SURFACEWATER SOLIDWASTE WASTEWATER

TACOMA ENVIRONMENTAL SERVICES DEPARTMENT

Solid Waste Management 2014 Financial Report

Table of Contents

(This page intentionally left blank.)

Independent Auditor's Report

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

Honorable Mayor and City Council
City of Tacoma, Environmental Services, Solid Waste Management
Tacoma Washington

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

REPORT OF INDEPENDENT AUDITORS

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

Opinion

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

Other Matter

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

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The statistical data presented on pages 42 through 44 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.

Moss Adams LLP

Tacoma, Washington
May 19, 2015

(This page intentionally left blank.)

Management's Discussion and Analysis

City of Tacoma, Washington
Environmental Services Department
Solid Waste Management
Management's Discussion and Analysis
December 31, 2014 and 2013

Introduction

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

Financial Highlights

- Net position decreased in 2014 by $333,000 compared to the decrease of $3.4 million in 2013 and the increase of $146,000 in 2012.
- Operating revenues were $56.8 million in 2014, $56.0 million in 2013 and $56.8 million in 2012.
- Total net position was $19.7 million at December 31, 2014 compared to $20.1 million and $23.4 million at year-end 2013 and 2012, respectively.
- Cash and equity in pooled investments was $33.6 million at December 31, 2014 compared to $32.5 million in 2013 and $43.2 million in 2012.

Financial Analysis – Condensed Statements of Net Position

	December 31,		
	2014	2013	2012 (as restated)
Current, restricted, and other assets	$ 40,740,273	$ 39,627,660	$ 50,314,720
Capital assets	82,080,043	88,133,756	84,265,678
Deferred outflows	218,093	292,866	540,562
Total assets and deferred outflows	$ 123,038,409	$ 128,054,282	$ 135,120,960
Current liabilities and liabilities payable from restricted assets	$ 9,985,441	$ 7,660,075	$ 10,096,242
Noncurrent liabilities	87,315,785	94,323,854	96,939,996
Deferred inflows	6,000,000	6,000,000	4,650,000
Total liabilities and deferred inflows	103,301,226	107,983,929	111,686,238
Invested in capital assets	27,570,909	28,487,502	22,665,937
Restricted for bond reserves	6,780,399	1,728,015	1,623,541
Unrestricted	(14,614,125)	(10,145,164)	(854,756)
Total net position	19,737,183	20,070,353	23,434,722
Total liabilities, deferred inflows and net position	$ 123,038,409	$ 128,054,282	$ 135,120,960

Current, restricted and other assets

Current, restricted and other assets increased $1.1 million in 2014 compared to a decrease of $10.7 million in 2013. The increase in 2014 was due to increases of $5.2 million in bond reserve and debt service accounts, and decreases of $4.1 million in cash and equity in pooled investments. There was a decrease of $377,000 of net customer account receivable and an increase of $390,000 in due from other funds. The decrease in 2013 was due to decreases of $5.8 million in cash and equity in pooled investments, $3.7 million in construction funds, and $2.8 million in the reserve for landfill closure. Rate stabilization increased $1.4 million in 2013.

Deferred outflows of resources

Deferred outflows of resources includes unamortized balances of bond refunding costs. The changes from year to year are due to amortizing these costs.

Current liabilities and liabilities payable from restricted assets

Total current liabilities and liabilities payable from restricted assets increased $2.3 million in 2014 and decreased $2.4 million in 2013. Significant changes include:

- Accounts payable decreased $414,000 in 2014 compared to a decrease of $189,000 in 2013 due to year-end accruals and timing of payments.
- Due to other funds increased $446,000 off-set by the increases of $391,000 from Due from other funds in 2014.
- The current portion of landfill closure liabilities increased $721,000 primarily due to forecast landfill closure cost in 2015 and decreased $2.8 million in 2013 due to project spending in 2013.
- Current portion of long-term debt principal payments due within a year increased $1.4 million over 2014 and $480,000 over 2013.

Noncurrent liabilities

Noncurrent liabilities consist of revenue bonds payable and related debt accounts, a capital lease obligation, noncurrent accrued landfill closure and post closure costs, noncurrent compensated absences and the other post employment benefit (OPEB) obligation. Total noncurrent liabilities decreased $7.0 million in 2014 and $2.6 million in 2013.

- Long-term debt decreased $4.9 million in 2014 and $3.4 million in 2013 primarily due to principal payments reclassified to current.
- Capital lease obligation decreased $1.7 million in 2014 due to the percentage split change of the Center Urban Water building effective December 31, 2014.
- Non-current landfill post closure liabilities decreased $692,000 in 2014 and increased $570,000 million in 2013 related to post closure monitoring the City's Landfill.
- OPEB liabilities increased $289,000 in 2014 compared to $318,000 in 2013 due to the additional accrual recorded at year-end.

Deferred inflows of resources

Deferred inflows of resources includes the rate stabilization credit. $1.4 million in 2013 revenues were deferred to better match revenues with future costs. There were no additional amounts deferred in 2014.

