



*Wastewater and Surface Water
Management
Financial Report
September 2014*

City of Tacoma
Environmental Services
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Notification

These financial statements are interim, unaudited reports prepared primarily for the use of management. Not all transactions reported in these statements have been recorded on the full accrual basis of accounting or in accordance with generally accepted accounting principles. Immaterial differences may occur due to rounding.

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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
September 30, 2014 and 2013

Introduction

The following is management's discussion and analysis (MD&A) of the financial activities of the City of Tacoma's Wastewater and Surface Water Management Division (the Division) for the periods ended September 30, 2014 and 2013. The MD&A is designed to focus on significant financial transactions and activities and to identify changes in financial position. This information should be read in conjunction with the financial statements taken as a whole. The financial statements are prepared on a full accrual basis of accounting.

Financial Highlights

- Total net position is \$390.5 million at September 30, 2014 compared to \$375.8 million at September 30, 2013. The change in net position for the first nine months is \$4.2 million in 2014 compared to \$6.3 million in 2013.
- Total assets and deferred outflows of resources are \$604.5 million, an increase of \$11.0 million from \$593.5 million in 2013.
- Liabilities and deferred inflows of resources are \$214.0 million, a decrease of \$3.7 million from \$217.7 million in 2013.

Financial Analysis - Condensed Statements of Net Position

	September 30,		Increase
	2014	2013	(Decrease)
Current, restricted, and other assets	\$ 84,460,101	\$ 102,618,433	\$ (18,158,332)
Capital assets	519,025,834	489,756,290	29,269,544
Deferred outflows of resources	1,052,384	1,113,689	(61,305)
Total assets and deferred outflows of resources	<u>\$ 604,538,319</u>	<u>\$ 593,488,412</u>	<u>\$ 11,049,907</u>
Current liabilities and liabilities payable from restricted assets	\$ 9,350,393	\$ 8,964,975	\$ 385,418
Noncurrent liabilities	179,668,534	183,733,092	(4,064,558)
Deferred inflows of resources	25,000,000	25,000,000	-
Total liabilities and deferred inflows of resources	<u>214,018,927</u>	<u>217,698,067</u>	<u>\$ (3,679,140)</u>
Net investment in capital assets	384,628,288	363,092,198	21,536,091
Restricted for bond reserves	9,573,273	9,573,273	-
Unrestricted	<u>(3,682,169)</u>	<u>3,124,874</u>	<u>(6,807,044)</u>
Total net position	<u>390,519,392</u>	<u>375,790,345</u>	<u>14,729,047</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 604,538,319</u>	<u>\$ 593,488,412</u>	<u>\$ 11,049,907</u>

Current, restricted, and other assets

Current, restricted, and other assets decreased \$18.2 million compared to a year ago. The primary reason for this was a decrease of \$19.0 million in cash due to capital spending of \$32.7 million funded in part by the 2006 Sewer Revenue Bonds of \$12.0 million and the remainder from cash generated from operating activities of \$20.7 million.

Other changes include a net increase of \$777,000 in account receivable, net of allowance for uncollectible accounts primarily due to increase in revenues; this increase was the result after a net decrease of \$461,000 in account receivable, net of uncollectible accounts by the write-offs processed by the Treasurer's office for in-active old accounts which had no payment activities over last 6 years. Prepaid expenses increased \$241,000 for the 10 year lease of the Cavanaugh Building for the Tagro operation, and GASB 31 mark to market adjustment decreased \$695,000.

Noncurrent liabilities

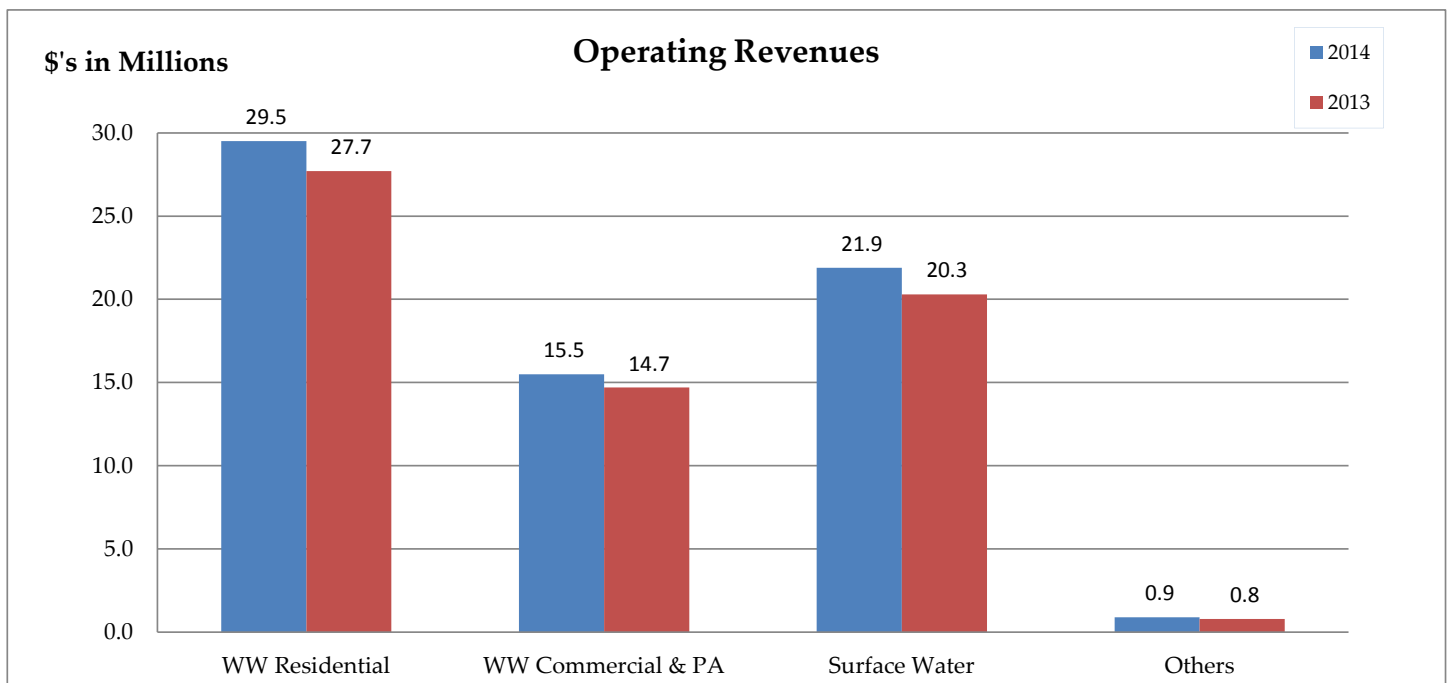
Noncurrent liabilities decreased \$4.1 million to \$179.7 million from \$183.7 million in 2013. The decrease was primarily the result of principal payments on the SRF loans.

