

# C.P. McAULIFFE, C.P.A., P.S.

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To the Board of Commissioners  
Lakehaven Water & Sewer District  
Federal Way, Washington

Management is responsible for the accompanying financial statements of Lakehaven Water & Sewer District which comprise of the statement of net position as of December 31, 2016 and the related statement of revenues, expenses and changes in fund net position and statement of cash flows for the year then ended and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements and nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 8 and pension plan information in Schedules I through III be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. This information is the representation of management. This information was subject to our compilation engagement; however, we have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on such information.

*C.P. McAuliffe, C.P.A.*

C.P. McAuliffe, C.P.A., P.S.  
Certified Public Accountants

May 30, 2017

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Management's Discussion & Analysis  
Year Ended December 31, 2016

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**Brief Discussion of the Basic Financial Statements**

The District's financial statements include a Statement of Net Position, a Statement of Revenues, Expenses & Changes in Fund Net Position, a Statement of Cash Flows, Notes to the Financial Statements and Required Supplementary Information. The financial statements are prepared using the accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments. The intent of the management's discussion and analysis is to provide highlights of the District's financial activities for the year ended December 31, 2016. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

The statement of net position presents total assets and deferred outflows of resources and total liabilities and deferred inflows of resources with the difference between the two totals reported as net position. It provides information about the nature and amounts of investments in resources (assets), consumption of resources that are applicable to future periods (deferred outflows), obligations to District creditors (liabilities) and the acquisition of resources that are applicable to a future reporting period (deferred inflows). It provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

The statement of revenues, expenses, and changes in fund net position presents the results of the business activities over the course of the year. This information can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, financing, and investing activities over the course of the year. It presents information regarding where cash came from and what it was used for.

The notes to the financial statements provide useful information regarding the District's significant accounting policies, significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

**Condensed Comparative Statement of Net Position**

The following condensed statement of net position by division presents the assets and deferred outflow of resources of the District as of December 31, 2016 and 2015 and shows the mix of liabilities and deferred inflow of resources and net position used to acquire these assets and deferred outflow of resources:

Lakehaven Water & Sewer District  
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**Condensed Comparative Statement of Net Position (Continued)**

|   | As of December 31, 2016 |                       |                       | As of December 31, 2015 |                       |                       |
|---|-------------------------|-----------------------|-----------------------|-------------------------|-----------------------|-----------------------|
|   | Water                   | Waste Water           | Total                 | Water                   | Waste Water           | Total                 |
| <b><u>Assets</u></b>                        |                         |                       |                       |                         |                       |                       |
| Current Assets                              | \$ 27,587,559           | \$ 27,078,259         | \$ 54,665,818         | \$ 23,683,355           | \$ 25,594,843         | \$ 49,278,198         |
| Noncurrent Assets                           |                         |                       |                       |                         |                       |                       |
| Capital Assets - Net                        | 124,427,518             | 107,138,139           | 231,565,657           | 124,700,608             | 109,643,844           | 234,344,452           |
|   | <u>152,015,077</u>      | <u>134,216,398</u>    | <u>286,231,475</u>    | <u>148,383,963</u>      | <u>135,238,687</u>    | <u>283,622,650</u>    |
| <b><u>Deferred Outflow of Resources</u></b> |                         |                       |                       |                         |                       |                       |
| Total Deferred Outflows                     | 699,517                 | 678,191               | 1,377,708             | 582,822                 | 509,293               | 1,092,115             |
| <b><u>Liabilities</u></b>                   |                         |                       |                       |                         |                       |                       |
| Current Liabilities                         | 5,579,519               | 3,635,313             | 9,214,832             | 4,778,220               | 2,997,964             | 7,776,184             |
| Noncurrent Liabilities:                     |                         |                       |                       |                         |                       |                       |
| Long-Term Debt                              | 20,602,374              | 1,634,486             | 22,236,860            | 23,419,376              | 2,128,497             | 25,547,873            |
| Other                                       | 4,407,197               | 4,377,164             | 8,784,361             | 3,733,082               | 3,700,079             | 7,433,161             |
| Total Liabilities                           | <u>30,589,090</u>       | <u>9,646,963</u>      | <u>40,236,053</u>     | <u>31,930,678</u>       | <u>8,826,540</u>      | <u>40,757,218</u>     |
| <b><u>Deferred Inflow of Resources</u></b>  |                         |                       |                       |                         |                       |                       |
| Total Deferred Inflows                      | 77,083                  | 77,083                | 154,166               | 502,203                 | 502,203               | 1,004,406             |
| <b><u>Net Position</u></b>                  |                         |                       |                       |                         |                       |                       |
| Net Investment in Capital Assets            | 100,364,869             | 105,087,806           | 205,452,675           | 98,132,921              | 106,703,461           | 204,836,382           |
| Restricted for Debt Service                 | 1,782,127               | 102,949               | 1,885,076             | 1,935,682               | 904,819               | 2,840,501             |
| Unrestricted                                | 19,901,425              | 19,979,788            | 39,881,213            | 16,465,301              | 18,810,957            | 35,276,258            |
|   | <u>\$ 122,048,421</u>   | <u>\$ 125,170,543</u> | <u>\$ 247,218,964</u> | <u>\$ 116,533,904</u>   | <u>\$ 126,419,237</u> | <u>\$ 242,953,141</u> |

Lakehaven Water & Sewer District  
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**Analysis of the Condensed Comparative Statement of Net Position**

Assets

Current assets consist of cash and cash equivalents held in the maintenance, construction and revenue accounts as well as accounts receivable, prepaid expenses, inventory, and accrued interest. Water current assets increased by \$3,904,204 and Wastewater current assets increased by \$1,483,416 for a total increase of \$5,387,620. The increase is largely due to increases in the unrestricted cash and cash equivalents held in the King County Investment Pool, partially offset by decreases in customer accounts receivable and decreases in restricted cash & cash equivalents. Cash balances vary from year to year based on income from operations, expenses paid for operations and construction costs, borrowings and debt service payments. Customer accounts receivable decreased primarily due to the timing of payments and restricted cash decreased due to payments on the revenue bonds. Accrued interest receivable on investments did not materially change in 2016.

Noncurrent assets consist of net capital assets, which include land, construction in progress, equipment, buildings, infrastructure and intangibles. Water noncurrent assets decreased by \$273,090 and Wastewater noncurrent assets decreased by \$2,505,705 for a total decrease of \$2,778,795 in 2016. The Water and Wastewater decrease was primarily due to depreciation expense in excess of capital additions.

Deferred Outflow of Resources consists of pension deferred outflows and unamortized losses on the refunding of revenue bonds. Water pension deferred outflows totaled \$675,218 and Wastewater pension deferred outflows totaled \$675,218 for a total of \$1,350,436 in 2016. Pension deferred outflows increased by \$352,206 in 2016 due to differences in projected and actual earnings on pension plan investments. Water deferred outflow of resources related to unamortized losses on refunding decreased by \$59,408 and Wastewater deferred outflow of resources related to unamortized losses on refunding decreased by \$7,205 due to amortization of the deferred losses.

Liabilities

Current liabilities include accounts payable, deposits, interest payable on debt, retainage and the current portion of long term debt. Water current liabilities increased by \$801,299 and Wastewater current liabilities increased by \$637,349 for a total increase of \$1,438,648 from 2015. Water current liabilities increased primarily due to increases in accounts payable, development deposits and current portion of long term debt. Wastewater current liabilities increased due to increases in deposits and accounts payable partially offset by a decrease in the current portion of long term debt. Accounts payable increased in 2016 primarily due to timing of payments. Developer & customer deposits increased in 2016 primarily due to increased development activities. The current portion of debt, including interest payable, decreased by \$140,247 during the year. This decrease is primarily due to a decrease in the current portion of long term debt related to revenue bonds.

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**Analysis of the Condensed Comparative Statement of Net Position (Continued)**

Noncurrent liabilities include the long term portion of revenue bonds, Public Works Trust Fund and State Revolving Fund loans. Noncurrent liabilities also include compensated absences, co-op certificates and the pension liability. Water noncurrent liabilities decreased by \$2,142,887 and Wastewater noncurrent liabilities increased by \$183,074 for a total decrease of \$1,959,813 in 2016. Water noncurrent liabilities decreased primarily due to decreases in the long term portion of Public Works Trust Fund and State Revolving Fund loans and revenue bonds partially offset by increases in the net pension liability. Wastewater noncurrent liabilities increased primarily due to increases in the net pension liability partially offset by decreases in the long term portion of Public Works Trust Fund and State Revolving Fund loans and revenue bonds. The long term portion of Public Works Trust Fund loans, State Revolving Fund loans and revenue bonds decreased due to payments on the debt partially offset by draws on the Public Works Trust Fund loans.

Deferred Inflow of Resources consists of Water pension deferred inflows of \$77,083 and Wastewater pension deferred inflows of \$77,083 for a total of \$154,166. Water pension deferred inflows decreased by \$425,120 and Wastewater pension deferred inflows decreased by \$425,120 for a total decrease of \$850,240. The decrease is due to differences in projected and actual earnings on pension plan investments partially offset by differences between expected and actual experience rates.

Net Position measures the amount by which assets and deferred outflows exceed the corresponding liabilities and deferred inflows. Over time this may serve as useful measure of the District's financial position. The total net position of \$247 million is in three categories

- Investment in Capital Assets, represents the book value amount invested in capital assets net of depreciation and the related debt. The primary changes that affected this category were the continued lowering of the District's overall debt through the normal repayment and reduction of the principal partially offset by the net decrease in the District's capital assets.
- The Restricted Net Position consists of debt service reserves of \$1.9 million in support of debt service commitments. Change in this portion of the Net Position reflects changes to the District's overall debt structure and its ability to pay debt when due.
- The Unrestricted Net Position represents the District's unrestricted cash and investments, which is essentially anything that does not fall into the first two categories. The increase in this category is primarily the result of positive net income of \$4.5 million. The District is accumulating cash reserves in order to fund future capital and renovation projects.

**Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position**

The following statement of revenues, expenses, and changes in fund net position by division for the years ended December 31, 2016 and 2015 presents the annual surplus or deficiency of revenues over expenses (the change in net position):

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**Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position (Continued)**

|  | As of December 31, 2016 |                |                | As of December 31, 2015 |                |                |
|--|-------------------------|----------------|----------------|-------------------------|----------------|----------------|
|  | Water                   | Waste Water    | Total          | Water                   | Waste Water    | Total          |
| <b><u>Revenues</u></b>                                 |                         |                |                |                         |                |                |
| Operating Revenues                                     | \$ 15,151,570           | \$ 15,815,896  | \$ 30,967,466  | \$ 17,202,273           | \$ 16,058,219  | \$ 33,260,492  |
| Investment Income                                      | 167,902                 | 180,088        | 347,990        | 90,822                  | 108,031        | 198,853        |
| Gain on Sale of Capital Assets                         | 15,944                  | 26,414         | 42,358         | -                       | 5,733          | 5,733          |
| Other Income   | 541,485                 | 10,766         | 552,251        | 232,275                 | 52,723         | 284,998        |
| Total Revenues   | 15,876,901              | 16,033,164     | 31,910,065     | 17,525,370              | 16,224,706     | 33,750,076     |
| <b><u>Expenses</u></b>                                 |                         |                |                |                         |                |                |
| Operating & Maintenance                                | 6,917,734               | 11,828,401     | 18,746,135     | 6,045,226               | 9,043,046      | 15,088,272     |
| Administrative & General                               | 2,235,687               | 2,232,533      | 4,468,220      | 2,021,814               | 1,997,601      | 4,019,415      |
| Depreciation & Amortization                            | 3,944,082               | 4,022,508      | 7,966,590      | 3,717,720               | 4,068,256      | 7,785,976      |
| Taxes  | 939,453                 | 531,066        | 1,470,519      | 848,200                 | 326,746        | 1,174,946      |
| Loss on Sale of Capital Assets                         | -                       | -              | -              | 3,727                   | -              | 3,727          |
| Casualty Loss  | -                       | 1,232,639      | 1,232,639      | -                       | -              | -              |
| Public Works & SRF Interest                            | 206,356                 | 11,879         | 218,235        | 166,237                 | 30,453         | 196,690        |
| Revenue Bond Interest                                  | 116,927                 | 18,451         | 135,378        | 63,582                  | 13,515         | 77,097         |
| Total Expenses   | 14,360,239              | 19,877,477     | 34,237,716     | 12,866,506              | 15,479,617     | 28,346,123     |
| Change in Net Position<br>before Capital Contributions | 1,516,662               | (3,844,313)    | (2,327,651)    | 4,658,864               | 745,089        | 5,403,953      |
| Capital Contributions                                  | 4,120,228               | 2,717,992      | 6,838,220      | 2,629,125               | 2,492,736      | 5,121,861      |
| Change in Net Position                                 | 5,636,890               | (1,126,321)    | 4,510,569      | 7,287,989               | 3,237,825      | 10,525,814     |
| Total Net Position, January 1                          | 116,533,904             | 126,419,237    | 242,953,141    | 112,792,675             | 126,728,172    | 239,520,847    |
| Prior Period Adjustment                                | (122,373)               | (122,373)      | (244,746)      | -                       | -              | -              |
| Change in Accounting Principle<br>GASB 68              | -                       | -              | -              | (3,546,760)             | (3,546,760)    | (7,093,520)    |
| Total Net Position, December 31                        | \$ 122,048,421          | \$ 125,170,543 | \$ 247,218,964 | \$ 116,533,904          | \$ 126,419,237 | \$ 242,953,141 |

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**Analysis of the Condensed Comparative Statement of Revenues, Expenses, & Changes in Fund Net Position**

Revenues

Water operating revenues decreased by \$2,050,703 in 2016, primarily due to a non-recurring one-time sale of water to the City of Tacoma in 2015 partially offset by a rate increase enacted in 2016. Wastewater operating revenues decreased by \$242,323 in 2016, primarily due to decrease in usage partially offset by a rate increase enacted during the year. The average rate increase of 1.8% was enacted on July 1, 2016. Total operating revenues decreased by \$2,293,026 in 2016.

Water investment income increased by \$77,080 and Wastewater investment income increased by \$72,057 for a total increase of \$149,137 in 2016. The increase was due to a higher average balance invested in the King County Investment Pool. The average balance being invested varies from year to year and can result in differences in the interest collected by the District.

Expenses

Water operations and maintenance costs increased in 2016 by \$872,508 and Wastewater operations and maintenance costs increased in 2016 by \$2,785,355 for a total annual increase of \$3,657,863. The Water increase was primarily driven by an increase in employee headcount in 2016 as well as increased filtration costs related to the Second Supply Partnership (Note 9) and an increase in the District's labor and benefit costs. The Wastewater increase was primarily driven by an increase in chemical costs at the Redondo Wastewater treatment plant. The UV system at the treatment plant was destroyed by a flood and the District used additional chemicals in place of the UV system in 2016.

Water administrative and general expenses increased in 2016 by \$213,873 and Wastewater administrative and general expenses increased in 2016 by \$234,932 for a net annual increase of \$448,805. The net increase was driven mostly by increased labor and benefits costs in 2016.

Wastewater experienced a casualty loss of \$1,232,639 in 2016. This was the result of a flood at the Redondo Wastewater treatment plant which caused the UV system to be destroyed. The casualty loss was reduced by insurance proceeds of \$236,236.

Water interest expense increased by \$93,464 and Wastewater interest expense decreased by \$13,638 for a total increase of \$79,826 compared to 2015. This increase was primarily due to a \$151,762 decrease of capitalized interest in 2016 partially offset by a decrease in average bonds outstanding during the year.

Capital Contributions

The District experienced a \$1,716,359 increase in capital contributions in 2016 of which \$1,491,103 related to Water and \$225,256 related to Wastewater. This increase is primarily due to increased development activity in the District in 2016.

Prior Period Adjustment

Beginning net position and deferred outflow pension were decreased by \$244,746 to correct these balances for a prior period adjustment. See Note 13 for more information.



Lakehaven Water & Sewer District  
Management's Discussion & Analysis  
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**Analysis of the Condensed Comparative Statement of Revenues, Expenses, & Changes in Fund Net Position (Continued)**

Net Position

In 2016 Water experienced an increase in net position of \$5,636,890 and Wastewater experienced an decrease in net position of \$1,126,321 for a total increase in net position of \$4,510,569, a decrease of \$6,015,245 as compared with 2015.

**Analysis of Overall Financial Condition**

While the District experienced negative net operating income; the District had an increase in net position compared to 2015, and sustained positive cash flows which resulted in an improvement of the District's financial condition in 2016.

**Capital Assets**

Capital assets consist of land, construction in progress, equipment, buildings, infrastructure, and intangibles. Net capital assets decreased by \$2,778,795 in 2016 of which Water decreased by \$273,090 and Wastewater decreased by \$2,505,705. The decrease was primarily due depreciation and amortization of \$7,966,590 and the casualty loss disposal of the Redondo UV system partially offset by net acquisitions of depreciable assets and construction in progress.

Principal projects included in the 2016 capital spending were Lakota treatment upgrades totaling \$2,549,533, Phase V upgrades of \$675,805, water main replacements of \$529,882, service connections of \$433,915, Second Supply costs of \$324,913, Oasis Phase I costs of \$299,615 and meter installations of \$284,810. Donated systems (infrastructure donated by developers) in the amount of \$1,579,746 are included in the 2016 capital asset additions. Over the next ten years it is anticipated that capital spending will be in the range of \$160 million with approximately 46% of that going to water projects. The areas of major emphasis in the capital budget include upgrades to water treatment & filtration, existing infrastructure, pump stations and additional water sources. See Note 4 for more information.

Capital assets by division for the year ended December 31, 2016 was as follows:

|                           | <u>Water</u>          | <u>Wastewater</u>     | <u>Total</u>          |
|---------------------------|-----------------------|-----------------------|-----------------------|
| Land                      | \$ 1,064,117          | \$ 5,376,745          | \$ 6,440,862          |
| Construction in Progress  | 2,446,631             | 9,428,994             | 11,875,625            |
| Equipment                 | 13,114,042            | 15,247,105            | 28,361,147            |
| Buildings                 | 1,545,686             | 1,044,796             | 2,590,482             |
| Infrastructure            | 108,919,840           | 159,654,980           | 268,574,820           |
| Intangibles               | 67,989,378            | 2,340,571             | 70,329,949            |
| Accumulated Depreciation  | <u>(70,652,176)</u>   | <u>(85,955,052)</u>   | <u>(156,607,228)</u>  |
| Total Capital Assets, Net | <u>\$ 124,427,518</u> | <u>\$ 107,138,139</u> | <u>\$ 231,565,657</u> |

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**Capital Assets (Continued)**

Capital assets by division for the year ended December 31, 2015 was as follows:

|                           | <u>Water</u>          | <u>Wastewater</u>     | <u>Total</u>          |
|---------------------------|-----------------------|-----------------------|-----------------------|
| Land                      | \$ 1,064,117          | \$ 5,376,745          | \$ 6,440,862          |
| Construction in Progress  | 24,950,658            | 10,350,389            | 35,301,047            |
| Equipment                 | 13,060,114            | 17,875,917            | 30,936,031            |
| Buildings                 | 1,545,686             | 1,044,796             | 2,590,482             |
| Infrastructure            | 104,536,432           | 156,430,844           | 260,967,276           |
| Intangibles               | 46,308,667            | 2,340,571             | 48,649,238            |
| Accumulated Depreciation  | <u>(66,765,066)</u>   | <u>(83,775,418)</u>   | <u>(150,540,484)</u>  |
| Total Capital Assets, Net | <u>\$ 124,700,608</u> | <u>\$ 109,643,844</u> | <u>\$ 234,344,452</u> |

**Long-Term Debt**

In 2016, Water long-term debt decreased by \$2,817,002 and Wastewater long-term debt decreased by \$494,011 for a total decrease of \$3,311,013. The Water decrease was driven by principal payments on the revenue bonds, Public Works Trust Fund loans and State Revolving Fund loans, partially offset by draws on the State Revolving Fund loans. The Wastewater decrease was driven by principal payments on the revenue bonds and Public Works Trust Fund loans. Total District principal payments totaled \$4,378,114 in 2016.