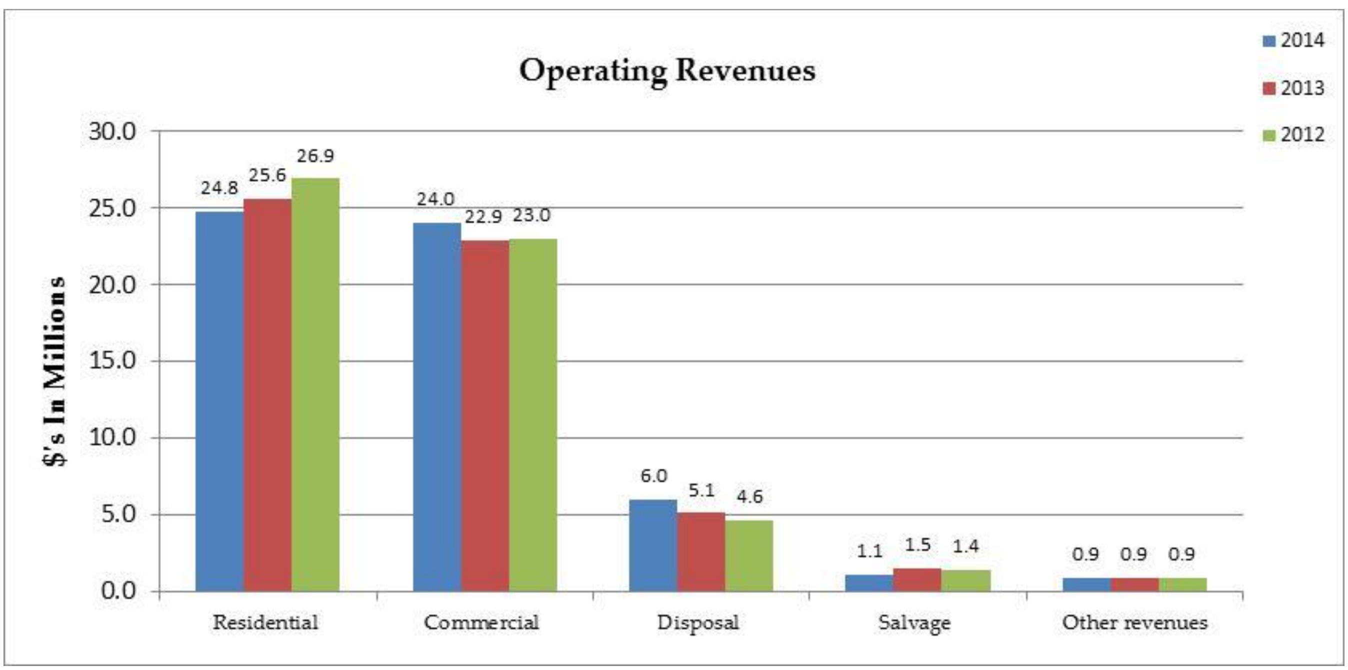
Financial Analysis - Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year Ended December 31,		
	2014	2013	2012 (as restated)
Operating revenues	$ 56,751,038	$ 56,022,042	$ 56,807,522
Operating expenses	50,353,774	51,675,472	50,108,727
Net operating income	6,397,264	4,346,570	6,698,795
Nonoperating revenues (expenses)	(2,185,507)	(3,173,945)	(2,755,808)
Net Position before transfers	4,211,757	1,172,625	3,942,987
Contributions	-	388,505	-
Transfers	-	(289,428)	747,630
Gross earnings taxes	(4,544,927)	(4,636,071)	(4,544,348)
Change in net position	(333,170)	(3,364,369)	146,269
Total net position - beginning	20,070,353	23,434,722	23,288,453
Total net position - ending	$ 19,737,183	$ 20,070,353	$ 23,434,722

Operating revenues

Overall operating revenues increased $729,000 in 2014 compared to decreases of $785,000 in 2013 and $294,000 in 2012.

The following graph provides a comparison of operating revenue sources for each of the three years:



Revenues from residential collection decreased $809,000 in 2014 and $1.3 million in 2013. There was no revenue rate increase in 2014 and 2013. Residential collection revenues were down in 2014 due to customers downsizing their garbage containers during the first year of Every-Other-Week (EOW) collection implementation.

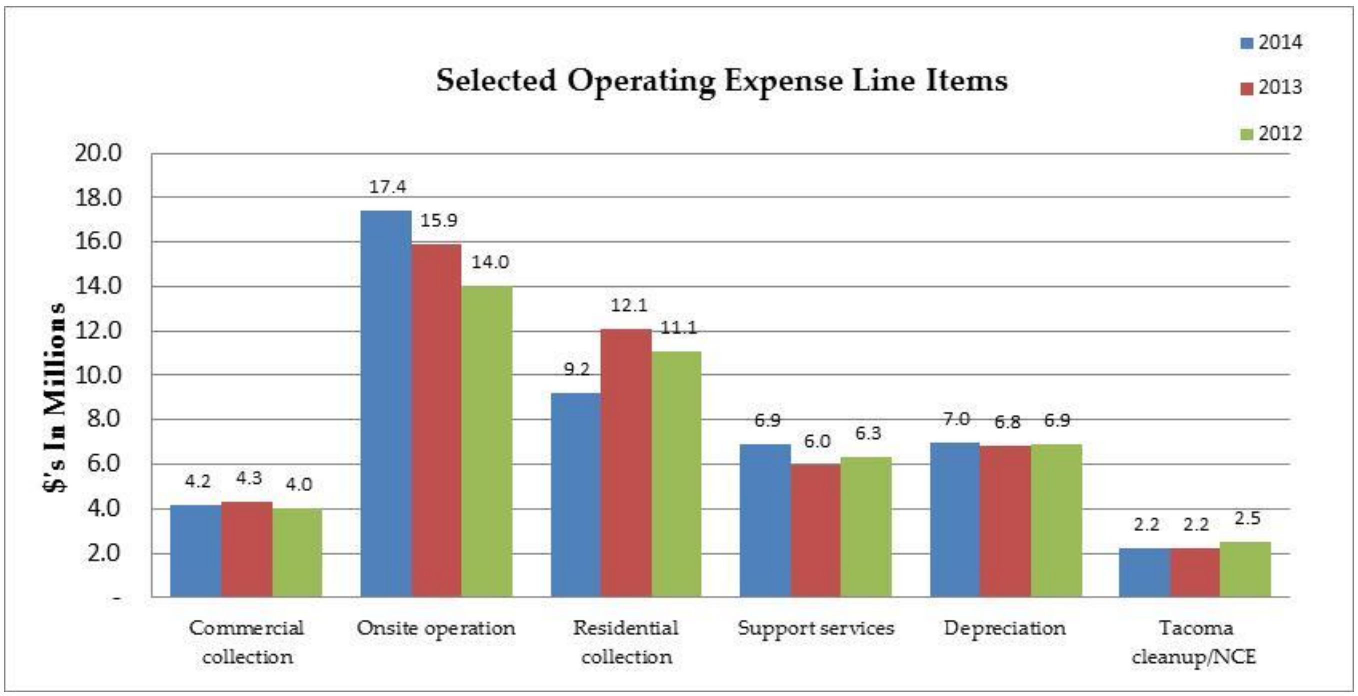
Revenue from commercial collection increased $1.1 million in 2014 due to the local businesses improvement during the year.