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

	Year-to-Date September 30,		Increase (Decrease)
	2014	2013	
Operating revenues	\$ 67,838,964	\$ 63,515,097	\$ 4,323,867
Operating expenses	54,912,336	49,272,327	5,640,009
Net operating income	12,926,628	14,242,770	(1,316,142)
Nonoperating revenues (expenses)	(3,370,070)	(3,208,721)	(161,349)
Income before contributions and transfers	9,556,558	11,034,049	(1,477,491)
Contributions	203,294	592,349	(389,055)
Transfers	(146,616)	(121,460)	(25,156)
Gross earnings taxes	(5,452,264)	(5,201,544)	(250,720)
Change in net position	4,160,972	6,303,394	(2,142,422)
Total net position - beginning	386,358,420	369,486,951	16,871,469
Total net position - ending	\$ 390,519,392	\$ 375,790,345	\$ 14,729,047

Operating revenues

The following graph provides a comparison of operating revenues for the first six months of year 2014 and 2013.

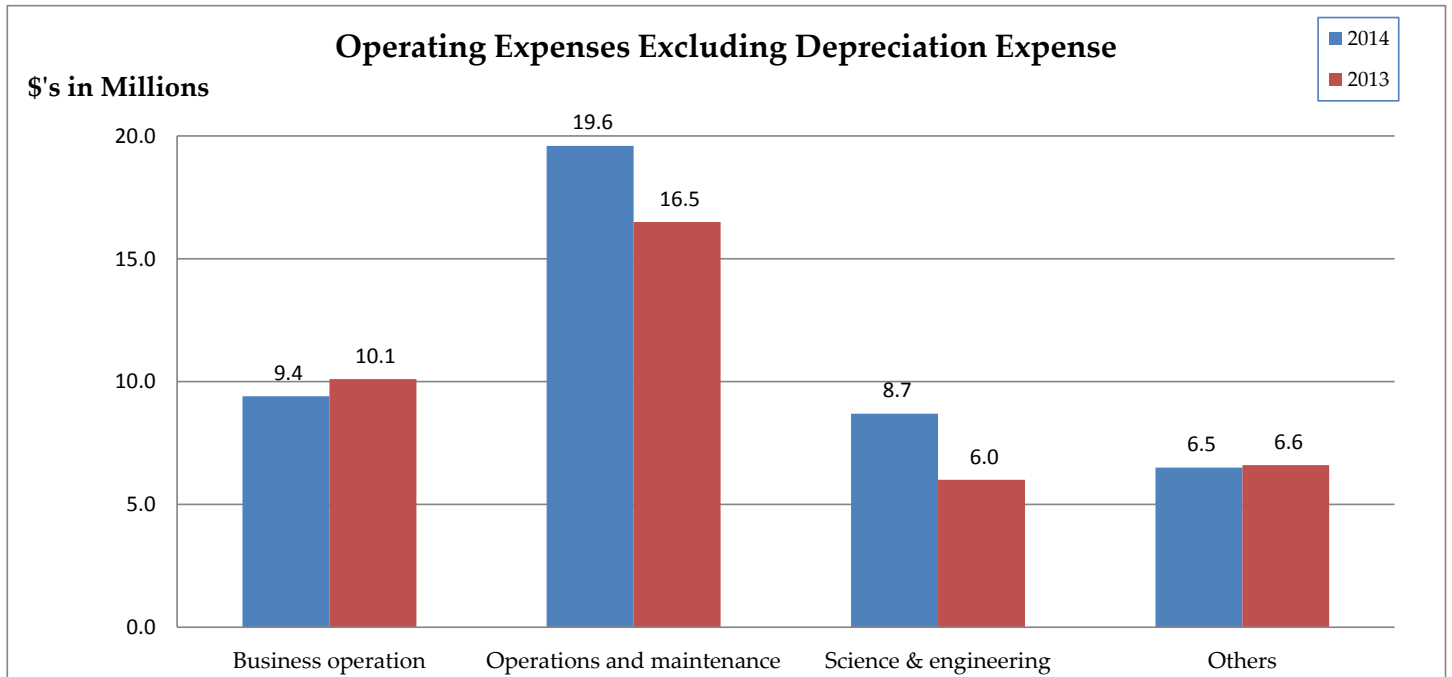


The approved average rate increases for each of the years 2014 and 2013 are 4.8% for Wastewater and 6% for Surface Water and the 2013 rate increases went into effect each year on March 1.