At December 31, 2016, the District had total Public Works Trust Fund & State Revolving Fund loans outstanding of \$24,193,051 and total revenue bonds outstanding of \$1,945,000. See Note 6 for more information.

**Additional Comments**

The District has planned Water rate increases of approximately 1.8%/year for 2017, 2018, 2019 and 2020. The District has planned Wastewater rate increases of approximately 2.8% for 2017, 2018, 2019 and 2020.

The District anticipates meeting their operating and capital expenditures through operating cash flows and cash on hand and does not anticipate issuing any bonds in the next four years.

Lakehaven Water & Sewer District  
Statement of Net Position  
December 31, 2016

| <u>ASSETS</u>                         | <u>Water Division</u> | <u>Wastewater<br/>Division</u> | <u>Total</u>         |
|---------------------------------------|-----------------------|--------------------------------|----------------------|
| <u>Current Assets</u>                 |                       |                                |                      |
| Cash and Cash Equivalents             | \$ 24,292,453         | \$ 25,426,600                  | \$ 49,719,053        |
| Accrued Interest Receivable           | 18,771                | 20,671                         | 39,442               |
| Accounts Receivable - Customers       | 992,788               | 1,327,570                      | 2,320,358            |
| Accounts Receivable - Other           | 59,873                | -                              | 59,873               |
| Restricted Assets:                    |                       |                                |                      |
| - Cash and Cash Equivalents           | 1,789,014             | 103,625                        | 1,892,639            |
| - Accrued Interest Receivable         | 1,438                 | 84                             | 1,522                |
| Inventory                             | 240,015               | -                              | 240,015              |
| Prepaid Expenses                      | 193,207               | 199,709                        | 392,916              |
| Total Current Assets                  | <u>27,587,559</u>     | <u>27,078,259</u>              | <u>54,665,818</u>    |
| <u>Noncurrent Assets</u>              |                       |                                |                      |
| Capital Assets Not Being Depreciated: |                       |                                |                      |
| - Land                                | 1,064,117             | 5,376,745                      | 6,440,862            |
| - Construction in Progress            | 2,446,631             | 9,428,994                      | 11,875,625           |
| Capital Assets Being Depreciated      |                       |                                |                      |
| - Equipment                           | 13,114,042            | 15,247,105                     | 28,361,147           |
| - Buildings                           | 1,545,686             | 1,044,796                      | 2,590,482            |
| - Infrastructure                      | 108,919,840           | 159,654,980                    | 268,574,820          |
| - Intangibles                         | 67,989,378            | 2,340,571                      | 70,329,949           |
| Less Accumulated Depreciation         | <u>(70,652,176)</u>   | <u>(85,955,052)</u>            | <u>(156,607,228)</u> |
| Total Capital Assets                  | <u>124,427,518</u>    | <u>107,138,139</u>             | <u>231,565,657</u>   |
| Total Noncurrent Assets               | <u>124,427,518</u>    | <u>107,138,139</u>             | <u>231,565,657</u>   |
| Total Assets                          | <u>152,015,077</u>    | <u>134,216,398</u>             | <u>286,231,475</u>   |
| <u>DEFERRED OUTFLOW OF RESOURCES</u>  |                       |                                |                      |
| Deferred Outflow - Pension            | 675,218               | 675,218                        | 1,350,436            |
| Deferred Loss on Refunding            | 24,299                | 2,973                          | 27,272               |
| Total Deferred Outflow of Resources   | <u>\$ 699,517</u>     | <u>\$ 678,191</u>              | <u>\$ 1,377,708</u>  |

See accompanying notes and accountant's report.

Lakehaven Water & Sewer District  
Statement of Net Position  
December 31, 2016

| <u>LIABILITIES</u>  | <u>Water Division</u> | <u>Wastewater<br/>Division</u> | <u>Total</u>          |
|---|-----------------------|--------------------------------|-----------------------|
| <u>Current Liabilities</u>  |                       |                                |                       |
| Accounts Payable  | \$ 1,212,592          | \$ 1,872,337                   | \$ 3,084,929          |
| Deposits, Customers & Developers  | 801,071               | 1,317,181                      | 2,118,252             |
| Retainage Due Contractors   | 9,028                 | 20,769                         | 29,797                |
| Public Works Trust Fund & State Revolving<br>Fund Loans (Current Portion)         | 1,712,233             | 243,958                        | 1,956,191             |
| Interest Payable - PWTF & SRF Loans   | 65,367                | 5,530                          | 70,897                |
| Payable from Restricted Assets:   |                       |                                |                       |
| Revenue Bonds Outstanding<br>Net of Unamortized Bond<br>Premium (Current Portion) | 1,772,341             | 174,862                        | 1,947,203             |
| Bond Interest Payable   | <u>6,887</u>          | <u>676</u>                     | <u>7,563</u>          |
| Total Current Liabilities   | <u>5,579,519</u>      | <u>3,635,313</u>               | <u>9,214,832</u>      |
| <u>Noncurrent Liabilities</u>   |                       |                                |                       |
| Public Works Trust Fund & State Revolving<br>Fund Loans (Less Current Portion)    | 20,602,374            | 1,634,486                      | 22,236,860            |
| Compensated Absences  | 386,460               | 381,427                        | 767,887               |
| Co-Op Certificates  | 25,000                | -                              | 25,000                |
| Net Pension Liability   | <u>3,995,737</u>      | <u>3,995,737</u>               | <u>7,991,474</u>      |
| Total Noncurrent Liabilities  | <u>25,009,571</u>     | <u>6,011,650</u>               | <u>31,021,221</u>     |
| Total Liabilities   | <u>30,589,090</u>     | <u>9,646,963</u>               | <u>40,236,053</u>     |
| <u>DEFERRED INFLOW OF RESOURCES</u>   |                       |                                |                       |
| Deferred Inflow - Pension   | <u>77,083</u>         | <u>77,083</u>                  | <u>154,166</u>        |
| Total Deferred Inflow of Resources  | <u>77,083</u>         | <u>77,083</u>                  | <u>154,166</u>        |
| <u>NET POSITION</u>   |                       |                                |                       |
| Net Investment in Capital Assets  | 100,364,869           | 105,087,806                    | 205,452,675           |
| Restricted for Debt Service   | 1,782,127             | 102,949                        | 1,885,076             |
| Unrestricted  | <u>19,901,425</u>     | <u>19,979,788</u>              | <u>39,881,213</u>     |
| Total Net Position  | <u>\$ 122,048,421</u> | <u>\$ 125,170,543</u>          | <u>\$ 247,218,964</u> |

See accompanying notes and accountant's report.

Lakehaven Water & Sewer District  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Year Ended December 31, 2016

|  | <u>Water Division</u> | <u>Wastewater<br/>Division</u> | <u>Total</u>          |
|--|-----------------------|--------------------------------|-----------------------|
| <u>Operating Revenues</u>                      |                       |                                |                       |
| Customer Sales & Service Fees                  | \$ 14,278,606         | \$ 15,261,442                  | \$ 29,540,048         |
| Permits, Inspection & Delinquency Fees         | 159,940               | 232,694                        | 392,634               |
| Developer Revenues<br>& Administrative Charges | 527,085               | 321,760                        | 848,845               |
| Street Lighting Revenues                       | <u>185,939</u>        | <u>-</u>                       | <u>185,939</u>        |
| Total Operating Revenues                       | <u>15,151,570</u>     | <u>15,815,896</u>              | <u>30,967,466</u>     |
| <u>Operating Expenses</u>                      |                       |                                |                       |
| Maintenance & Operations                       | 6,917,734             | 11,828,401                     | 18,746,135            |
| Administrative & General                       | 2,235,687             | 2,232,533                      | 4,468,220             |
| Depreciation & Amortization                    | 3,944,082             | 4,022,508                      | 7,966,590             |
| Taxes, Other Than Income Tax                   | <u>939,453</u>        | <u>531,066</u>                 | <u>1,470,519</u>      |
| Total Operating Expenses                       | <u>14,036,956</u>     | <u>18,614,508</u>              | <u>32,651,464</u>     |
| Net Operating Income (Loss)                    | <u>1,114,614</u>      | <u>(2,798,612)</u>             | <u>(1,683,998)</u>    |
| <u>Nonoperating Revenues (Expenses)</u>        |                       |                                |                       |
| Interest Expense                               | (323,283)             | (30,330)                       | (353,613)             |
| Investment Income                              | 167,902               | 180,088                        | 347,990               |
| Gain (Loss) on Sale of Capital Assets          | 15,944                | 26,414                         | 42,358                |
| Casualty Loss                                  | -                     | (1,232,639)                    | (1,232,639)           |
| Other Income                                   | <u>541,485</u>        | <u>10,766</u>                  | <u>552,251</u>        |
| Total Nonoperating Revenues (Expenses)         | <u>402,048</u>        | <u>(1,045,701)</u>             | <u>(643,653)</u>      |
| Income (Loss) Before Contributions             | 1,516,662             | (3,844,313)                    | (2,327,651)           |
| Capital Contributions                          | <u>4,120,228</u>      | <u>2,717,992</u>               | <u>6,838,220</u>      |
| Change in Net Position                         | 5,636,890             | (1,126,321)                    | 4,510,569             |
| <u>Total Net Position, January 1</u>           | 116,533,904           | 126,419,237                    | 242,953,141           |
| Prior Period Adjustment                        | <u>(122,373)</u>      | <u>(122,373)</u>               | <u>(244,746)</u>      |
| <u>Total Net Position, December 31</u>         | <u>\$ 122,048,421</u> | <u>\$ 125,170,543</u>          | <u>\$ 247,218,964</u> |

See accompanying notes and accountant's report.