Disposal revenues increased $853,000 due to increases in number of customer self-hauls in 2014 compared to a $585,000 increase in the prior year.

Salvage revenues fluctuated due to changes in both the volumes and prices of salvaged materials. These revenues decreased $429,000 in 2014. In 2013, salvage revenues increased $128,000.

Operating expenses

The following graph provides a three year comparison of operating expenses for the major cost center groups.
Total operating costs decreased $1.3 million in 2014, compared to increases of $1.6 million in 2013 and $4.6 million in 2012.



2014 Activity

Operating expenses were $50.4 million in 2014, a decrease of $1.3 million. Significant changes in operating costs include the following:

- Onsite operation expenses increased $1.6 million which includes public receiving, the facility maintenance and off-site transfer. Costs increased $446,000 in labor costs and $902,000 in external contract services to transfer solid waste to the Pierce County Landfill.
- Residential collection expenses, including residential waste, comingle recycle, yard waste and call-to-haul decreased $2.9 million primarily due to a decrease of $2.2 million in labor costs for the EOW collection completed implementation, and a decrease of $734,000 in external contract services.
- Support services expenses increased $889,000. Significant changes included $667,000 in assessments and the rest in business support operations.

2013 Activity
Operating expenses were $51.7 million in 2013, an increase of $1.6 million. Significant changes in operating costs include the following:

- Commercial collection expenses, including all commercial activities such as pick-up barrel, front load, drop-of-box and recycle increased $301,000 due to labor costs and internal fleet maintenance services.
- Onsite operation expenses increased $1.8 million (13%) which includes public receiving, the facility maintenance and off-site transfer. Costs increased $666,000 in labor and $1.6 million in external contract services to transfer solid waste to the Pierce County Landfill.
- Residential collection expenses, including residential waste, comingle recycle, yard waste and call-to-haul increased $992,000 primarily due to the increase in labor costs for the EOW collection implementation.
- Support services expenses decreased $332,000. Significant changes included $243,000 in labor costs and a $41,000 decrease in assessments.

Nonoperating revenues (expenses)
Investment earnings were $311,000 in 2014 and $126,000 in 2013, an increase of $185,000. This was due to an increase in the mark to market adjustment, $302,000 in 2014 compared a decrease $284,000 in 2013. The decrease in 2013 was primarily the result of lower interest rates and decreases in the cash and equity investment pool balances from the prior year.

Interest paid net of capitalized interest on revenue bonds was $3.0 million, a decrease of $180,000 in 2014 compared to 2013. Interest expense on revenue bonds decreased $147,000 in 2013 compared to 2012.

Operating grant revenue increased $283,000 due to the Coordinated Prevention Grant.

Contributions and Transfers
Solid Waste transferred $4.5 million to general fund for gross earning tax in 2014 compare to $4.6 million in 2013.

Solid Waste transferred $289,000 to the General Fund for radio equipment purchases, and received a $389,000 grant for capital projects from the Department of Ecology in 2013. There were no amounts transferred in 2014.

Capital Assets
At the end of 2014, the Division's total capital assets, net of accumulated depreciation is $82.1 million compared to $88.1 million in 2013 and $84.3 million in 2012. (See Note 3 for detailed activity.)

2014 Activity
Balances in 2014 decreased $6.1 million and the significant changes are:

- Building increased $1.5 million due to completing the Tacoma Asphalt plan.
- Landfill infrastructure increased $348,000 due to completing the Landfill paving and the West Truck Parking project.
- Machinery and equipment decreased a net $100,000. Significant changes include:
  - A decrease $1.1 million for vehicles (purchases of $171,000 less disposals of $1.3 million)
  - An increase $724,000 for purchased containers, and $279,000 for heavy equipment
- Accumulated depreciation increased $7.0 million.
- Construction in progress decreased $752,000 due mainly to capitalization of the Tacoma Asphalt Retrofit and landfill paving projects during the year 2014.

2013 Activity
Balances in 2013 increased $3.9 million and the significant changes are:

- Landfill infrastructure increased $2.4 million due to completing the West Truck Parking project.
- Machinery and equipment increased a net $5.8 million. Significant changes include:
  - $2.7 million for vehicles (purchases of $3.6 million less disposals of $683,000)
  - $2.7 million for containers (purchases of $3.4 million less disposals of $719,000)

- Accumulated depreciation increased $7.0 million in year 2013.
- Construction in progress increased $1.1 million including $554,000 for the Tacoma Asphalt Retrofit project and $279,000 for the CNG Fueling Station.

Debt Administration

At December 31, 2014, the Division had $59.1 million in outstanding revenue bonds of which $4.6 million is due within one year. This compares to $62.5 million in 2013 and $65.5 million in 2012. The bonds have underlying ratings of A1 by Moody's Investors Service, AA by Standard & Poor's, and AA- by Fitch, Inc. (See Note 4).

Debt Service Coverage

The bond coverage ratio is 2.31 at the end of 2014. This compares to 2.10 in 2013 and 2.76 in 2012. Bond coverage calculations are based on bond covenants. A bond coverage ratio of 1.25 is required by bond covenants for the Division.

Summary

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

(This page intentionally left blank.)

