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
City of Tacoma, Washington Refunding Bonds, Series 2011
City of Tacoma, Washington Revenue and Refunding Bonds, Series 2015
City of Tacoma, Washington Sewer Revenue Refunding Bonds, Series 2016A
City of Tacoma, Washington Sewer Revenue Refunding Bonds, Series 2016B

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 5 in Notes to Financial Statements

Debt Service Coverage

	2015*	2016
Parity Bond Debt Service Coverage Ratio	4.48	2.98
Parity Bond and Subordinate Lien Debt Service Coverage Ratio	2.86	2.16

* Restated to exclude interest expense paid with 2015 refunding escrow funds.

Number of Customers by Type of Service

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

	Wastewater				Surface Water		
	Residential	Commercial/ Industrial	Contract ⁽¹⁾	Total	Residential	Commercial/ Industrial	Total
2015	58,156	3,763	13,813	75,732	59,518	11,093	70,611
2016	58,575	3,758	13,935	76,268	59,603	11,100	70,703

⁽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 2016 are shown in the following table.

Customer Name	Amount	Percent of 2016 Operating Revenues (1)
Metro Parks	\$ 1,884,693	1.81%
Tacoma School District	1,609,565	1.54%
Port of Tacoma	1,520,898	1.46%
City of Tacoma	1,275,200	1.22%
Darling International Inc	1,157,958	1.11%
Puyallup Tribe	851,519	0.81%
Pierce County Facilities	635,559	0.61%
Multicare	634,954	0.61%
St Joseph Hospital	467,317	0.45%
Westridges Apartments	447,004	0.43%
Total	<u>\$ 10,484,667</u>	10.05%

(1) Total system revenue \$ 104,279,617

Revenues by Service

The Systems revenues for 2015 and 2016 are shown in the following table.

	2015	2016
Wastewater:		
Residential	\$ 42,086,028	\$ 45,223,969
Commercial and public authorities	21,850,624	23,930,833
Other revenues	1,732,666	2,315,123
Surface Water:		
Unmetered services	30,504,327	32,565,853
Other revenues	225,878	243,839
Total operating revenues	<u>\$ 96,399,523</u>	<u>\$ 104,279,617</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,	
	2016	2015	2016	2015
ASSETS				
Current Assets:				
Cash and equity in pooled investments	\$ 47,623,192	\$ 32,995,067	\$ 30,034,097	\$ 26,975,076
Accounts receivable, net	9,509,267	8,564,036	4,247,375	3,881,614
Due from other funds	84,513	121,540	565	279,507
Due from other governments	-	-	901,326	1,830,582
Inventory	1,028,565	1,012,955	-	-
Prepayments	215,854	213,018	10,032	13,442
Current restricted assets:				
Bond reserves and debt service funds	10,440,175	10,209,691	5,159,623	5,288,260
Construction funds	7,862,507	31,595,476	13,300,148	10,084,911
Total restricted cash and equity in pooled investments	18,302,682	41,805,167	18,459,771	15,373,171
Total current assets	76,764,073	84,711,783	53,653,166	48,353,392
Non-current assets:				
Net pension asset	-	766,219	-	353,000
Other non-current assets	1,237,088	2,816,178	-	1,271,054
Total non-current assets	1,237,088	3,582,397	-	1,624,054
Capital assets:				
Land and easements	11,950,401	7,572,520	11,625,374	12,056,134
Property, plant, and equipment	597,387,221	548,951,489	201,764,294	199,535,016
Less: accumulated depreciation	(205,467,219)	(190,226,348)	(47,243,814)	(45,846,749)
Construction work in progress	4,036,678	16,904,275	1,922,802	7,579,010
Total capital assets, net	407,907,081	383,201,936	168,068,656	173,323,411
Total noncurrent assets	409,144,169	386,784,333	168,068,656	174,947,465
TOTAL ASSETS	485,908,242	471,496,116	221,721,822	223,300,857
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow - loss on refunding bonds	1,053,419	1,151,431	2,013,313	2,181,174
Deferred outflows - pensions	7,926,333	1,819,135	3,730,717	838,082
TOTAL DEFERRED OUTFLOWS OF RESOURCES	8,979,752	2,970,566	5,744,030	3,019,256
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 494,887,994	\$ 474,466,682	\$ 227,465,852	\$ 226,320,113