Lakehaven Water & Sewer District  
Statement of Cash Flows  
Year Ended December 31, 2016

|   | <u>Water Division</u> | <u>Wastewater<br/>Division</u> | <u>Total</u>         |
|---|-----------------------|--------------------------------|----------------------|
| <u>Cash Flows From Operating Activities</u>                           |                       |                                |                      |
| Cash Received From Customers  | \$ 16,428,453         | \$ 16,289,907                  | \$ 32,718,360        |
| Cash Paid to Suppliers  | (4,596,899)           | (8,756,416)                    | (13,353,315)         |
| Cash Paid to Employees  | <u>(5,489,484)</u>    | <u>(5,606,816)</u>             | <u>(11,096,300)</u>  |
| Net Cash Provided by<br>Operating Activities                          | <u>6,342,070</u>      | <u>1,926,675</u>               | <u>8,268,745</u>     |
| <u>Cash Flows From Capital &amp;<br/>Related Financing Activities</u> |                       |                                |                      |
| Acquisition & Construction<br>of Capital Assets                       | (1,543,183)           | (2,184,136)                    | (3,727,319)          |
| Proceeds from State Revolving<br>Fund Loans                           | 1,022,486             | -                              | 1,022,486            |
| Payment of Bond Principal<br>& Other Financing                        | (3,580,837)           | (797,278)                      | (4,378,115)          |
| Interest Paid   | (357,749)             | (24,882)                       | (382,631)            |
| Proceeds from Sale of Capital Assets                                  | 15,944                | 26,414                         | 42,358               |
| Insurance Proceeds on Casualty Loss                                   | -                     | 236,236                        | 236,236              |
| Cash Contributions in Aid of Construction                             | <u>2,567,885</u>      | <u>2,647,680</u>               | <u>5,215,565</u>     |
| Net Cash (Used) by Capital<br>& Related Financing Activities          | <u>(1,875,454)</u>    | <u>(95,966)</u>                | <u>(1,971,420)</u>   |
| <u>Cash Flows From Investing Activities</u>                           |                       |                                |                      |
| Interest Received on Investments                                      | <u>158,867</u>        | <u>171,778</u>                 | <u>330,645</u>       |
| Net Cash Provided by<br>Investing Activities                          | <u>158,867</u>        | <u>171,778</u>                 | <u>330,645</u>       |
| <u>Net Increase (Decrease) in<br/>Cash &amp; Cash Equivalents</u>     | 4,625,483             | 2,002,487                      | 6,627,970            |
| Cash & Cash Equivalents - January 1                                   | <u>21,455,984</u>     | <u>23,527,738</u>              | <u>44,983,722</u>    |
| Cash & Cash Equivalents - December 31                                 | <u>\$ 26,081,467</u>  | <u>\$ 25,530,225</u>           | <u>\$ 51,611,692</u> |
| <u>Noncash Investing, Capital and Financing Activities</u>            |                       |                                |                      |
| Contributions of Capital Assets<br>from Developers                    | <u>\$ 1,507,812</u>   | <u>\$ 71,934</u>               | <u>\$ 1,579,746</u>  |

See accompanying notes and accountant's report.

Lakehaven Water & Sewer District  
Statement of Cash Flows  
Year Ended December 31, 2016

|  | <u>Water Division</u> | <u>Wastewater Division</u> | <u>Total</u>        |
|--|-----------------------|----------------------------|---------------------|
| <u>Reconciliation of Net Operating Income (Loss) to Net Cash Provided by Operating Activities</u>      |                       |                            |                     |
| Net Operating Income (Loss)  | \$ 1,114,614          | \$ (2,798,612)             | \$ (1,683,998)      |
| <u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities</u>   |                       |                            |                     |
| Depreciation & Amortization  | 3,944,082             | 4,022,508                  | 7,966,590           |
| Other Income   | 541,485               | 10,766                     | 552,251             |
| <u>Changes in Assets, Deferred Outflow of Resources Liabilities &amp; Deferred Inflow of Resources</u> |                       |                            |                     |
| (Increase) Decrease in Accounts Receivable   | 735,398               | 463,245                    | 1,198,643           |
| (Increase) Decrease in Inventory   | (30,478)              | -                          | (30,478)            |
| (Increase) Decrease in Prepaid Expenses  | 69,925                | 62,514                     | 132,439             |
| Increase (Decrease) in Accounts Payable  | 16,525                | 212,765                    | 229,290             |
| Increase (Decrease) in Compensated Absences  | 9,988                 | 12,958                     | 22,946              |
| (Increase) Decrease in Deferred Outflow of Resources – Pension   | (298,476)             | (298,476)                  | (596,952)           |
| Increase (Decrease) in Deferred Inflow of Resources – Pension  | (425,120)             | (425,120)                  | (850,240)           |
| Increase (Decrease) in Net Pension Liability   | <u>664,127</u>        | <u>664,127</u>             | <u>1,328,254</u>    |
| Total Adjustments  | <u>5,227,456</u>      | <u>4,725,287</u>           | <u>9,952,743</u>    |
| Total Cash Provided by Operating Activities  | <u>\$ 6,342,070</u>   | <u>\$ 1,926,675</u>        | <u>\$ 8,268,745</u> |

See accompanying notes and accountant's report.

Lakehaven Water & Sewer District  
Notes to Financial Statements  
December 31, 2016

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lakehaven Water & Sewer District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant accounting policies of the District:

a. Reporting Entity

Lakehaven Water & Sewer District is a municipal corporation governed by an elected, five member board. The District's primary activity is to provide water and waste water services to residential and commercial customers within the District's boundaries. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the Budgetary Accounting and Reporting System (BARS).

The District uses a single enterprise proprietary fund presentation using the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. The proprietary funds is comprised of two programs: water and waste water. Unbilled utility service receivables are recorded at year end.

The District distinguishes between operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water and wastewater sales and other related services. Operating expenses pertain to the furnishing of those services which include the cost of sales and services, administration expenses and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

See accountant's report.



Lakehaven Water & Sewer District  
Notes to Financial Statements  
December 31, 2016

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Receivables

Receivables consist primarily of amounts due from water and sewer customers. All receivables are recorded when earned. No allowance for uncollectible accounts is provided since the District has power to record liens for its receivables and, generally, does not experience significant uncollectible amounts.

e. Inventories

Inventories are valued at average cost.

f. Investments

Investments are recorded at fair value. See Note 2.

g. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Employees may accumulate and be paid upon retirement or other separation from employment a maximum of 320 hours of vacation/sick leave time. The District accrues accumulated vacation/sick leave benefits and severance pay benefits as earned.

h. Capital Assets

Utility plant in service is recorded at cost. The District uses a capitalization threshold of \$5,000. Provision for depreciation is computed on the straight-line method with the following useful lives: Equipment, 3 - 25 years; Buildings, 50 years; Infrastructure, 10 - 50 years; Intangibles, 10 years. Upon retirement of an asset, the cost of the asset and the related accumulated depreciation are removed from the property accounts and the gain or loss is reflected in the statement of revenues, expenses and changes in fund net position.

Repairs and maintenance are expensed as incurred, while major renewals, replacements and betterments are capitalized.

Assets acquired through contributions are recorded as additions to the appropriate property, plant and equipment accounts.

Preliminary planning and design costs incurred for proposed projects are held pending construction of the facility. Costs relating to projects which are ultimately constructed are transferred to capitalized utility plant. Costs relating to those projects abandoned are charged to expense when it is determined that they will not be completed. See Note 3.

Lakehaven Water & Sewer District  
Notes to Financial Statements  
December 31, 2016

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Restricted Assets

These accounts contain resources for construction and debt service.

j. Unamortized Debt Discount/Premium

Bond discounts/premiums relating to the sale of bonds are deferred and amortized over the lives of the various bond issues. Amortization of discounts/premiums is included in interest expense.

k. Unemployment Insurance

The District is on the reimbursable method with the State of Washington for unemployment compensation. The District does not have a reserve account for this liability, should it occur.

l. Medical Insurance

The District's medical, dental and life insurance program is with the Health Care Authority of the State of Washington.

m. Costs Arising Out of Developer Extensions

The Board of Commissioners adopted resolutions establishing a procedure which reimburses the District for costs associated with the preparation and execution of the Developer Extension Agreements.

n. Net Position

There are three components of net position: net investment in capital assets; restricted for debt service; and unrestricted net position. Net investment in capital assets includes utility plant, other deferred charges that are capital in nature less accumulated depreciation and any outstanding balances of capital debt attributable to those assets.

o. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Lakehaven Water & Sewer District  
Notes to Financial Statements  
December 31, 2016

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

q. Subsequent Events

Management has evaluated subsequent events through May 30, 2017, the date the financial statements were available to be issued.