Financial Statements

City of Tacoma
Environmental Services Department
Solid Waste Management
Statements of Net Position

	December 31,	
ASSETS	**2014**	**2013**
Current assets:		
Cash and equity in pooled investments:		
Operating funds	**$ 20,085,004**	$ 24,170,438
Rate stabilization Fund	**6,000,000**	6,000,000
Total cash and equity in pooled investments	**26,085,004**	30,170,438
Accounts receivable	**6,517,732**	7,148,779
Allowance for uncollectible accounts	**(3,411,106)**	(3,865,555)
Unbilled revenue	**2,865,000**	3,065,000
Due from other funds	**498,161**	107,344
Total current assets	**32,554,791**	36,626,006
Restricted cash and equity in pooled investments:		
Bond reserve and debt service accounts	**7,408,390**	2,244,981
Customer deposits	**90,036**	69,617
Total restricted cash and equity in pooled investments	**7,498,426**	2,314,598
Capital assets:		
Land	**3,119,782**	3,119,782
Buildings	**65,424,377**	63,874,457
Building - capital lease	**6,024,273**	7,568,000
Landfill infrastructure	**65,174,135**	64,826,573
Machinery and equipment	**46,342,257**	46,442,639
Computer software	**4,717,718**	4,586,208
Less accumulated depreciation	**(109,272,223)**	(103,585,923)
Assets in service, net of depreciation	**81,530,319**	86,831,736
Construction in progress	**549,724**	1,302,020
Total capital assets	**82,080,043**	88,133,756
Other noncurrent assets	**687,056**	687,056
Total assets	**122,820,316**	127,761,416
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on refunding	**218,093**	292,866
Total deferred outflows	**218,093**	292,866
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 123,038,409**	$ 128,054,282

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

City of Tacoma
Environmental Services Department
Solid Waste Management
Statements of Net Position

	December 31,	
LIABILITIES	**2014**	**2013**
Current liabilities:		
Accounts payable	**$ 1,240,618**	$ 1,654,651
Accrued wages payable and compensated absences	**795,945**	759,412
Accrued taxes payable	**664,511**	612,308
Due other funds	**1,168,351**	722,226
Unearned revenue	**146,066**	140,308
Customer deposits	**20,182**	20,003
Current portion of landfill post closure	**907,000**	186,000
Current portion of long-term debt	**4,202,917**	2,827,917
Current portion of capital lease obligation	**121,287**	150,500
Total current liabilities	**9,266,877**	7,073,325
Liabilities payable from restricted assets:		
Deposits payable	**90,574**	69,784
Bond interest payable	**245,907**	259,883
Current portion of long-term debt	**382,083**	257,083
Total liabilities payable from restricted assets	**718,564**	586,750
Noncurrent liabilities:		
Long-term debt - revenue bonds	**54,537,968**	59,430,635
Capital lease obligation	**5,195,988**	6,861,002
Accrued landfill post closure costs	**24,813,100**	25,505,232
Compensated absences	**1,061,484**	1,108,586
Net OPEB obligation	**1,707,245**	1,418,399
Total noncurrent liabilities	**87,315,785**	94,323,854
Total liabilities	**97,301,226**	101,983,929
DEFERRED INFLOWS OF RESOURCES		
Rate stabilization	**6,000,000**	6,000,000
Total deferred inflows	**6,000,000**	6,000,000
NET POSITION		
Net investment in capital assets	**27,570,909**	28,487,502
Restricted for bond reserves	**6,780,399**	1,728,015
Unrestricted	**(14,614,125)**	(10,145,164)
Total net position	**19,737,183**	20,070,353
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	**$ 123,038,409**	$ 128,054,282

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

City of Tacoma
Environmental Services Department
Solid Waste Management
Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended December 31, 2014	2013
OPERATING REVENUES		
Residential collection	**$ 24,792,079**	$ 25,601,269
Commercial collection	**24,026,505**	22,935,600
Disposal revenues	**6,001,929**	5,148,569
Salvage revenue	**1,057,377**	1,486,264
Other operating revenue	**873,148**	850,340
Total operating revenues	**56,751,038**	56,022,042
OPERATING EXPENSES		
Commercial collection	**4,240,637**	4,261,735
Onsite operations	**17,424,513**	15,860,946
Landfill closure and post closure adjustment	**(25,626)**	778,301
Residential collection	**9,230,844**	12,092,196
Support services	**6,892,288**	6,002,873
Tacoma cares/NCE	**2,153,114**	2,172,008
Other	**3,450,426**	3,697,496
Depreciation	**6,987,578**	6,809,917
Total operating expenses	**50,353,774**	51,675,472
Net operating income	**6,397,264**	4,346,570
NONOPERATING REVENUES (EXPENSES)		
Investment income	**$ 311,292**	$ 126,491
Rental income	**138,670**	133,330
Operating grants	**514,116**	231,463
Disposal of captial assets	**3,420**	(86,121)
Interest paid net of capitalized interest	**(3,017,370)**	(3,197,619)
Interest on capital lease	**(371,498)**	(377,610)
Amortization of premium, discount and refunding costs	**232,893**	96,840
Other expense	**2,970**	(100,719)
Total nonoperating expenses	**(2,185,507)**	(3,173,945)
CHANGE IN NET POSITION		
Net income before transfers	**4,211,757**	1,172,625
Contributions - capital related grants	**-**	388,505
Transfers - gross earnings taxes	**(4,544,927)**	(4,636,071)
Transfers - from(to) other funds	**-**	(289,428)
CHANGE IN NET POSITION	**(333,170)**	(3,364,369)
TOTAL NET POSITION - BEGINNING	**20,070,353**	23,434,722
TOTAL NET POSITION - ENDING	**$ 19,737,183**	$ 20,070,353

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

City of Tacoma
Environmental Services Department
Solid Waste Management
Statements of Cash Flows