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

	Wastewater December 31,		Surface Water December 31,	
	2016	2015	2016	2015
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 2,458,059	\$ 2,047,344	\$ 915,078	\$ 1,983,459
Due to other funds	1,108,492	700,678	743,726	610,116
Due to other governments	1,228,368	528,849	-	-
Accrued SRF loan interest payable	219,603	236,465	-	-
Accrued wages payable and compensated absences	615,575	524,461	234,494	213,189
Accrued taxes payable	659,700	437,706	264,565	216,025
Accrued environmental liability	-	-	300,000	648,000
Current portion of SRF loan and capital leases	3,776,490	4,035,955	21,511	378,107
Current portion of revenue bonds payable	2,567,372	1,812,773	1,860,127	1,730,144
Unearned revenue	216,327	-	108,164	-
Current payable from restricted assets:				
Current portion of revenue bonds payable	233,398	164,797	169,103	157,286
Accrued revenue bond interest payable	338,055	284,314	316,868	296,784
Total current liabilities	<u>13,421,439</u>	<u>10,773,342</u>	<u>4,933,636</u>	<u>6,233,110</u>
Noncurrent liabilities:				
Long-term debt - revenue bonds, net	105,233,892	83,409,156	90,431,467	83,641,905
Long-term accrued compensated absences	2,195,706	2,021,343	695,773	670,367
Long-term accrued environmental liability	-	-	300,000	150,000
Long-term SRF loan and capital leases	44,098,030	61,090,370	344,506	14,792,230
Net pension liability	6,863,551	-	3,230,494	-
Net OPEB obligation	2,294,946	2,036,203	488,889	483,178
Total noncurrent liabilities	<u>160,686,125</u>	<u>148,557,072</u>	<u>95,491,129</u>	<u>99,737,680</u>
TOTAL LIABILITIES	<u>174,107,564</u>	<u>159,330,414</u>	<u>100,424,765</u>	<u>105,970,790</u>
DEFERRED INFLOWS OF RESOURCES				
Rate stabilization	17,000,000	17,000,000	8,000,000	8,000,000
Deferred inflows - gain on refunding bonds	38,328	-	52,928	-
Deferred inflows - pensions	459,477	808,886	216,264	372,657
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>17,497,805</u>	<u>17,808,886</u>	<u>8,269,192</u>	<u>8,372,657</u>
NET POSITION				
Net investment in capital assets	261,108,895	265,600,589	131,256,071	126,827,346
Restricted for:				
Debt service	9,868,722	9,760,580	4,673,652	4,834,190
Net pension asset	-	766,219	-	353,000
Unrestricted	32,305,008	21,199,994	(17,157,828)	(20,037,870)
TOTAL NET POSITION	<u>303,282,625</u>	<u>297,327,382</u>	<u>118,771,895</u>	<u>111,976,666</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 494,887,994</u>	<u>\$ 474,466,682</u>	<u>\$ 227,465,852</u>	<u>\$ 226,320,113</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	
	December Year-to-Date		December Year-to-Date	
	2016	2015	2016	2015
OPERATING REVENUES				
Wastewater residential	\$ 45,223,969	\$ 42,086,028	\$ -	\$ -
Wastewater commercial and public authorities	23,930,833	21,850,624	-	-
Surface water	-	-	32,565,853	30,504,327
Other revenues	2,315,123	1,732,666	243,839	225,878
Total operating revenues	<u>71,469,925</u>	<u>65,669,318</u>	<u>32,809,692</u>	<u>30,730,205</u>
OPERATING EXPENSES				
Business operations	17,834,724	15,406,766	8,185,330	7,173,188