NOTE 2 - DEPOSITS AND INVESTMENTS

The District's cash and investment balances at December 31, 2016 are listed below:

|   |                      |
|---|----------------------|
| Bank Deposits                             | \$ 25,850            |
| Investment in King County Investment Pool | <u>51,585,842</u>    |
| Total Cash & Investments                  | <u>\$ 51,611,692</u> |

The District's deposits in bank accounts are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

In accordance with state investment laws, the District's governing body has entered into a formal Interlocal agreement with the District's *ex officio* treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool).

As of December 31, 2016, the District had the following investments:

| <u>Investment Type</u>      | <u>Fair Value</u> | <u>Effective Duration</u> |
|-----------------------------|-------------------|---------------------------|
| King County Investment Pool | \$ 51,585,842     | 1.10 Years                |

*Impaired Investments.* As of December 31, 2016, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments in two commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool is \$60,499 and the District's fair value of these investments is \$37,564 as of December 31, 2016.

See accountant's report.

Lakehaven Water & Sewer District  
Notes to Financial Statements  
December 31, 2016

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NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

*Interest Rate Risk.* As of December 31, 2016, the Pool's average duration was 1.10 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

*Credit Risk.* As of December 31, 2016, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, corporate notes (rated at least "A" by two NRSROs), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

Lakehaven Water & Sewer District  
Notes to Financial Statements  
December 31, 2016

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NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2016 was as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Increase</u>      | <u>Decrease</u>       | <u>Ending<br/>Balance</u> |
|--|------------------------------|----------------------|-----------------------|---------------------------|
| Capital assets not being depreciated:              |                              |                      |                       |                           |
| Land and Land Rights                               | \$ 6,440,862                 | \$ -                 | \$ -                  | \$ 6,440,862              |
| Construction in Progress                           | <u>35,301,047</u>            | <u>6,392,019</u>     | <u>(29,817,441)</u>   | <u>11,875,625</u>         |
| <u>Total capital assets not being depreciated</u>  | 41,741,909                   | 6,392,019            | (29,817,441)          | 18,316,487                |
| Capital assets being depreciated:                  |                              |                      |                       |                           |
| Equipment  | 30,936,031                   | 793,837              | (3,368,721)           | 28,361,147                |
| Buildings  | 2,590,482                    | -                    | -                     | 2,590,482                 |
| Infrastructure                                     | 260,967,276                  | 7,607,544            | -                     | 268,574,820               |
| Intangibles  | <u>48,649,238</u>            | <u>21,680,711</u>    | <u>-</u>              | <u>70,329,949</u>         |
| <u>Total capital assets being depreciated</u>      | 343,143,027                  | 30,082,092           | (3,368,721)           | 369,856,398               |
| Less Accumulated Depreciation                      | <u>150,540,484</u>           | <u>7,966,590</u>     | <u>(1,899,846)</u>    | <u>156,607,228</u>        |
| <u>Total capital assets being depreciated, net</u> | <u>192,602,543</u>           | <u>22,115,502</u>    | <u>(1,468,875)</u>    | <u>213,249,170</u>        |
| <u>TOTAL CAPITAL ASSETS, NET</u>                   | <u>\$ 234,344,452</u>        | <u>\$ 28,507,521</u> | <u>\$(31,286,316)</u> | <u>\$ 231,565,657</u>     |

The District capitalizes employee wages and benefit costs in connection with the construction of utility plant assets. In 2016, the total wage and benefit expense was \$11,096,300 of which \$1,433,361 was capitalized.

The District's total interest cost was \$353,613 in 2016, of which no amounts were capitalized as construction period interest.

See accountant's report.

Lakehaven Water & Sewer District  
Notes to Financial Statements  
December 31, 2016

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**NOTE 4 - CONSTRUCTION IN PROGRESS**

Construction in progress represents expenses to date on projects whose authorizations total \$44,772,276. Of the committed balance of \$32,896,651, the District does not anticipate raising any funds from future financing.

|                         | <u>Project<br/>Authorization</u> | <u>Expended<br/>to 12/31/16</u> | <u>Committed</u>     | <u>Anticipated<br/>Future Financing</u> |
|-------------------------|----------------------------------|---------------------------------|----------------------|---|
| Oasis                   | \$ 4,806,954                     | \$ 378,889                      | \$ 4,428,065         | \$ -                                    |
| Admin Facility Upgrades | 6,730,316                        | 69,434                          | 6,660,882            | -                                       |
| PS Upgrades             | 7,476,868                        | 1,831,557                       | 5,645,311            | -                                       |
| Road Program            | 3,954,077                        | 1,724,924                       | 2,229,153            | -                                       |
| SM Collection           | 2,597,530                        | 1,601,035                       | 996,495              | -                                       |
| Vehicle Replacement     | 56,711                           | 46,920                          | 9,791                | -                                       |
| Water Upgrades          | 1,140,105                        | 225,465                         | 914,640              | -                                       |
| WM Distribution         | 1,202,906                        | 112,649                         | 1,090,257            | -                                       |
| Lakota                  | 12,679,275                       | 4,819,297                       | 7,859,978            | -                                       |
| Redondo                 | <u>4,127,534</u>                 | <u>1,065,455</u>                | <u>3,062,079</u>     | <u>-</u>                                |
|                         | <u>\$ 44,772,276</u>             | <u>\$ 11,875,625</u>            | <u>\$ 32,896,651</u> | <u>\$ -</u>                             |

**NOTE 5 – OPERATING LEASES**

In September 2013, the District entered into a non-cancelable operating lease agreement with Ricoh USA, Inc. for one copy machine. The lease payments began in 2013 and the terms are for 60 months with payments of \$155 made quarterly. The contract also calls for a one-time payment totaling \$640 for a service contract on the machine.

In June 2014, the District entered into a non-cancelable operating lease agreement with Ricoh USA, Inc. for one copy machine. The lease payments began in 2014 and the terms are for 60 months with payments of \$1,740 made quarterly. The contract also calls for a one-time payment totaling \$10,000 for a service contract on the machine.

In January 2015, the District entered into a non-cancelable operating lease agreement with Ricoh USA, Inc. for four copy machines. The lease payments began in 2015 and the terms are for 60 months with payments of \$1,869 made quarterly. The contract also calls for one-time payments totaling \$12,050 for service contracts on the machines.

In December 2015, the District entered into a non-cancelable operating lease agreement with Ricoh USA, Inc. for three copy machines. The lease payments began in 2016 and the terms are for 60 months with payments of \$2,142 made quarterly. The contract also calls for one-time payments totaling \$7,456 for service contracts on the machines.

See accountant's report.

Lakehaven Water & Sewer District  
Notes to Financial Statements  
December 31, 2016

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NOTE 5 – OPERATING LEASES (Continued)

In April 2016, the District entered into a non-cancelable operating lease agreement with Ricoh USA, Inc. for one copy machine. The lease payments began in 2016 and the terms are for 60 months with payments of \$694 made quarterly. The contract also calls for quarterly payments totaling \$315 for a service contract on the machine.

At December 31, 2016 the future minimum lease payments under these leases are as follows:

| <u>Year Ended</u><br><u>December 31,</u> | <u>Amount</u>    |
|--|------------------|
| 2017                                     | \$ 27,658        |
| 2018                                     | 27,502           |
| 2019                                     | 21,817           |
| 2020                                     | 10,459           |
| 2021                                     | 1,009            |
| Thereafter                               | -                |
| Total future minimum lease payments      | <u>\$ 88,445</u> |

NOTE 6 - LONG-TERM DEBT AND LIABILITIES

Revenue Bonds

At December 31, 2016 revenue bonds consist of the following:

|   | <u>Long-Term</u> | <u>Short-Term</u>   | <u>Total</u>        |
|---|------------------|---------------------|---------------------|
| 2013 water and sewer revenue<br>refunding bonds, rates 0.40% to<br>3.00%, due through 2017. |                  |                     |                     |
| Original Debt: \$6,350,000  | \$ -             | \$ 1,945,000        | \$ 1,945,000        |
| Totals  | <u>\$ -</u>      | <u>\$ 1,945,000</u> | <u>\$ 1,945,000</u> |

In May 2005, the District issued \$16,975,000 of water and sewer revenue refunding bonds with principal payments due beginning in 2006 and ending in 2017, with annual interest rates ranging from 2.70% to 5.00%. The advance refunding was undertaken to reduce total debt service payments over the next twelve years by \$743,472 and resulted in an economic gain of \$290,731. The District defeased certain bonds by placing investments acquired from the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the District's financial statements.

See accountant's report.

Lakehaven Water & Sewer District  
Notes to Financial Statements  
December 31, 2016

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NOTE 6 - LONG-TERM DEBT AND LIABILITIES (Continued)

Revenue Bonds (Continued)

In September 2013, the District issued \$6,350,000 of water and sewer revenue refunding bonds with principal payments due beginning in 2013 and ending in 2017, with annual interest rates ranging from 0.40% to 3.00%. The advance refunding was undertaken to reduce total debt service payments over the next four years by \$214,122 and resulted in an economic gain of \$208,334. The District defeased on \$5,850,000 worth of bonds by placing investments acquired from the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the District's financial statements.

Trustees hold direct obligations of the U.S. Government in irrevocable escrows for the defeasance of all refunded issues. Cash flow from these escrowed investments matches the principal and interest payments of the defeased obligations.