Operating revenues for the first nine months of 2014 increased \$4.3 million compared to the same period last year. All revenue categories increased. Wastewater residential revenues increased \$1.8 million, Wastewater commercial and public authority (PA) revenues increased \$753,000, and Surface Water revenue increased \$1.6 million.

Operating expenses

The graph below shows operating expenses for each of the operating groups:



Total operating expenses excluding depreciation expense increased \$5.1 million compared to the same period last year.

- Business operation costs decreased \$607,000 primarily due to charges of \$1.3 million transferred to maintenance for solid waste disposal. This decrease was off-set in part by increases in tax payments of \$216,000 as a result of the audit by the Washington State Department of Revenue (DOR), capital lease payments of \$174,000 due to expensing the January 2013 payment in December 2012, and capitalized A&G costs of \$279,000 due to less capital project spending.
- Operation and maintenance costs increased \$3.1 million primarily due to the \$1.3 million from the Tagro operation for disposal costs and increased costs associated with labor including benefits of \$900,000; a retro pay of \$411,000 for employees classified under Local 160 was processed in September. Other increases include increased material costs of \$305,000 for Plant #1 and #3 maintenance and repairs and external contract services of \$351,000 including disposal, asphalt patching, and cleaning.
- Science and engineering costs increased \$2.7 million mainly due to increased labor costs including benefits of \$1.2 million; full-time employees increased 16, of which 15 employees were assigned from different division/cost centers due to the organizational restructuring. Other increases include external contract services of \$492,000; the payments to the Washington State Department of Ecology increased \$146,000 for maintenance and restoration of the City’s habitat restoration sites and open spaces and a payment of \$279,000 was made to ACCELA Inc. for web-based software for processing building and land use permits including on-going software maintenance. Total spending on the Hilltop Diversitree expense project was \$371,000.

Capital Assets

Capital assets increased \$29.3 million over the prior year. Land and easements increased \$8.9 million mainly due to recording “Open Space” land transferred to Surface Water. Machinery and equipment increased \$9.8 million primarily due to the capitalization of the Lincoln & Marine View Drive Pump Station and High Purity Oxygen Generation Facility projects. Transmission lines and other improvements increased \$27.5 million due to replaced and extended sewer lines and

the completion of the Pacific Avenue Streetscape Project. Accumulated depreciation increased \$14.2 million and construction in progress decreased \$3.4 million due to lower activities compared to the same period last year.

Debt Administration

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

The bond coverage ratio is estimated at 5.20 for 2014. This compares to a ratio of 4.87 at the end of 2013. A bond coverage ratio of 1.3 is required by bond covenants for the Division.

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Joint Financial Statements

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

	September 30,		Increase
	2014	2013	(Decrease)
ASSETS			
Current assets:			
Operating cash and equity in pooled investments:			
Operating Fund	\$ 29,374,836	\$ 36,368,145	\$ (6,993,309)
Rate Stabilization Fund	25,000,000	25,000,000	-
Total operating cash and equity in pooled investments	54,374,836	61,368,145	(6,993,309)
Accounts receivable	9,796,483	9,587,918	208,565
Allowance for uncollectible accounts	(3,644,545)	(4,212,792)	568,247
Unbilled revenue	5,900,000	5,610,000	290,000
GASB 31 mark to market adjustment	2,646	697,560	(694,914)
Inventory	965,289	869,684	95,605
Prepaid expenses	902,626	661,841	240,785
Grants receivable	15,142	60,978	(45,836)
Notes and contracts receivable	163,499	158,281	5,218
Total current assets	68,475,976	74,801,615	(6,325,639)
Restricted cash and equity in pooled investments:			
Bond reserve and debt service accounts	11,032,278	11,032,278	-
Customer deposits - detention ponds	103,113	104,453	(1,340)
Construction accounts	1,202,787	13,162,934	(11,960,147)
Total restricted cash and equity in pooled investments	12,338,178	24,299,665	(11,961,487)
Capital assets:			
Land and easements	19,473,992	10,590,148	8,883,844
Buildings	151,293,311	151,231,421	61,890
Buildings - capital lease	30,272,000	30,272,000	-
Machinery and equipment	152,466,074	142,713,290	9,752,784
Transmission lines and other improvements	333,642,195	306,126,155	27,516,040
Computer software	7,831,714	7,200,713	631,001
Less: accumulated depreciation	(217,909,199)	(203,722,782)	(14,186,417)
Assets in service, net of accumulated depreciation	477,070,087	444,410,945	32,659,142
Construction in progress	41,955,747	45,345,345	(3,389,598)
Total capital assets	519,025,834	489,756,290	29,269,544
Other noncurrent assets	3,645,947	3,517,153	128,794
Total assets	603,485,935	592,374,723	11,111,212
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized bonds refunding costs	1,052,384	1,113,689	(61,305)
Total deferred outflows of resources	1,052,384	1,113,689	(61,305)
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 604,538,319	\$ 593,488,412	\$ 11,049,907

These statements should be read in conjunction with the Notes to Financial Statements contained in the previous year-end Financial Report.