	Year Ended December 31, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	**$ 56,821,053**	$ 56,757,522
Payments to suppliers	**(23,411,224)**	(26,326,757)
Payments to employees	**(18,999,548)**	(19,142,400)
Taxes paid	**(627,202)**	(930,600)
Net cash from operating activities	**13,783,079**	10,357,765
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gross earnings taxes paid	**(4,539,218)**	(4,623,380)
Debt service related to enviromental cleanup	**(439,890)**	(452,194)
Operating grants received	**514,116**	262,125
Transfer	**-**	(289,428)
Net cash from noncapital financing activities	**(4,464,992)**	(5,102,877)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	**(2,477,083)**	(10,423,011)
Principal paid on revenue bonds	**(3,085,000)**	(2,605,000)
Capital lease obligation	**(521,998)**	(522,109)
Interest expense, net of capitalized interest	**(2,591,520)**	(2,758,911)
Proceeds from sale of capital assets	**3,420**	47,400
Net cash from capital and related financing activities	**(8,672,181)**	(16,261,631)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	**311,292**	126,491
Rental income	**138,670**	133,330
Other investing proceeds	**2,526**	3,664
Net cash from investing activities	**452,488**	263,485
Net change in cash and equity in pooled investments	**1,098,394**	(10,743,258)
Cash and equity in pooled investments beginning	**32,485,036**	43,228,294
Cash and equity in pooled investments ending	**$ 33,583,430**	$ 32,485,036

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

City of Tacoma
Environmental Services Department
Solid Waste Management
Statements of Cash Flows

	Year Ended December 31, 2014	2013
Reconciliation of cash and equity in pooled investments to balance sheets:		
Operating funds	**$ 26,085,004**	$ 30,170,438
Restricted funds	**7,498,426**	2,314,598
	$ 33,583,430	$ 32,485,036
Reconciliation of operating income to net cash from operating activities:		
Operating income	**$ 6,397,264**	$ 4,346,570
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense	**6,987,578**	6,809,917
Low income assistance	**-**	(102,810)
Change in assets, liabilities, and deferred inflows:		
Accounts receivable, net of allowance	**176,596**	(117,428)
Unbilled revenue	**200,000**	-
Due from other funds	**(390,817)**	(81,794)
Due from other governmental units	**-**	112,362
Accounts payable	**(414,032)**	(189,063)
Accrued wages and compensated absences	**(10,569)**	177,998
Accrued taxes payable	**46,494**	(14,127)
Deposits payable	**20,968**	27,868
Due other funds	**446,125**	37,075
Unearned revenue	**5,758**	(72,146)
Rate stabilization	**-**	1,350,000
Net OPEB obligation	**288,846**	317,725
Post-closure liability	**28,868**	(2,244,382)
Total adjustments	**7,385,815**	6,011,195
Net cash from operating activities	**$ 13,783,079**	$ 10,357,765

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

Notes to Financial Statements

City of Tacoma, Washington
Environmental Services
Solid Waste Management
Notes to Financial Statements
Years Ended December 31, 2014 and 2013

NOTE 1 SUMMARY OF OPERATIONS

OPERATIONS OF THE SOLID WASTE MANAGEMENT DIVISION - The Solid Waste Management Division (the Division) is presented as an enterprise fund within the Environmental Services Department under the provisions of the City of Tacoma Charter and is included in the City of Tacoma's (the City) Comprehensive Annual Financial Report (CAFR).

The Division provides mandatory solid waste collection and disposal services for residential and commercial entities located within the City. The population is approximately 203,000 and covers an area of 49 square miles. Disposal methods include recycling, composting, and long-haul to an outside landfill.

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. Accordingly, balances are considered to be cash equivalents.

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

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

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

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

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

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

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

ACCOUNTS RECEIVABLE AND UNBILLED REVENUE - Accounts receivable consist of amounts owed by 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.

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 INTERGOVERMENTAL 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.

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

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

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.

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
Buildings and Improvements	20 - 50
Resource Recovery Facility	5 - 50
Vehicles	5 - 10
Containers and Equipment	5 - 10
Other Assets	3 - 10

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

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

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

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

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

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

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

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

OPERATING REVENUE - Revenues are derived from providing solid waste services to both residential and commercial customers. Residential rates are based on the size of the garbage container and include services for recycling, yard waste and costs for other special programs. Commercial rates are based on the garbage container type and frequency of collection with additional charges for recycling services. Customers are billed on bi-monthly or monthly billing cycles.

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

The City has a parity bond ordinance that it will establish, maintain and collect rates or charges in connection with the ownership and operation of the utility to 1) pay the cost of maintenance and operation of the utility, 2) to make all payments required to be made for the parity bonds, 3) to make all payments required to be made on any other junior debt, 4) to pay municipal taxes and payments to the City in lieu of taxes, and 5) to prepay debt, invest in improvement projects to utility assets, make payments to the Solid Waste Rate Stabilization Fund, or other lawful City purposes including payment of legal claims and judgments against the utility.

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.

Solid Waste Management
Notes to Financial Statements Continued

TAXES - The City charges the Division a gross earnings tax at the rate of 8.00%. The Division also pays business and occupation taxes to the State, 1.50% on service revenues and 0.47% on rental revenues. The Division is exempt from payment of federal income tax.

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

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

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

Unrestricted are not "net investment in capital assets" or "restricted".

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.

LANDFILL CLOSURE AND POST-CLOSURE COSTS - The Division is required to expense a portion of the estimated closure and post-closure costs in each period that the landfill accepts solid waste. The Division has been reporting a portion of these costs as a liability and as an operating expense since 1994. As of December 31, 2014, the landfill is at 100% of capacity, closed, and capped and 29 years remaining for post closure monitoring.

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, depreciation, Other Post Employment Benefits (OPEB), self-insurance liabilities and other contingencies. Actual results may differ from these estimates.