The annual requirements to amortize all revenue bond debt outstanding as of December 31, 2016, including interest, are as follows:

|      | <u>Principal</u>    | <u>Interest</u>  | <u>Total</u>        |
|------|---------------------|------------------|---------------------|
| 2017 | \$ 1,945,000        | \$ 45,400        | \$ 1,990,400        |
|      | <u>\$ 1,945,000</u> | <u>\$ 45,400</u> | <u>\$ 1,990,400</u> |

Debt Service Requirements

Debt service income requirements for the year 2016 were:

|                                    |               |
|------------------------------------|---------------|
| Total Available for Debt Service - |               |
| (Non-Assessment)                   | \$ 11,555,330 |
| Non Assessment Debt Service        | \$ 2,470,254  |
| <br>                               |               |
| Coverage Factor -                  |               |
| (Non-Assessment)                   | 4.68          |
| Coverage Requirement -             |               |
| (Non-Assessment)                   | 1.25          |

Public Works Trust Fund & State Revolving Fund Loans

The District has entered into agreements with the Department of Community, Trade and Economic Development of the State of Washington to receive the following Public Works Trust Fund & State Revolving Fund loans:

See accountant's report.



Lakehaven Water & Sewer District  
Notes to Financial Statements  
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NOTE 6 - LONG-TERM DEBT AND LIABILITIES (Continued)

Public Works Trust Fund & State Revolving Fund Loans (Continued)

| <u>Loan Description</u>  | <u>Principal</u> |
|--|------------------|
| 2000 loan - payable at \$83,392 annually through the year 2020, plus interest at 1% per annum. Original debt: \$1,575,700 for Wastewater Treatment Plant Upgrades.                         | \$ 333,569       |
| 2002 loan - payable at \$529,412 annually through the year 2022, plus interest at ½% per annum. Original debt: \$10,000,000 for Second Supply Project.                                     | 3,176,471        |
| 2004 loan - payable at \$94,507 annually through the year 2024, plus interest at ½% per annum. Original debt: \$1,700,000 for Water Filtration at various well sites.                      | 756,053          |
| 2004 loan - payable at \$30,390 annually through the year 2024, plus interest at ½% per annum. Original debt: \$600,000 for Redondo Outfall Replacement.                                   | 243,120          |
| 2005 loan - payable at \$130,175 annually through the year 2026, plus interest at ½% per annum. Original debt: \$2,400,000 for Redondo Outfall Replacement.                                | 1,301,754        |
| 2012 loan - payable at \$535,901 annually through the year 2031, plus interest at ½% per annum. Original debt: \$10,000,000 for Green River Water Treatment Plant.                         | 8,038,511        |
| 2014 loan - payable at \$152,289 annually through the year 2034, plus interest at 1½% per annum. Original debt: \$3,030,000 for Green River Water Treatment Plant.                         | 2,741,210        |
| 2014 loan - payable at \$299,124 annually through the year 2035, plus interest at 1½% per annum. Payments begin in 2017. Original debt: \$5,982,486 for Green River Filtration Facility.   | 5,683,363        |
| 2014 loan - payable at \$101,000 annually through the year 2035, plus interest at 1½% per annum. Payments begin in 2016. Original debt: \$2,020,000 for Green River Water Treatment Plant. | 1,919,000        |
|  | \$ 24,193,051    |

See accountant's report.

Lakehaven Water & Sewer District  
Notes to Financial Statements  
December 31, 2016

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NOTE 6 - LONG-TERM DEBT AND LIABILITIES (Continued)

Public Works Trust Fund & State Revolving Fund Loans (Continued)

Annual payments of principal and interest on these loans are scheduled as follows:

|             | <u>Principal</u>     | <u>Interest</u>     | <u>Total</u>         |
|-------------|----------------------|---------------------|----------------------|
| 2017        | \$ 1,956,191         | \$ 226,069          | \$ 2,182,260         |
| 2018        | 1,956,191            | 210,347             | 2,166,538            |
| 2019        | 1,956,191            | 194,625             | 2,150,816            |
| 2020        | 1,956,191            | 178,903             | 2,135,094            |
| 2021        | 1,872,798            | 163,181             | 2,035,979            |
| 2022 - 2026 | 6,996,551            | 609,088             | 7,605,639            |
| 2027 - 2031 | 5,441,573            | 318,788             | 5,760,361            |
| 2032 - 2036 | <u>2,057,365</u>     | <u>73,725</u>       | <u>2,131,090</u>     |
|             | <u>\$ 24,193,051</u> | <u>\$ 1,974,726</u> | <u>\$ 26,167,777</u> |

Changes in Long-Term Debt

During the year ended December 31, 2016, the following changes occurred in Revenue Bonds and Public Works Trust Fund & State Revolving Fund Loans:

|                                      | <u>Balance</u><br><u>1/1/16</u> | <u>Additions</u>    | <u>Reductions</u>     | <u>Balance</u><br><u>12/31/16</u> | <u>Due In</u><br><u>One Year</u> |
|--------------------------------------|---------------------------------|---------------------|-----------------------|-----------------------------------|----------------------------------|
| <b>Revenue Bonds</b>                 |                                 |                     |                       |                                   |                                  |
| September 2013                       | \$ 3,965,000                    | \$ -                | \$ (2,020,000)        | \$ 1,945,000                      | \$ 1,945,000                     |
| December 2013                        | 371,923                         | -                   | (371,923)             | -                                 | -                                |
| <b>Public Works Trust Fund Loans</b> |                                 |                     |                       |                                   |                                  |
| 2000 Loan                            | 416,962                         | -                   | (83,393)              | 333,569                           | 83,393                           |
| 2002 Loan                            | 3,705,882                       | -                   | (529,411)             | 3,176,471                         | 529,411                          |
| 2004 Loan                            | 850,559                         | -                   | (94,506)              | 756,053                           | 94,506                           |
| 2004 Loan                            | 273,510                         | -                   | (30,390)              | 243,120                           | 30,390                           |
| 2005 Loan                            | 1,431,930                       | -                   | (130,176)             | 1,301,754                         | 130,176                          |
| 2012 Loan                            | 8,574,413                       | -                   | (535,902)             | 8,038,511                         | 535,902                          |
| <b>State Revolving Fund Loans</b>    |                                 |                     |                       |                                   |                                  |
| 2014 Loan                            | 30,000                          | -                   | (30,000)              | -                                 | -                                |
| 2014 Loan                            | 2,593,500                       | 300,000             | (152,290)             | 2,741,210                         | 152,290                          |
| 2014 Loan                            | 5,460,000                       | 522,486             | (299,123)             | 5,683,363                         | 299,123                          |
| 2014 Loan                            | <u>1,820,000</u>                | <u>200,000</u>      | <u>(101,000)</u>      | <u>1,919,000</u>                  | <u>101,000</u>                   |
| Totals                               | <u>\$ 29,493,679</u>            | <u>\$ 1,022,486</u> | <u>\$ (4,378,114)</u> | <u>\$ 26,138,051</u>              | <u>\$ 3,901,191</u>              |

See accountant's report.

Lakehaven Water & Sewer District  
Notes to Financial Statements  
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NOTE 6 - LONG-TERM DEBT AND LIABILITIES (Continued)

Changes in Long-Term Liabilities

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

|  | Balance<br><u>1/1/16</u> | <u>Additions</u>    | <u>Reductions</u>     | Balance<br><u>12/31/16</u> | Due In<br><u>One Year</u> |
|--|--------------------------|---------------------|-----------------------|----------------------------|---------------------------|
| Revenue Bonds Payable                                | \$ 4,336,923             | \$ -                | \$ (2,391,923)        | \$ 1,945,000               | \$ 1,945,000              |
| Public Works Trust Fund & State Revolving Fund Loans | 25,156,756               | 1,022,486           | (1,986,191)           | 24,193,051                 | 1,956,191                 |
| Compensated Absences                                 | 744,941                  | 772,141             | (749,195)             | 767,887                    | -                         |
| Net Pension Liability                                | 6,663,220                | 1,328,254           | -                     | 7,991,474                  | -                         |
| Co-Op Certificates                                   | 25,000                   | -                   | -                     | 25,000                     | -                         |
| Unamortized Bond Premium                             | <u>7,135</u>             | <u>-</u>            | <u>(4,932)</u>        | <u>2,203</u>               | <u>2,203</u>              |
| Totals   | <u>\$ 36,933,975</u>     | <u>\$ 3,122,881</u> | <u>\$ (5,132,241)</u> | <u>\$ 34,924,615</u>       | <u>\$ 3,903,394</u>       |

Schedule of Bonds Issued, Redeemed and Future Annual Bond Principal and Interest Requirements for Water and Sewer Improvement Revenue Bonds

The following bonds were issued in September of 2013 with serial maturities occurring on November 1:

| Interest Rate | Payable                        | Bonds               |                     |                     | Future Requirements |                     |
|---------------|--------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|               | During Year Ended December 31, | Serial Maturities   | Redeemed & Defeased | Balance to Retire   | Interest            | Total               |
| 0.40%         | 2013                           | \$ 130,000          | \$ 130,000          | \$ -                | \$ -                | \$ -                |
| 0.50%         | 2014                           | 150,000             | 150,000             | -                   | -                   | -                   |
| 0.85%         | 2015                           | 2,105,000           | 2,105,000           | -                   | -                   | -                   |
| 1.35%         | 2016                           | 2,020,000           | 2,020,000           | -                   | -                   | -                   |
| 2.33%         | 2017                           | 1,945,000           | -                   | 1,945,000           | 45,400              | 1,990,400           |
|               |                                | <u>\$ 6,350,000</u> | <u>\$ 4,405,000</u> | <u>\$ 1,945,000</u> | <u>\$ 45,400</u>    | <u>\$ 1,990,400</u> |

See accountant's report.