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

	September 30,		Increase (Decrease)
	2014	2013	
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,294,930	\$ 978,913	\$ 316,017
Accrued wages payable & compensated absences	1,043,695	864,983	178,712
Accrued taxes payable	74,349	112,405	(38,056)
Accrued liability - low income	-	(7,315)	7,315
Due other governmental units	488,483	506,055	(17,572)
State Revolving Loan interest payable	525,343	557,609	(32,266)
Current portion of long-term debt - State Revolving Loans	3,629,498	3,564,365	65,133
Current portion of capital lease obligation	152,000	146,000	6,000
Environmental liabilities	579,977	678,502	(98,525)
Total current liabilities	<u>7,788,275</u>	<u>7,401,517</u>	386,758
Current liabilities payable from restricted assets:			
Deposit payable - detention ponds	103,102	104,453	(1,351)
Bond interest payable	1,459,016	1,459,005	11
Total current liabilities payable from restricted assets	<u>1,562,118</u>	<u>1,563,458</u>	(1,340)
Noncurrent liabilities:			
Long-term debt - revenue bonds	93,263,058	93,582,391	(319,333)
Long-term debt - State Revolving Loans	53,809,721	57,439,219	(3,629,498)
Capital lease obligation	27,444,000	28,046,000	(602,000)
Compensated absences	2,684,113	2,444,362	239,751
Net OPEB obligation	1,967,642	1,671,120	296,522
Environmental liabilities	500,000	550,000	(50,000)
Total noncurrent liabilities	<u>179,668,534</u>	<u>183,733,092</u>	(4,064,558)
Total liabilities	<u>189,018,927</u>	<u>192,698,067</u>	(3,679,140)
DEFERRED INFLOWS OF RESOURCES			
Rate stabilization	25,000,000	25,000,000	-
Total deferred inflows of resources	<u>25,000,000</u>	<u>25,000,000</u>	-
NET POSITION			
Net investment in capital assets	384,628,288	363,092,198	21,536,091
Restricted for bond reserves	9,573,273	9,573,273	-
Unrestricted	(3,682,169)	3,124,874	(6,807,044)
Total net position	<u>390,519,392</u>	<u>375,790,345</u>	14,729,047
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 604,538,319</u>	<u>\$ 593,488,412</u>	<u>\$ 11,049,907</u>

These statements should be read in conjunction with the Notes to Financial Statements contained in the previous year-end Financial Report.

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

	September Year-to-date		% Chg
	2014	2013	
OPERATING REVENUES			
Wastewater residential	\$ 29,512,638	\$ 27,735,179	6%
Wastewater commercial and public authorities	15,499,316	14,746,813	5%
Surface water	21,879,581	20,270,087	8%
Other revenues	947,429	763,018	24%
Total operating revenues	<u>67,838,964</u>	<u>63,515,097</u>	7%
OPERATING EXPENSES			
Business operation detail:			
Revenue and accounting	(2,047,457)	262,697	(879%)
Community relations	322,754	288,345	12%
Assessment	2,089,661	1,020,943	105%
Business operation	3,519,890	1,393,405	153%
Source control	2,407,878	2,607,241	(8%)
Customer service	628,012	648,479	(3%)
Wastewater treatment by other	1,854,284	1,770,762	5%
CTP parts room	111,669	82,790	35%
Biosolids operation	558,759	1,978,119	(72%)
Business operation	<u>9,445,450</u>	<u>10,052,781</u>	(6%)
Operations and maintenance detail:			
Plant #1	5,469,870	4,162,441	31%
Biosolids maintenance	65,413	163,705	(60%)
Plant #3	728,311	656,265	11%
Pumping	1,555,587	1,362,515	14%
Transmission	6,185,078	5,851,079	6%
Plant #1 maintenance	4,729,065	3,566,187	33%
Administration	306,552	398,625	(23%)
Plant #3 maintenance	541,608	360,318	50%
Holding basins	27,778	6,047	359%
Operations and maintenance	<u>19,609,262</u>	<u>16,527,182</u>	19%
Science & engineering detail:			
Engineering	1,827,009	1,705,523	7%
Environmental program	3,174,299	2,362,058	34%
Construction support	605,861	376,325	61%
Laboratory	1,294,520	1,362,312	(5%)
Site development	34,670	-	n/a
Asset management	86,749	-	n/a
Open space	125,566	-	n/a
Private development	469,441	(36,499)	(1,386%)
Natural Resource Damage Consent Decree (NRDA)	68,828	8,045	756%
Detention ponds	1,945	6,657	(71%)
Expense construction	1,051,072	205,958	410%
Science & engineering	<u>8,739,960</u>	<u>5,990,379</u>	46%
Total divisional operating expenses	<u>37,794,672</u>	<u>32,570,342</u>	16%

These statements should be read in conjunction with the Notes to Financial Statements contained in the previous year-end Financial Report.