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

NOTE 3 CAPITAL ASSETS

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

	2013	Additions	Retirements	Transfers & Adjustments	2014
Nondepreciable:					
Land	$ 3,119,782	$ -	$ -	$ -	$ 3,119,782
Depreciable:					
Buildings	63,874,457	995,983	-	553,937	65,424,377
Building - capital lease	7,568,000	-	-	(1,543,727) *	6,024,273
Landfill infrastructure	64,826,573	307,007	-	40,555	65,174,135
Machinery and equipment	46,442,639	950,242	(1,301,278)	250,654	46,342,257
Computer software	4,586,208	18,806	-	112,704	4,717,718
Assets in service	190,417,659	2,272,038	(1,301,278)	(585,877)	190,802,542
Accumulated depreciation	(103,585,923)	(6,987,578)	1,301,278	-	(109,272,223)
Assets in service net of depreciation	86,831,736	(4,715,540)	-	(585,877)	81,530,319
Construction in progress	1,302,020	205,554	-	(957,850)	549,724
Total capital assets	$ 88,133,756	$ (4,509,987)	$ -	$ (1,543,727.00)	$ 82,080,043

*See **Note 5** for additional information

	2012	Additions	Retirements	Transfers & Adjustments	2013
Nondepreciable:					
Land	$ 3,104,443	$ -	$ -	$ 15,339	$ 3,119,782
Depreciable:					
Buildings	63,892,674	-	-	(18,217)	63,874,457
Building - capital lease	7,568,000	-	-	-	7,568,000
Landfill infrastructure	62,460,597	-	-	2,365,976	64,826,573
Machinery and equipment	40,672,137	-	(1,401,961)	7,172,463	46,442,639
Computer software	4,368,980	-	-	217,228	4,586,208
Assets in service	182,066,831	-	(1,401,961)	9,752,789	190,417,659
Accumulated depreciation	(98,044,445)	(6,809,917)	1,268,439	-	(103,585,923)
Assets in service net of depreciation	84,022,386	(6,809,917)	(133,522)	9,752,789	86,831,736
Construction in progress	243,292	10,811,517	-	(9,752,789)	1,302,020
Total capital assets	$ 84,265,678	$ 4,001,600	$ (133,522)	$ -	$ 88,133,756

NOTE 4 LONG-TERM DEBT

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

	2013	Additions	Reductions	2014	Due within One Year
Revenue bonds	$ 61,150,000	$ -	$ (3,085,000)	$ 58,065,000	$ 4,585,000
Plus: Unamortized premium	1,365,635	-	(307,668)	1,057,968	-
Total long-term debt	$ 62,515,635	$ -	$ (3,392,668)	$ 59,122,968	$ 4,585,000

	2012	Additions	Reductions	2013	Due within
Revenue bonds	$ 63,755,000	$ -	$ (2,605,000)	$ 61,150,000	$ 3,085,000
Plus: Unamortized premium	1,710,169	-	(344,534)	1,365,635	-
Total long-term debt	$ 65,465,169	$ -	$ (2,949,534)	$ 62,515,635	$ 3,085,000

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

	2014	2013
2006 Series A Revenue Bonds, with interest rates ranging from 4.25% to 5.0% Principal payments range between $495,000 to $4,290,000 between 2015 and 2026. Original par value value $29,385,000 with a call date of December 1, 2016. Purpose was to fund a portion of the capital improvement plan and pay the costs of issuance.	$ 28,455,000	$ 28,930,000
2006 Series B Revenue Refunding Bonds, with an interest rate of 5.0% due in yearly installments of $1,685,000 to $6,480,000 from 2015 through 2021. Original par value $22,315,000 with a call date of December 1, 2016. Purpose was to refund certain mateurities of the outstanding 2001 Bonds and to pay the cost of issuance.	21,975,000	22,315,000
2008 Revenue Refunding Bonds, with an interest rate of 5.75% due in yearly installments of $2,405,000 to $2,685,000 from 2015 through 2017. Original par value $12,055,000. Purpose was to refund a portion of the 1997 Series B Bonds and to pay the costs of issuance.	7,635,000	9,905,000
Total revenue bonds outstanding	58,065,000	61,150,000
Less:		
Current portion	(4,202,917)	(2,827,917)
Current portion payable from restricted assets	(382,083)	(257,083)
Plus: Unamortized premium	1,057,968	1,365,635
Total long-term debt - Revenue Bonds	$ 54,537,968	$ 59,430,635

Annual debt service requirement to maturity are as follows:

	Principal	Interest	Total Debt
2015	$ 4,585,000	$ 2,950,881	$ 7,535,881
2016	4,830,000	2,707,306	7,537,306
2017	5,090,000	2,449,938	7,539,938
2018	5,565,000	2,178,000	7,743,000
2019	5,850,000	1,899,750	7,749,750
2020-2024	23,770,000	5,292,500	29,062,500
2025-2026	8,375,000	633,250	9,008,250
	$ 58,065,000	$18,111,625	$ 76,176,625

Moody's Investors Service, Standard & Poor's and Fitch Ratings have assigned ratings of "A1," "AA" and "AA-", respectively.

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

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

NOTE 5 CAPITAL LEASE

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

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

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

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

Year	Division
2015	$ 404,524
2016	404,338
2017	404,741
2018	404,927
2019	404,555
2020-2024	2,022,251
2025-2029	2,023,448
2030-2034	2,022,895
2035-2038	1,607,762
	9,699,441
Interest	4,382,166
Principal	$ 5,317,275

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

NOTE 6 INSURANCE

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

The City of Tacoma has established a Self-insurance Fund (the Fund) to insure the Division and other divisions within the City for certain losses arising from personal and property damage claims by third parties. The Division participates in the City's self-insurance program for claims that arise during the normal course of business. Environmental and tax claims generally are paid for out of revenue of the Division and not from the Fund. The Division is required to make payments to the Fund to cover claims incurred by the Division and administrative expenses of the Fund. The Division's premium payments totaled $346,748 for 2014 and $346,748 for 2013. The Division only recognizes expense for premium payments because the risk of loss transfers to the Fund.

The City maintains an excess general liability policy with limits of $15 million, subject to a self-insured retention of $3 million and a $30 million dollar aggregate. The City has an excess policy to cover extraordinary workers' compensation claims with Statutory Limits and with a $1 million self-insured retention plus a $250,000 of total loss each 12 month policy period. The City has a property insurance policy with a limit of $500 million replacement cost ($50,000 deductible per occurrence). The City carries property coverage with a maximum single occurrence limit of $500,000,000 with a sublimit of $150,000 deductible per occurrence, with exceptions. This policy renews July 1st of each year. The Division's cost for these policies is $14,419 in 2014 and $14,295 in 2013.