Lakehaven Water & Sewer District  
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NOTE 6 - LONG-TERM DEBT AND LIABILITIES (Continued)

Schedule of Bonds Issued, Redeemed and Future Annual Bond Principal and Interest Requirements for Water and Sewer Improvement Revenue Bonds (Continued)

The following bonds were issued in December of 2013 with serial maturities occurring quarterly:

| Interest Rate | Payable                        | Serial Maturities | Bonds               | Balance to Retire | Future Requirements |             |
|---------------|--------------------------------|-------------------|---------------------|-------------------|---------------------|-------------|
|               | During Year Ended December 31, |                   | Redeemed & Defeased |                   | Interest            | Total       |
| 2.17%         | 2014                           | \$ 66,248         | \$ 66,248           | \$ -              | \$ -                | \$ -        |
| 2.17%         | 2014                           | 71,236            | 71,236              | -                 | -                   | -           |
| 2.17%         | 2014                           | 71,622            | 71,622              | -                 | -                   | -           |
| 2.17%         | 2015                           | 72,010            | 72,010              | -                 | -                   | -           |
| 2.17%         | 2015                           | 72,400            | 72,400              | -                 | -                   | -           |
| 2.17%         | 2015                           | 72,792            | 72,792              | -                 | -                   | -           |
| 2.17%         | 2015                           | 73,187            | 73,187              | -                 | -                   | -           |
| 2.17%         | 2016                           | 73,583            | 73,583              | -                 | -                   | -           |
| 2.17%         | 2016                           | 73,982            | 73,982              | -                 | -                   | -           |
| 2.17%         | 2016                           | 74,383            | 74,383              | -                 | -                   | -           |
| 2.17%         | 2016                           | 74,785            | 74,785              | -                 | -                   | -           |
| 2.17%         | 2017*                          | 75,190            | 75,190              | -                 | -                   | -           |
|               |                                | <u>\$ 871,418</u> | <u>\$ 871,418</u>   | <u>\$ -</u>       | <u>\$ -</u>         | <u>\$ -</u> |

\* Paid in 2016

Lakehaven Water & Sewer District  
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**NOTE 7 - PENSION PLAN**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions for the year 2016:

| <b>Aggregate Pension Amounts – All Plans</b> |             |
|--|-------------|
| Pension liabilities                          | \$7,991,474 |
| Pension assets                               | \$ -        |
| Deferred outflows of resources               | \$1,350,436 |
| Deferred inflows of resources                | \$154,166   |
| Pension expense/expenditures                 | \$815,453   |

**State Sponsored Pension Plans**

Substantially all District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans.

The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
P.O. Box 48380  
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

**Public Employees' Retirement System (PERS)**

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

See accountant's report.

Lakehaven Water & Sewer District  
Notes to Financial Statements  
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NOTE 7 - PENSION PLAN (Continued)

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

| <b>PERS Plan 1</b>                |                 |                 |
|-----------------------------------|-----------------|-----------------|
| <b>Actual Contribution Rates:</b> | <b>Employer</b> | <b>Employee</b> |
| PERS Plan 1                       | 6.23%           | 6.00%           |
| PERS Plan 1 UAAL                  | 4.77%           | -               |
| Administrative Fee                | 0.18%           | -               |
| <b>Total</b>                      | <b>11.18%</b>   | <b>6.00%</b>    |

**PERS Plan 2/3** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

See accountant's report.

Lakehaven Water & Sewer District  
Notes to Financial Statements  
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NOTE 7 - PENSION PLAN (Continued)

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

**PERS Plan 3** defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

| <b>PERS Plan 2/3</b>              |                     |                   |
|-----------------------------------|---------------------|-------------------|
| <b>Actual Contribution Rates:</b> | <b>Employer 2/3</b> | <b>Employee 2</b> |
| PERS Plan 2/3                     | 6.23%               | 6.12%             |
| PERS Plan 1 UAAL                  | 4.77%               | -                 |
| Administrative Fee                | 0.18%               | -                 |
| Employee PERS Plan 3              | -                   | varies            |
| <b>Total</b>                      | <b>11.18%</b>       | <b>6.12%</b>      |

The District's actual contributions to the plan were \$413,916 to PERS Plan 1 and \$508,798 to PERS Plan 2/3 for the year ended December 31, 2016.

See accountant's report.

Lakehaven Water & Sewer District  
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NOTE 7 - PENSION PLAN (Continued)

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation: 3% total economic inflation; 3.75% salary inflation
- Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

**Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

See accountant's report.



Lakehaven Water & Sewer District  
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NOTE 7 - PENSION PLAN (Continued)

**Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions.

The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

**Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

| Asset Class     | Target Allocation | % Long-Term Expected Real Rate of Return Arithmetic |
|-----------------|-------------------|---|
| Fixed Income    | 20%               | 1.70%   |
| Tangible Assets | 5%                | 4.40%   |
| Real Estate     | 15%               | 5.80%   |
| Global Equity   | 37%               | 6.60%   |
| Private Equity  | 23%               | 9.60%   |
|                 | <b>100%</b>       |   |

**Sensitivity of NPL**

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

See accountant's report.

Lakehaven Water & Sewer District  
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NOTE 7 - PENSION PLAN (Continued)

|          | <b>1% Decrease<br/>(6.5%)</b> | <b>Current Discount<br/>Rate (7.5%)</b> | <b>1% Increase<br/>(8.5%)</b> |
|----------|-------------------------------|---|-------------------------------|
| PERS 1   | \$ 4,525,408                  | \$ 3,752,725                            | \$ 3,087,782                  |
| PERS 2/3 | \$ 7,804,229                  | \$ 4,238,749                            | \$ (2,206,513)                |

**Pension Plan Fiduciary Net Position**

Detailed information about the State’s pension plans’ fiduciary net position is available in the separately issued DRS financial report.

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the District reported a total pension liability of \$7,991,474 for its proportionate share of the net pension liabilities as follows:

|          | <b>Liability (or Asset)</b> |
|----------|-----------------------------|
| PERS 1   | \$3,752,725                 |
| PERS 2/3 | \$4,238,749                 |

At June 30, the District’s proportionate share of the collective net pension liabilities was as follows:

|          | <b>Proportionate<br/>Share 6/30/15</b> | <b>Proportionate<br/>Share 6/30/16</b> | <b>Change in<br/>Proportion</b> |
|----------|--|--|---------------------------------|
| PERS 1   | .069594%                               | .069877%                               | .000283%                        |
| PERS 2/3 | .084600%                               | .084187%                               | .000413%                        |

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer’s proportionate share of the collective pension amounts reported by the DRS in the Schedules of Employer and Nonemployer Allocations.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

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NOTE 7 - PENSION PLAN (Continued)

**Pension Expense**

For the year ended December 31, 2016, the District recognized pension expense as follows:

|          | <b>Pension Expense</b> |
|----------|------------------------|
| PERS 1   | \$ 215,321             |
| PERS 2/3 | \$ 600,132             |

**Deferred Outflows of Resources and Deferred Inflows of Resources**

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| <b>PERS 1, 2, &amp; 3</b>  | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|--|---|--|
| Differences between expected and actual experience   | \$ 225,710                                | \$ 139,928                               |
| Net difference between projected and actual investment earnings on pension plan investments          | \$ 613,188                                | \$ -                                     |
| Changes of assumptions   | \$ 43,811                                 | \$ -                                     |
| Changes in proportion and differences between contributions and proportionate share of contributions | \$ -                                      | \$ 14,238                                |
| Contributions subsequent to the measurement date   | \$ 467,727                                | \$ -                                     |
| TOTAL  | \$ 1,350,436                              | \$ 154,166                               |

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <b>Year ended<br/>December 31:</b> | <b>PERS 1</b> |
|------------------------------------|---------------|
| 2017                               | \$ (23,265)   |
| 2018                               | \$ (23,265)   |
| 2019                               | \$ 86,777     |
| 2020                               | \$ 54,241     |
| 2021                               | \$ -          |
| Thereafter                         | \$ -          |

| <b>Year ended<br/>December 31:</b> | <b>PERS 2 &amp; 3</b> |
|------------------------------------|-----------------------|
| 2017                               | \$ (1,647)            |
| 2018                               | \$ (1,647)            |
| 2019                               | \$ 392,332            |
| 2020                               | \$ 245,018            |
| 2021                               | \$ -                  |
| Thereafter                         | \$ -                  |

See accountant's report.

Lakehaven Water & Sewer District  
Notes to Financial Statements  
December 31, 2016

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**NOTE 8 - RISK MANAGEMENT**

The District is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2016, there are 205 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive, and Collision, Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members' various needs. The District carries commercial general liability, automobile and fidelity coverage with CIAW.

The program acquires liability insurance through their Administrator, Canfield that is subject to a per-occurrence self-insured retention of \$100,000 with the exception of Wrongful Acts and Law Enforcement Liability which have a self-insured retention of \$25,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$1,718,302.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member with the exception of Pumps & Motors which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

See accountant's report.

Lakehaven Water & Sewer District  
Notes to Financial Statements  
December 31, 2016

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NOTE 8 - RISK MANAGEMENT (Continued)

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment, administration, and loss prevention for the program. Fees paid to the third party administrator under this agreement for the year ending December 1, 2016 were \$1,484,482.

**Unemployment Compensation Self-insurance**

The Lakehaven Water & Sewer District is self-insured for unemployment compensation exposure. Claims against the District are administered by the Washington State Department of Employment Security and are subsequently reimbursed by the District. Actual costs are paid by the District as incurred.