**Environmental Services Department
Wastewater and Surface Water Management
Statements of Revenues, Expenses, and Changes in Net Position (Unaudited)**

	September Year-to-date		% Chg
	2014	2013	
OPERATING EXPENSES (Continued)			
Other expenses detail:			
Insurance	\$ 348,824	\$ 336,017	4%
Taxes	867,299	1,085,171	(20%)
IT services	2,446,955	2,384,979	3%
Customer service	2,827,266	2,800,295	1%
Other	6,490,344	6,606,462	(2%)
Depreciation	10,627,320	10,095,523	5%
Total operating expenses	54,912,336	49,272,327	11%
Net operating income	12,926,628	14,242,770	(9%)
NONOPERATING REVENUES (EXPENSES)			
Investment income	477,175	756,054	(37%)
Rental income	270,582	285,679	(5%)
Bond interest expense, net of capitalized interest	(2,406,831)	(2,464,931)	(2%)
Interest on long-term debt - State Revolving Loans	(800,792)	(849,245)	(6%)
Interest on capital lease	(1,115,901)	(1,133,181)	(2%)
Amortization of premium, discount, and refunding costs	193,516	193,516	N/A
Other nonoperating revenues	22,094	141,319	(84%)
Other nonoperating expenses	(9,913)	(137,932)	(93%)
Total nonoperating expenses	(3,370,070)	(3,208,721)	5%
CHANGE IN NET POSITION			
Net position before capital contributions and transfers	9,556,558	11,034,049	(13%)
Contributions:			
Cash	11,347	106,657	(89%)
Capital related grants	(26,718)	217,161	(112%)
Donated fixed assets	218,665	268,531	(19%)
Transfers - capital related	(146,616)	46,575	(415%)
Transfers - operating related	-	(168,035)	(100%)
Transfers - gross earnings tax	(5,452,264)	(5,201,544)	5%
CHANGE IN NET POSITION	4,160,972	6,303,394	(34%)
TOTAL NET POSITION- BEGINNING	386,358,420	369,486,951	5%
TOTAL NET POSITION- ENDING	\$ 390,519,392	\$ 375,790,345	4%

These statements should be read in conjunction with the Notes to Financial Statements contained in the previous year-end Financial Report.

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

	September Year-to-date	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 66,484,800	\$ 63,082,912
Payments to suppliers	(24,117,934)	(22,081,334)
Payments to employees	(23,674,853)	(21,759,120)
Taxes paid	(926,829)	(1,095,074)
Net cash from operating activities	<u>17,765,184</u>	<u>18,147,384</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gross earning taxes paid	(6,008,146)	(5,727,400)
Debt service related to environmental cleanup	(957,597)	(957,597)
Operating grants received	60,978	580
Transfers	-	(168,035)
Net cash from noncapital financing activities	<u>(6,904,765)</u>	<u>(6,852,452)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(19,624,276)	(26,921,336)
Capital assets transferred in or out	(146,616)	46,575
Cash proceeds from sale of capital assets	5,750	-
Principal payments on State Revolving loans	(1,790,245)	(1,758,150)
Capital lease obligation	(1,565,901)	(1,565,181)
Interest expense, net of capitalized interest	(899,651)	(989,888)
Net cash from capital and related financing activities	<u>(24,020,939)</u>	<u>(31,187,980)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	474,529	58,490
Rental income	270,582	285,679
Other investing proceeds	22,095	118,222
Net cash from investing activities	<u>767,206</u>	<u>462,391</u>
Net change in cash and equity in pooled investments	(12,393,314)	(19,430,657)
Cash and equity in pooled investments - beginning	79,106,328	105,098,467
Cash and equity in pooled investments - ending	<u>\$ 66,713,014</u>	<u>\$ 85,667,810</u>

These statements should be read in conjunction with the Notes to Financial Statements contained in the previous year-end Financial Report.

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

	September Year-to-date	
	2014	2013
Reconciliation of cash and equity in pooled investments to balance sheets:		
Operating funds	\$ 54,374,836	\$ 61,368,145
Restricted funds	12,338,178	24,299,665
	\$ 66,713,014	\$ 85,667,810
 Reconciliation of operating income to net cash from operating activities:		
Operating income	\$ 12,926,628	\$ 14,242,770
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense	10,627,320	10,095,523
Change in assets, liabilities and deferred credits:		
Accounts receivable, net of allowance	(870,220)	(127,348)
Notes and contract receivable	(125,553)	(47,727)
Due from other funds	108,424	15,260
Inventory	(71,204)	(13,238)
Prepaid expenses	(328,820)	(548,366)
Accounts payable	(2,329,923)	(3,438,494)
Accounts liability - low income	-	(7,315)
Accrued wages and compensated absences	(501,355)	(464,079)
Accrued taxes payable	(59,530)	(9,903)
Deposits payable	(1,576)	(5,809)
Due other funds	(1,317,775)	(1,072,811)
Due other governmental units	(4,740)	(4,178)
Unearned revenue	(187,889)	(179,057)
Environmental liability	(98,603)	(287,844)
Total adjustments	4,838,556	3,904,614
	\$ 17,765,184	\$ 18,147,384

These statements should be read in conjunction with the Notes to Financial Statements contained in the previous year-end Financial Report.