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

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

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

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

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

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

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

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

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

The contribution rates are provided in the following table:

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

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

Schedule of Funding Progress ($ in millions):

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

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

2012	$	20,919,787
2013		21,188,984
2014		22,149,246

ACTUARIAL METHODS AND SIGNIFICANT ACTUARIAL ASSUMPTIONS

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

NOTE 8 OTHER POST EMPLOYMENT BENEFITS

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

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

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

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

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

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

The Annual Required Contribution (ARC) is the amount the City is required to report as an expense for the 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 2014 is 23 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, 2014 as the City has not set aside funds for OPEB.

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

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

Solid Waste Management
Notes to Financial Statements Continued

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.

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

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

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

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

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

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

	City	Division
Determination of Annual Required Contribution:		
Normal Cost at Year-end	$ 5,484,587	$ 272,877
Amortization of UAAL	14,574,173	92,791
Annual Required Contribution	$ 20,058,760	$ 365,668
Determination of Net OPEB Obligation:		
Annual Required Contribution	$ 20,058,760	$ 365,668
Interest on prior year Net OPEB Obligation	2,104,155	53,190
Adjustments to ARC	(2,842,971)	(60,051)
Annual OPEB Cost	19,319,944	358,807
Actual benefits paid	9,292,539	69,961
Increase in Net OPEB Obligation	10,027,405	288,846
Net OEPB Obligation - beginning of year	56,110,801	1,418,399
Net OPEB Obligation - end of year	$ 66,138,206	$ 1,707,245

FUNDED STATUS AND FUNDING PROGRESS - The following table shows the annual OPEB cost and net OPEB obligation for three years. This table is based upon a 4.00% interest rate for 2012 and 3.75% for 2013 and 2014.

	Annual OPEB Cost		Benefits Paid		Net OPEB Obligation	
Year Ended	City	Division	City	Division	City	Division
12/31/2012	$ 19,469,178	$ 350,345	$ 9,393,431	$ 161,140	$ 46,469,368	$ 1,100,674
12/31/2013	$ 19,528,767	$ 362,340	$ 9,887,334	$ 44,615	$ 56,110,801	$ 1,418,399
12/31/2014	$ 19,319,944	$ 358,807	$ 9,292,539	$ 69,961	$ 66,138,206	$ 1,707,245

As of January 1, 2013, the most recent actuarial valuation date, the Plan was zero percent funded. Based upon a 3.75% interest rate, the actuarial accrued liability for benefits was $251.8 million, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability of $251.8 million.

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

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

Actuarial Methods and Significant Actuarial Assumptions:

Valuation Date	January 1, 2013
Census Date	January 1, 2013
Actuarial Cost Method:	Entry Age
Amortization Method:	Combination of level percentage and level dollar amount, see note above.
Remaining Amortization Period:	23 years, closed
Demographic Assumptions:	Demographic assumptions regarding retirement, disability, and turnover are based upon pension valuations for the various pension plans.
Actuarial Assumptions:	
Discount Rate	3.75% for pay-as-you-go funding
Medical Cost Trend	2013 8.9%
	2014 6.5%
	2015 5.8%
	2020 6.0%
	2030 5.9%
	2040 5.6%
	The medical cost rate is assumed to continue grading downward until achieving the ultimate rate of 4.8% in 2083 and beyond. The first year trend reflects assumed increases based on ACA fees. These trend rates assume that, over time, deductibles and out-of-pocket maximums will be periodically increased as medical trends increase. The trends above do not reflect increases in costs due to the excise tax.
Economic Assumptions – Discount Rate (Liabilities)	3.75%
Demographic Assumptions	Eligibility:
	Disability – Five years of service are required for non-service connected disability.
	Retirement – TERS members are eligible for retiree medical benefits after becoming eligible for service retirement pension benefits (either reduced or full pension benefits):
	• Age 55 with 10 years of service
	• 20 years of service

NOTE 9 LANDFILL POST CLOSURE LIABILITIES

The Division operates a 235 acre landfill site, which became part of the South Tacoma Channel Superfund Site in 1983. In 1991, the City entered a Consent Decree settlement with the United States Environmental Protection Agency (EPA) and the Washington State Department of Ecology (DOE), titled United States et al v. City of Tacoma US District Court Case No. C-89C583T, to "clean-up" the release of hazardous substances at the Landfill. The City completed the majority of the remediation work required by the Consent Decree several years ago. The remaining work mostly involves monitoring the remediation work completed by the City in the 1990s to assure that it continues to protect human health and the environment. The Consent Decree settlement was entered pursuant to the federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), 42 U.S.C. §9601 et seq., and the state Model Toxics Control Act (MTCA), Chapter 70.105D RCW.

The City's remediation work has included: (1) covering the landfill with a double flexible membrane cap that is impermeable to water; (2) capturing methane gas within and at the landfill perimeter to prevent off-site migration; (3) pumping and treating ground water to remove contamination at the point of compliance and beyond property boundaries; and (4) closing the landfill in accordance with the above-referenced Consent Decree. The City has an obligation under the Consent Decree to monitor the remediation work over the next 20 years, or more years to make sure it continues to be effective at protecting human health and the environment.

The costs for ongoing maintenance of the Tacoma Landfill are not expected to require rate increases above those already projected. The City will be responsible for the costs of additional work if migration of pollutants from the site is not completely controlled by current remedial actions. The City's on-going monitoring efforts indicate the remedial actions undertaken by the City at the Tacoma Landfill are performing as designed.

In 2014, following closure of the portions of the Tacoma Landfill as required by the Consent Decree, the remaining recovery and transfer facilities continued to be permitted by the Tacoma Pierce County Health Department (TPCHD) through the same permitting process. All closed portions of the Landfill will also be covered by a TPCHD closure permit, which may be incorporated into the overall facility permit. The closure permit will mirror the requirements implemented as a result of the Landfill remedial action.