**Property Risks**

The District carries commercial insurance for all other risks of loss, including property, earth movement, flood, electronic data processing equipment and boiler & machinery insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in 2014 or 2015 fiscal years. In 2016 the District incurred a casualty loss of \$1,232,639 in excess of insurance coverage. See Note 12.

NOTE 9 - SECOND SUPPLY PROJECT PARTNERSHIP AGREEMENT

During 2002 the District entered into an agreement with the City of Tacoma, Department of Public Utilities, Water Division, the City of Kent, and the Covington Water District to permit, design, finance, construct, operate, and maintain the project and to receive deliveries of project water. The project has been designed to permit all participants to receive at their point(s) of delivery their respective participant share of second diversion water simultaneously. The participants understand and acknowledge that the capability of project facilities at any point in time is dependent upon the use being made of the project by the participants, and external factors as well. Tacoma shall own the project, and all facilities related thereto, up to points of diversion. Each participant has a contractual obligation to pay its participant share of project costs, initially as a capital contribution in exchange for, and to qualify each participant to enjoy, the rights and interest as described in section 5 of the agreement, and upon operation as a share of operating and maintenance costs of a project providing water that is furnished by each of the participants to its customers.

See accountant's report.

Lakehaven Water & Sewer District  
Notes to Financial Statements  
December 31, 2016

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**NOTE 9 - SECOND SUPPLY PROJECT PARTNERSHIP AGREEMENT (Continued)**

It is anticipated that the agreement will have a life of no less than 100 years. There shall be a project committee composed of one representative of each participant. The representatives of the participants shall have the following votes at the project committee meetings: Tacoma (15) votes, Covington Water District (7) votes, Kent (7) votes, Lakehaven Water & Sewer District (7) votes.

The District has spent \$70,226,125 towards this project as of December 31, 2016.

Further information can be obtained from the District office.

**NOTE 10 - OTHER POST RETIREMENT BENEFITS (OPEB)**

There exists a potential post-employment benefits liability arising out of the cost of providing health care insurance to retired District employees. The State, through the Health Care Authority (HCA), provides and administers the District's health insurance plans. The HCA designs the benefits and determines the terms and conditions of employee and retiree participation and coverage, including establishment of eligibility criteria. Programs include medical, dental, life insurance and long term disability insurance. Employers participating in the plan include the State of Washington (including both general government agencies and higher education institutions), K-12 school districts and educational service districts (ESDs), and over 200 political subdivisions and tribal governments. As the District participates in this plan, eligible retired employees may receive health care insurance coverage through the Washington State Health Care Authority.

The District has no control over the benefits offered to retirees, the rates they are charged, or the fees paid to the HCA by employers for coverage. The monthly insurance premiums paid by all enrolled retirees throughout the State are not sufficient to meet the cost of their coverage; this shortfall is included, by statute, as an implicit component of the monthly charges for health care coverage of current employees. The District's share of this annual shortfall has been treated as an operating expenditure in the current and prior years. As the District provides no other healthcare or post-employment benefits directly to former employees, and that the cost of any benefits provided to eligible District retirees by the State of Washington are liabilities of the State, the District has determined that there is no material OPEB obligation requiring disclosure or accrual under GASB Statement Number 74 and 75 Accounting and Financial Reporting For Employers for Postemployment Benefits other than Pensions.

Lakehaven Water & Sewer District  
Notes to Financial Statements  
December 31, 2016

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NOTE 11 - FRANCHISE AGREEMENT WITH THE CITY OF FEDERAL WAY

In March of 2016 the District entered into a franchise agreement with the City of Federal Way (the City) in order to specify the rights and duties of the District to install, operate and maintain a water and sewer system located in certain rights of way located in the City.

In July of 2016, the District began collecting and distributing to the City a monthly franchise fee equal to 3.6 percent of revenue generated within the City (as defined by the agreement). The franchise fee increases to 3.8 percent in 2020-2023, and to 4.0 percent for 2024-2026. Amounts paid to the City under the agreement totaled \$424,289 in 2016.

In July of 2016, the City began paying the District for the cost of maintaining the fire hydrants within City boundaries and agrees to bear the cost of the Puget Sound Energy streetlights located in the right of way within City boundaries previously paid for by the District. Amounts received from the City under the agreement totaled \$310,293 in 2016.

The agreement runs through 2026 and as a result of the franchise agreement, the City will not attempt to assume the jurisdiction of the District under the provisions of RCW Chapter 35.13A.

Further information can be obtained from the District office.

NOTE 12 - SIGNIFICANT & UNUSUAL EVENTS

In December 2015, the Redondo Wastewater treatment plant experienced multiple high flow situations caused by significant rainfall that resulted in the submergence and failure of the UV system. During 2016, the District decided to scrap and replace the UV system. The resulting 2016 casualty loss on disposal of the system was \$1,468,875 which was reduced by insurance proceeds of \$236,236 for a net casualty loss of \$1,232,639.

NOTE 13 - PRIOR PERIOD ADJUSTMENT

In the previously issued financial statements, the District reported 2015 pension deferred outflow of resources of \$998,230. The previously reported pension deferred outflow balance was calculated incorrectly. The prior period adjustment decreases pension deferred outflow of resources and net position by \$244,746. The adjustment is to correct the deferred outflow pension balance that relates to District contributions between the plan fiscal year end and the District's calendar year end.

Lakehaven Water & Sewer District  
Notes to Financial Statements  
December 31, 2016

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NOTE 14 - CONTINGENCIES

The District faces a potential material liability related to penalties imposed by the Puget Sound Clean Air Alliance (PSCAA) arising out of the operation of the odor control system at the Lakota Treatment Plant. Although the penalty imposed by the PSCAA is \$528,662, the District expects to resolve this matter for a considerably lower amount. An estimate of the potential liability cannot reasonably be made and therefore no amounts have been accrued in the financial statements.

The District also faces potential material liability under the Clean Water Act, though no actual action has been filed. As the District cannot reasonably estimate this liability, no amounts have been accrued in the financial statements.

NOTE 15 - NAME CHANGE

During 2016 the District changed their name from Lakehaven Utility District to Lakehaven Water & Sewer District. Further information can be obtained from the District office.



REQUIRED SUPPLEMENTARY INFORMATION

Lakehaven Water & Sewer District  
Schedule of Proportionate Share of the Net Pension Liability  
Required Supplementary Information  
PERS Pension Plan  
As of June 30, 2016  
Last 10 Fiscal Years  
Schedule I

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| <b>PERS 1</b>  |           | 2015             | 2016             |
|--|-----------|------------------|------------------|
| Employer's proportion of the net pension liability (asset)                                     | %         | 0.069594%        | 0.069877%        |
| Employer's proportionate share of the net pension liability                                    | \$        | 3,640,414        | 3,752,724        |
| <b>TOTAL</b>   | <b>\$</b> | <b>3,640,414</b> | <b>3,752,724</b> |
| Covered payroll  | \$        | 208,693          | 217,204          |
| Employer's proportionate share of the net pension liability as a percentage of covered payroll | %         | 1744.39%         | 1727.74%         |
| Plan fiduciary net position as a percentage of the total pension liability                     | %         | 59.10%           | 57.03%           |

| <b>PERS 2/3</b>  |           | 2015             | 2016             |
|--|-----------|------------------|------------------|
| Employer's proportion of the net pension liability (asset)                                     | %         | 0.084600%        | 0.084187%        |
| Employer's proportionate share of the net pension liability                                    | \$        | 3,022,806        | 4,238,750        |
| <b>TOTAL</b>   | <b>\$</b> | <b>3,022,806</b> | <b>4,238,750</b> |
| Covered payroll  | \$        | 7,506,763        | 7,863,094        |
| Employer's proportionate share of the net pension liability as a percentage of covered payroll | %         | 40.27%           | 53.91%           |
| Plan fiduciary net position as a percentage of the total pension liability                     | %         | 89.20%           | 85.82%           |

See accompanying notes and accountant's report.

Lakehaven Water & Sewer District  
Schedule of Employer Contributions  
Required Supplementary Information  
PERS Pension Plan  
Year Ended December 31, 2016  
Last 10 Fiscal Years  
Schedule II

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| <b>PERS 1</b>  |    | 2015      | 2016      |
|--|----|-----------|-----------|
| Statutorily or contractually required contributions                                  | \$ | 353,367   | 413,916   |
| Contributions in relation to the statutorily or contractually required contributions | \$ | (353,367) | (413,916) |
| Contribution deficiency (excess)   | \$ | 0         | 0         |
| Covered payroll  | \$ | 216,154   | 221,401   |
| Contributions as a percentage of covered payroll                                     | %  | 163.48%   | 186.95%   |

| <b>PERS 2/3</b>  |    | 2015      | 2016      |
|--|----|-----------|-----------|
| Statutorily or contractually required contributions                                  | \$ | 425,476   | 508,798   |
| Contributions in relation to the statutorily or contractually required contributions | \$ | (425,476) | (508,798) |
| Contribution deficiency (excess)   | \$ | 0         | 0         |
| Covered payroll  | \$ | 7,621,061 | 8,166,935 |
| Contributions as a percentage of covered payroll                                     | %  | 5.58%     | 6.23%     |

See accompanying notes and accountant's report.

Lakehaven Water & Sewer District  
Notes to Required Supplementary Information  
PERS Pension Plan  
Year Ended December 31, 2016  
Schedule III

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NOTE 1 – CHANGES OF BENEFIT TERMS

There were no changes in benefit terms for the pension plans.

NOTE 2 – CHANGES OF ASSUMPTIONS

The assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

See accompanying notes and accountant's report.