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Financial Statements by Utility

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

	Wastewater September 30,		Surface Water September 30,	
	2014	2013	2014	2013
ASSETS				
Current assets:				
Operating cash and equity in pooled investments:				
Operating Fund	\$ 14,328,132	\$ 23,005,242	\$ 15,046,704	\$ 13,362,903
Rate Stabilization Fund	17,000,000	17,000,000	8,000,000	8,000,000
Total operating cash and equity in pooled investments	<u>31,328,132</u>	<u>40,005,242</u>	<u>23,046,704</u>	<u>21,362,903</u>
Accounts receivable	6,330,076	6,297,109	3,466,407	3,290,809
Allowance for uncollectible accounts	(1,874,382)	(2,381,599)	(1,770,163)	(1,831,193)
Unbilled revenue	3,750,000	3,772,000	2,150,000	1,838,000
GASB 31 mark to market adjustment	1,504	441,621	1,142	255,939
Inventory	965,289	869,684	-	-
Prepaid expenses	868,840	653,344	33,786	8,497
Grants receivable	-	-	15,142	60,978
Notes and contracts receivable	163,499	158,281	-	-
Total current assets	<u>41,532,958</u>	<u>49,815,682</u>	<u>26,943,018</u>	<u>24,985,933</u>
Restricted cash and equity in pooled investments:				
Bond reserve and debt service accounts	6,817,237	6,817,238	4,215,041	4,215,040
Customer deposits - detention ponds	-	-	103,113	104,453
Construction accounts	726,591	1,408,715	476,196	11,754,219
Total restricted cash and equity in pooled investments	<u>7,543,828</u>	<u>8,225,953</u>	<u>4,794,350</u>	<u>16,073,712</u>
Capital assets:				
Land and easements	7,488,228	7,488,228	11,985,764	3,101,920
Buildings	148,827,781	148,682,679	2,465,530	2,548,742
Buildings - capital lease	16,271,200	16,271,200	14,000,800	14,000,800
Machinery and equipment	148,063,705	138,085,056	4,402,369	4,628,234
Transmission lines and other improvements	188,175,061	172,992,796	145,467,134	133,133,359
Computer software	4,646,282	4,317,823	3,185,432	2,882,890
Less: accumulated depreciation	<u>(176,610,329)</u>	<u>(165,805,412)</u>	<u>(41,298,870)</u>	<u>(37,917,370)</u>
Assets in service, net of accumulated depreciation	336,861,928	322,032,370	140,208,159	122,378,575
Construction in progress	26,387,545	35,745,543	15,568,202	9,599,802
Total capital assets	<u>363,249,473</u>	<u>357,777,913</u>	<u>155,776,361</u>	<u>131,978,377</u>
Other noncurrent assets	2,374,893	2,246,099	1,271,054	1,271,054
Total assets	<u>414,701,152</u>	<u>418,065,647</u>	<u>188,784,783</u>	<u>174,309,076</u>
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized bonds refunding costs	314,128	332,427	738,256	781,262
Total deferred outflows of resources	<u>314,128</u>	<u>332,427</u>	<u>738,256</u>	<u>781,262</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES				
	<u>\$ 415,015,280</u>	<u>\$ 418,398,074</u>	<u>\$ 189,523,039</u>	<u>\$ 175,090,338</u>

These statements should be read in conjunction with the Notes to Financial Statements contained in the previous year-end Financial Report.

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

	Wastewater September 30,		Surface Water September 30,	
	2014	2013	2014	2013
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 943,890	\$ 810,620	\$ 351,040	\$ 168,293
Accrued wages payable & compensated absences	750,459	614,841	293,236	250,142
Accrued taxes payable	38,025	87,153	36,324	25,252
Accrued liability - low income	-	614	-	(7,929)
Due other governmental units	488,483	506,055	-	-
State Revolving Loan interest payable	522,300	554,425	3,043	3,184
Current portion of long-term debt - State Revolving Loans	3,609,490	3,544,928	20,008	19,437
Current portion of capital lease obligation	81,700	78,475	70,300	67,525
Environmental liabilities	-	-	579,977	678,502
Total current liabilities	<u>6,434,347</u>	<u>6,197,111</u>	<u>1,353,928</u>	<u>1,204,406</u>
Current liabilities payable from restricted assets:				
Deposit payable - detention ponds	-	-	103,102	104,453
Bond interest payable	491,522	491,522	967,494	967,483
Total current liabilities payable from restricted assets	<u>491,522</u>	<u>491,522</u>	<u>1,070,596</u>	<u>1,071,936</u>
Noncurrent liabilities:				
Long-term debt - revenue bonds	30,760,221	30,835,686	62,502,837	62,746,705
Long-term debt - State Revolving Loans	53,412,585	57,022,075	397,136	417,144
Capital lease obligation	14,751,150	15,074,725	12,692,850	12,971,275
Compensated absences	2,025,564	1,878,064	658,549	566,298
Net OPEB obligation	1,516,485	1,243,142	451,157	427,978
Environmental liabilities	-	-	500,000	550,000
Total noncurrent liabilities	<u>102,466,005</u>	<u>106,053,692</u>	<u>77,202,529</u>	<u>77,679,400</u>
Total liabilities	<u>109,391,874</u>	<u>112,742,325</u>	<u>79,627,053</u>	<u>79,955,742</u>
DEFERRED INFLOWS OF RESOURCES				
Rate stabilization	17,000,000	17,000,000	8,000,000	8,000,000
Total deferred inflows of resources	<u>17,000,000</u>	<u>17,000,000</u>	<u>8,000,000</u>	<u>8,000,000</u>
NET POSITION				
Net investment in capital assets	261,675,046	252,963,166	122,953,242	110,129,032
Restricted for bond reserves	6,325,715	6,325,716	3,247,558	3,247,557
Unrestricted	20,622,645	29,366,867	(24,304,814)	(26,241,993)
Total net position	<u>288,623,406</u>	<u>288,655,749</u>	<u>101,895,986</u>	<u>87,134,596</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 415,015,280</u>	<u>\$ 418,398,074</u>	<u>\$ 189,523,039</u>	<u>\$ 175,090,338</u>

These statements should be read in conjunction with the Notes to Financial Statements contained in the previous year-end Financial Report.