Long term plans for the closed capped areas of the Tacoma Landfill include recreational facilities, such as trails and playfields, as well as other governmental facilities, such as greenhouses for grounds maintenance operations. All development on the Tacoma Landfill site must be designed to accommodate differential settlement and allow for continued functioning of the environmental remediation systems.

The City reported $25,720,100 as landfill post-closure liability as of December 31, 2014 based on 100% use of the total capacity of the Tacoma Landfill. This compares to $25,691,232 at December 31, 2013 based on 100% of capacity. Actual costs may be higher or lower due to inflation, changes in technology, or changes in regulations. The City will be responsible for the costs of additional work if migration of pollutants from the site is not completely controlled by current remedial actions. To meet the previous requirements of State and Federal laws and regulations, contributions were made to a reserve for financing closure costs.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Long-term Contract - Land Recovery, Inc. - In February 2000, the Division entered into a 20-year contract with Land Recovery, Inc. (LRI) to dispose of all "acceptable waste" collected or handled by the Division (as that term is defined in the agreement), at the 304th Street landfill operated by LRI. The Division entered into this agreement to extend the life of the Tacoma Landfill and to secure a long-term disposal arrangement at a favorable disposal cost. The agreement excludes solid waste that LRI is not authorized by law or permit to receive, or which could create or expose LRI or the Division to potential liability, among other things. Recycling and/or composting waste is not covered by the agreement. The agreement further provides that LRI shall charge a base rate per ton for disposal services, and that said rate shall decrease as the tonnage increases during each contract year. The agreement also provides that the base rate charged by LRI shall increase annually based on the Seattle-Tacoma CPI. The rate per ton is periodically increased by LRI to cover certain increased costs, including the increased cost of landfill closure liabilities. These rate adjustments are part of the existing agreement.

Long-term Contract - Pierce County Recycling, Composting and Disposal - In October 2004 the Division entered into a ten (10) year agreement with Pierce County Recycling Composting and Disposal (PCRCD) LLC to accept organic material collected by the City curbside or delivered to the City's landfill for processing into compost. Under the agreement, which has two 5-year renewal options, PCRCD will charge a base rate per ton for the organic waste it receives from the City. This price may be adjusted beginning on the second anniversary of the agreement, and thereafter annually based on the Seattle-Tacoma-Bremerton CPI. The agreement also includes a revenue sharing component. The Division entered into this agreement to extend the life of the Tacoma landfill and secure a long-term composting arrangement at a favorable cost.

NOTE 11 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. No assurance can be given, however, as to the ultimate outcome with respect to any particular claim.

NOTE 12 SUBSEQUENT EVENTS

On March 18, 2015 the Division issued 10 year 2015 Solid Waste Revenue Bonds in the amount of $21,095,000 due in yearly installments ranging from $1,960,000 to $2,760,000 and interest rates ranging from 2% to 5% for a true interest cost of approximately 2.14%. The bonds maturing in the years 2017 through 2024, inclusive, are not subject to optional redemption prior to maturity. The Bonds maturing on December 1, 2025 are subject to redemption at the option of the City, in whole or in part, on any date on or after June 1, 2025. Proceeds were used to fund $2.1 million in bond reserves, pay the cost of issuance, and provide $22 million for a portion of the capital improvement plan.

(This page intentionally left blank.)

Unaudited Supplemental Information

City of Tacoma, Washington Solid Waste Utility Revenue Refunding Bonds, 2006 Series B
City of Tacoma, Washington Solid Waste Utility Revenue Bonds, Series 2006A
City of Tacoma, Washington Solid Waste Utility Revenue Refunding Bonds, 2008

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

Solid Waste Management Audited Financial Statements
Reference Financial Statements Section

Outstanding Solid Waste Bonds
Reference Note 4 in Notes to Financial Statements

Debt Service Coverage

	2013	**2014**
Parity Bond Debt Service Coverage Ratio		
After Rate Stabilization Transfer	2.10	2.31
Before Rate Stabilization Transfer	2.33	2.31

(1) Total operating revenues for 2013 have been reduced on a pro-rata basis to reflect a transfer of $1,350,000 to the Rate Stabilization Fund.

Number of Customers by Type of Service
The System's number of customers by type of service is shown below:

Customer Class	**2013**	**2014**
Residential	53,819	54,462
Commercial	4,823	4,846
Total Customers	58,642	59,308

Top Ten Customers

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

Customer Name	Amount	Percent of 2014 Gross Revenues[1]
Multicare Health Systems	$ 538,019	0.95%
City of Tacoma	470,205	0.83
Puyallup Tribe	412,407	0.73
Tacoma School District	379,648	0.67
Salishan	351,666	0.62
St Joseph Medical Center	336,912	0.59
Tacoma Goodwill Industries	238,259	0.42
Tacoma Housing Authority	215,751	0.38
Fred Meyer	200,223	0.35
Oscar T Hokold	183,596	0.32
Tacoma Mall Partners	183,339	0.32
Total Revenue	$ 3,510,025	6.18%

(1) Based on 2014 Gross Revenues for the solid waste system in the amount of $56,751,038.

Revenues by Service

Reference Financial Statements Section

Municipal Solid Waste for the year 2014 was disposed of as follows:

	2013	2014
Solid Waste	156,358	165,000
Recycling	26,091	28,100
Yard Waste	33,253	34,000
Total	215,702	227,100

Solid Waste Rates

	2015		2016	
	Rate Per 100 Pounds	Minimum Charge	Rate Per 100 Pounds	Minimum Charge
Garbage Disposal				
City of Tacoma Resident	$ 6.50	$ 15.00[2]	$ 6.50	$ 20.00[2]
Non-City of Tacoma Resident	7.50	15.00	7.50	20.00
Commercial	6.50	15.00	6.50	20.00
Yard Waste				
City of Tacoma Resident	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Non-City of Tacoma Resident	7.50	15.00	7.50	20.00
Commercial	6.50	15.00	6.50	20.00

(1) Rates shown include utility taxes. Rates become effective January 1 of each year.

(2) For City residents, the minimum charge includes the first 400 pounds.