Operations and maintenance	22,818,982	21,084,011	3,924,226	3,880,959
Science and engineering	7,406,618	5,811,987	8,832,175	8,141,983
Depreciation	11,902,693	11,224,784	3,672,420	3,732,777
Total operating expenses	<u>59,963,017</u>	<u>53,527,548</u>	<u>24,614,151</u>	<u>22,928,907</u>
Net operating income	<u>11,506,908</u>	<u>12,141,770</u>	<u>8,195,541</u>	<u>7,801,298</u>
NONOPERATING REVENUES (EXPENSES)				
Investment and other earnings	689,121	392,468	391,219	238,845
Interest expenses and other related costs	(4,628,099)	(4,402,079)	(3,754,364)	(4,124,718)
Amortization of bond premium and gain/loss on refunding	362,800	321,372	407,846	350,365
Other nonoperating revenues	1,452,316	290,774	215,370	488,143
Gain or (loss) on termination of capital lease	35,655	-	22,200	-
Gain or (loss) on sale/disposal of capital assets	(34,136)	(12,256)	(3,471)	(17,906)
Total nonoperating revenues (expenses)	<u>(2,122,343)</u>	<u>(3,409,721)</u>	<u>(2,721,200)</u>	<u>(3,065,271)</u>
Net income before contributions and transfers	<u>9,384,565</u>	<u>8,732,049</u>	<u>5,474,341</u>	<u>4,736,027</u>
Capital contributions	2,088,710	2,908,306	3,868,293	2,734,554
Transfer in	1,258,455	211,026	1,018,111	71,373
Transfer out & gross earnings tax	(6,776,487)	(5,332,103)	(3,565,516)	(2,492,198)
Total contributions and transfers	<u>(3,429,322)</u>	<u>(2,212,771)</u>	<u>1,320,888</u>	<u>313,729</u>
CHANGE IN NET POSITION	5,955,243	6,519,278	6,795,229	5,049,756
NET POSITION, BEGINNING OF YEAR	297,327,382	289,865,901	111,976,666	106,492,834
Accumulated adjustment for change in accounting principle		942,203	-	434,076
NET POSITION - BEGINNING OF YEAR, ADJUSTED	<u>297,327,382</u>	<u>290,808,104</u>	<u>111,976,666</u>	<u>106,926,910</u>
NET POSITION - ENDING	<u>\$ 303,282,625</u>	<u>\$ 297,327,382</u>	<u>\$ 118,771,895</u>	<u>\$ 111,976,666</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,	
	2016	2015	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES:				
Receipts from customers	\$ 70,532,702	\$ 65,375,674	\$ 32,443,931	\$ 30,768,896
Receipts from interfund services provided	37,027	20,330	278,942	23,203
Payments to suppliers	(10,700,507)	(14,678,546)	(3,394,493)	(8,243,963)
Payments to employees	(24,233,887)	(22,040,336)	(10,594,860)	(9,788,447)
Payments for interfund services used	(6,897,652)	(6,609,779)	(4,419,957)	(4,254,238)
Payments for taxes	(1,162,410)	(1,059,956)	(471,616)	(455,395)
Other operating or non-operating revenue	1,449,374	290,774	197,522	220,533
NET CASH PROVIDED (USED) BY				
OPERATING ACTIVITIES	<u>29,024,647</u>	<u>21,298,161</u>	<u>14,039,469</u>	<u>8,270,589</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Transfer from (to) other funds	(5,726,382)	(5,094,795)	(2,478,097)	(2,896,451)
Grant received	548	-	24,363	317,610
Debt service related to environmental clean-up	-	-	-	(1,616,044)
Contribution and donation	2,394	-	17,319	-
NET CASH PROVIDED (USED) BY				
NONCAPITAL FINANCING ACTIVITIES	<u>(5,723,440)</u>	<u>(5,094,795)</u>	<u>(2,436,415)</u>	<u>(4,194,885)</u>