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

	Wastewater		Surface Water	
	September Year-to-date		September Year-to-date	
	2014	2013	2014	2013
OPERATING REVENUES				
Wastewater residential	\$ 29,512,638	\$ 27,735,179	\$ -	\$ -
Wastewater commercial and public authorities	15,499,316	14,746,813	-	-
Surface water	-	-	21,879,581	20,270,087
Other revenues	825,324	605,790	122,105	157,228
Total operating revenues	<u>45,837,278</u>	<u>43,087,782</u>	<u>22,001,686</u>	<u>20,427,315</u>
OPERATING EXPENSES				
Business operation detail:				
Revenue and accounting	(979,957)	97,904	(1,067,500)	164,793
Community relations	198,983	164,545	123,771	123,800
Assessment	1,291,136	616,423	798,525	404,520
Business operation	1,964,774	777,779	1,555,116	615,626
Source control	1,008,448	1,044,416	1,399,430	1,562,825
Customer service	495,346	493,992	132,666	154,487
Wastewater treatment by other	1,854,284	1,770,762	-	-
CTP parts room	111,669	82,790	-	-
Biosolids operation	558,759	1,978,119	-	-
Business operation	<u>6,503,442</u>	<u>7,026,730</u>	<u>2,942,008</u>	<u>3,026,051</u>
Operations and maintenance detail:				
Plant #1	5,469,870	4,162,441	-	-
Biosolids maintenance	65,413	163,705	-	-
Plant #3	728,311	656,265	-	-
Pumping	1,347,150	1,184,856	208,437	177,659
Transmission	3,975,146	3,614,134	2,209,932	2,236,945
Plant #1 maintenance	4,729,065	3,566,187	-	-
Administration	306,552	398,625	-	-
Plant #3 maintenance	541,608	360,318	-	-
Holding basins	-	-	27,778	6,047
Operations and maintenance	<u>17,163,115</u>	<u>14,106,531</u>	<u>2,446,147</u>	<u>2,420,651</u>
Science & engineering detail:				
Engineering	1,827,009	1,705,523	-	-
Environmental program	-	-	3,174,299	2,362,058
Construction support	405,461	205,341	200,400	170,984
Laboratory	851,407	881,263	443,113	481,049
Site development	34,670	-	-	-
Asset management	40,555	-	46,194	-
Open space	-	-	125,566	-
Private development	-	-	469,441	(36,499)
Natural Resource Damage Consent Decree (NRDA)	-	-	68,828	8,045
Detention ponds	-	-	1,945	6,657
Expense construction	259,428	-	791,644	205,958
Science & engineering	<u>3,418,530</u>	<u>2,792,127</u>	<u>5,321,430</u>	<u>3,198,252</u>
Total divisional operating expenses	<u>27,085,087</u>	<u>23,925,388</u>	<u>10,709,585</u>	<u>8,644,954</u>

These statements should be read in conjunction with the Notes to Financial Statements contained in the previous year-end Financial Report.

Environmental Services Department
Wastewater and Surface Water Management
Statements of Revenues, Expenses, and Changes in Net Position (Unaudited)

	Wastewater		Surface Water	
	September Year-to-date		September Year-to-date	
	2014	2013	2014	2013
OPERATING EXPENSES (Continued)				
Other expenses detail:				
Insurance	\$ 314,305	\$ 302,402	\$ 34,519	\$ 33,615
Taxes	548,653	797,784	318,646	287,387
IT services	1,585,530	1,537,250	861,425	847,729
Customer service	1,311,780	1,386,015	1,515,486	1,414,280
Other	3,760,268	4,023,451	2,730,076	2,583,011
Depreciation	8,171,546	7,852,284	2,455,774	2,243,239
Total operating expenses	<u>39,016,901</u>	<u>35,801,123</u>	<u>15,895,435</u>	<u>13,471,204</u>
Net operating income	<u>6,820,377</u>	<u>7,286,659</u>	<u>6,106,251</u>	<u>6,956,111</u>
NONOPERATING REVENUES (EXPENSES)				
Investment income	273,078	450,129	204,097	305,925
Rental income	145,438	153,553	125,144	132,126
Bond interest expense, net of capitalized interest	(612,954)	(521,403)	(1,793,877)	(1,943,528)
Interest on long-term debt - State Revolving Loans	(791,521)	(839,553)	(9,271)	(9,692)
Interest on capital lease	(599,796)	(609,084)	(516,105)	(524,097)
Amortization of premium, discount, and refunding costs	42,872	42,872	150,644	150,644
Other nonoperating revenues	16,212	140,882	5,882	437
Other nonoperating expenses	(6,468)	(137,888)	(3,445)	(44)
Total nonoperating expenses	<u>(1,533,139)</u>	<u>(1,320,492)</u>	<u>(1,836,931)</u>	<u>(1,888,229)</u>
CHANGE IN NET POSITION				
Net position before capital contributions and transfers	5,287,238	5,966,167	4,269,320	5,067,882
Contributions:				
Cash	9,402	-	1,945	106,657
Capital related grants	-	-	(26,718)	217,161
Donated fixed assets	-	89,565	218,665	178,966
Transfers - capital related	(103,375)	(2,000)	(43,241)	48,575
Transfers - operating related	-	(118,781)	-	(49,254)
Transfers - gross earnings tax	(3,663,625)	(3,553,813)	(1,788,639)	(1,647,731)
CHANGE IN NET POSITION	<u>1,529,640</u>	<u>2,381,138</u>	<u>2,631,332</u>	<u>3,922,256</u>
TOTAL NET POSITION- BEGINNING	<u>287,093,766</u>	<u>286,274,611</u>	<u>99,264,654</u>	<u>83,212,340</u>
TOTAL NET POSITION- ENDING	<u>\$ 288,623,406</u>	<u>\$ 288,655,749</u>	<u>\$ 101,895,986</u>	<u>\$ 87,134,596</u>

These statements should be read in conjunction with the Notes to Financial Statements contained in the previous year-end Financial Report.

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

	Wastewater		Surface Water	
	September Year-to-date		September Year-to-date	
	2014	2013	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 45,028,091	\$ 42,670,943	\$ 21,456,709	\$ 20,411,969
Payments to suppliers	(15,632,869)	(16,051,956)	(8,485,065)	(6,029,378)
Payments to employees	(17,061,904)	(15,582,065)	(6,612,949)	(6,177,055)
Taxes paid	(593,898)	(802,848)	(332,931)	(292,226)
Net cash from operating activities	<u>11,739,420</u>	<u>10,234,074</u>	<u>6,025,764</u>	<u>7,913,310</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Gross earning taxes paid	(4,038,871)	(3,911,979)	(1,969,275)	(1,815,421)
Debt service related to environmental cleanup	-	-	(957,597)	(957,597)
Operating grants received	-	-	60,978	580
Transfers	-	(118,781)	-	(49,254)
Net cash from noncapital financing activities	<u>(4,038,871)</u>	<u>(4,030,760)</u>	<u>(2,865,894)</u>	<u>(2,821,692)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(10,748,317)	(21,050,479)	(8,875,959)	(5,870,857)
Capital assets transferred in or out	(103,375)	(2,000)	(43,241)	48,575
Cash proceeds from sale of capital assets	-	-	5,750	-
Principal payments on State Revolving loans	(1,780,456)	(1,748,641)	(9,789)	(9,509)
Capital lease obligation	(841,671)	(841,284)	(724,230)	(723,897)
Interest expense, net of capitalized interest	(782,758)	(723,018)	(116,893)	(266,870)
Net cash from capital and related financing activities	<u>(14,256,577)</u>	<u>(24,365,422)</u>	<u>(9,764,362)</u>	<u>(6,822,558)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income	271,574	8,502	202,955	49,988
Rental income	145,438	153,553	125,144	132,126
Other investing proceeds	16,212	117,785	5,883	437
Net cash from investing activities	<u>433,224</u>	<u>279,840</u>	<u>333,982</u>	<u>182,551</u>
Net change in cash and equity in pooled investments	(6,122,804)	(17,882,268)	(6,270,510)	(1,548,389)
Cash and equity in pooled investments - beginning	44,994,764	66,113,463	34,111,564	38,985,004
Cash and equity in pooled investments - ending	<u>\$ 38,871,960</u>	<u>\$ 48,231,195</u>	<u>\$ 27,841,054</u>	<u>\$ 37,436,615</u>

These statements should be read in conjunction with the Notes to Financial Statements contained in the previous year-end Financial Report.

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

	Wastewater		Surface Water	
	September Year-to-date		September Year-to-date	
	2014	2013	2014	2013
Reconciliation of cash and equity in pooled investments to balance sheets:				
Operating funds	\$ 31,328,132	\$ 40,005,242	\$ 23,046,704	\$ 21,362,903
Restricted funds	7,543,828	8,225,953	4,794,350	16,073,712
	<u>\$ 38,871,960</u>	<u>\$ 48,231,195</u>	<u>\$ 27,841,054</u>	<u>\$ 37,436,615</u>
Reconciliation of operating income to net cash from operating activities:				
Operating income	\$ 6,820,377	\$ 7,286,659	\$ 6,106,251	\$ 6,956,111
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation expense	8,171,546	7,852,284	2,455,774	2,243,239
Change in assets, liabilities and deferred credits:				
Accounts receivable, net of allowance	(546,069)	(137,007)	(324,151)	9,659
Notes and contract receivable	(125,553)	(47,727)	-	-
Due from other funds	64,553	4,481	43,871	10,779
Inventory	(71,204)	(13,238)	-	-
Prepaid expenses	(327,720)	(544,644)	(1,100)	(3,722)
Accounts payable	(1,028,787)	(3,101,271)	(1,301,136)	(337,223)
Accounts liability - low income	-	614	-	(7,929)
Accrued wages and compensated absences	(322,570)	(329,763)	(178,785)	(134,316)
Accrued taxes payable	(45,245)	(5,063)	(14,285)	(4,840)
Deposits payable	-	-	(1,576)	(5,809)
Due other funds	(716,081)	(603,904)	(601,694)	(468,907)
Due other governmental units	(4,740)	(4,178)	-	-
Unearned revenue	(129,087)	(123,169)	(58,802)	(55,888)
Environmental liability	-	-	(98,603)	(287,844)
Total adjustments	<u>4,919,043</u>	<u>2,947,415</u>	<u>(80,487)</u>	<u>957,199</u>
	<u>\$ 11,739,420</u>	<u>\$ 10,234,074</u>	<u>\$ 6,025,764</u>	<u>\$ 7,913,310</u>

These statements should be read in conjunction with the Notes to Financial Statements contained in the previous year-end Financial Report.

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