CASH FLOW FROM CAPITAL FINANCING ACTIVITIES:				
Transfer from (to) other fund	348,871	(73,797)	(21,589)	462,537
Acquisition and construction of capital assets	(36,641,974)	(23,578,601)	1,578,863	(11,942,901)
Principal paid on revenue bonds	(11,489,744)	(19,201,710)	(9,564,868)	(22,605,834)
Interest and issuance costs paid on capital debt	(4,580,405)	(4,257,182)	(3,649,217)	(2,453,761)
Proceeds from the issuance of revenue and refunding bonds	30,917,289	69,684,330	17,018,908	44,569,693
Capital lease obligation disposition	(13,543,090)	(316,130)	(14,783,424)	(345,082)
Contributions and donations	2,088,710	2,908,306	3,550,474	3,282,767
NET CASH PROVIDED (USED) BY				
CAPITAL FINANCING ACTIVITIES	<u>(32,900,343)</u>	<u>25,165,216</u>	<u>(5,870,853)</u>	<u>10,967,419</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income	724,776	392,469	413,420	238,845
NET CASH PROVIDED (USED) BY				
INVESTING ACTIVITIES	<u>724,776</u>	<u>392,469</u>	<u>413,420</u>	<u>238,845</u>
NET INCREASE (DECREASE) IN CASH & EQUITY IN POOLED INVESTMENTS	(8,874,360)	41,761,051	6,145,621	15,281,968
CASH & EQUITY IN POOLED INVESTMENTS, JANUARY 1	74,800,234	33,039,183	42,348,247	27,066,279
CASH & EQUITY IN POOLED INVESTMENTS, DECEMBER 31	<u>\$ 65,925,874</u>	<u>\$ 74,800,234</u>	<u>\$ 48,493,868</u>	<u>\$ 42,348,247</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,	
	2016	2015	2016	2015
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Net operating income	\$ 11,506,908	\$ 12,141,770	\$ 8,195,541	\$ 7,801,298
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	11,902,693	11,224,784	3,672,420	3,732,777
(Increase) decrease in accounts receivable	(937,224)	(293,646)	(365,761)	38,691
(Increase) decrease in intergovernmental receivable	-	-	1,223,240	(1,223,240)
(Increase) decrease in due from other funds	37,027	20,330	278,942	23,203
(Increase) decrease in inventory	(15,610)	1,145	-	-
(Increase) decrease in prepayments	91,077	110,833	3,409	47,473
(Increase) decrease in other assets	(3,863,808)	(2,585,354)	(1,268,581)	(1,191,082)
Increase (decrease) in accounts payable	492,188	(753,832)	(1,067,560)	(1,143,828)
Increase (decrease) in accrued wages and benefits	91,113	(639,375)	21,306	(309,483)
Increase (decrease) in compensated absences	433,106	318,254	31,117	15,054
Increase (decrease) in due to other funds	1,107,334	(154,213)	133,609	(279,973)
Increase (decrease) in unearned revenue	216,327	(134,398)	108,164	(61,221)
Increase (decrease) in other current liabilities	-	-	(348,000)	43,654
Increase (decrease) in long term liabilities	6,514,142	1,751,089	3,224,101	556,733
Miscellaneous non-operating revenues	1,449,374	290,774	197,522	220,533
Total adjustments	<u>17,517,739</u>	<u>9,156,391</u>	<u>5,843,928</u>	<u>469,291</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 29,024,647</u>	<u>\$ 21,298,161</u>	<u>\$ 14,039,469</u>	<u>\$ 8,270,589</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Donated capital assets	\$ 395,645	\$ 719,758	\$ 1,011,771	\$ 1,080,313



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.