LAKEHAVEN WATER & SEWER DISTRICT

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2017

LAKEHAVEN WATER & SEWER DISTRICT
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lakehaven Water & Sewer District (the District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Commissioners
Lakehaven Water & Sewer District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
December 26, 2018

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Lakehaven Water & Sewer District (the District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lakehaven Water & Sewer District as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The District determined that a liability for other postemployment benefits had been incurred beginning in 2009. As a result, the District reported a restatement for correction of an error. See Note 13. Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, listed in the table of contents, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lakehaven Water & Sewer District's basic financial statements. The supplementary information included on pages 49 through 53 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information included on pages 49 through 53 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2018, on our consideration of Lakehaven Water & Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lakehaven Water & Sewer District's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Bellevue, Washington
December 26, 2018

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

The District's financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Fund Net Position, a Statement of Cash Flows, and Notes to the Financial Statements. 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, 2017. 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 outflows of resources of the District as of December 31, 2017 and 2016 and shows the mix of liabilities and deferred inflows of resources and net position used to acquire these assets and deferred outflows of resources:

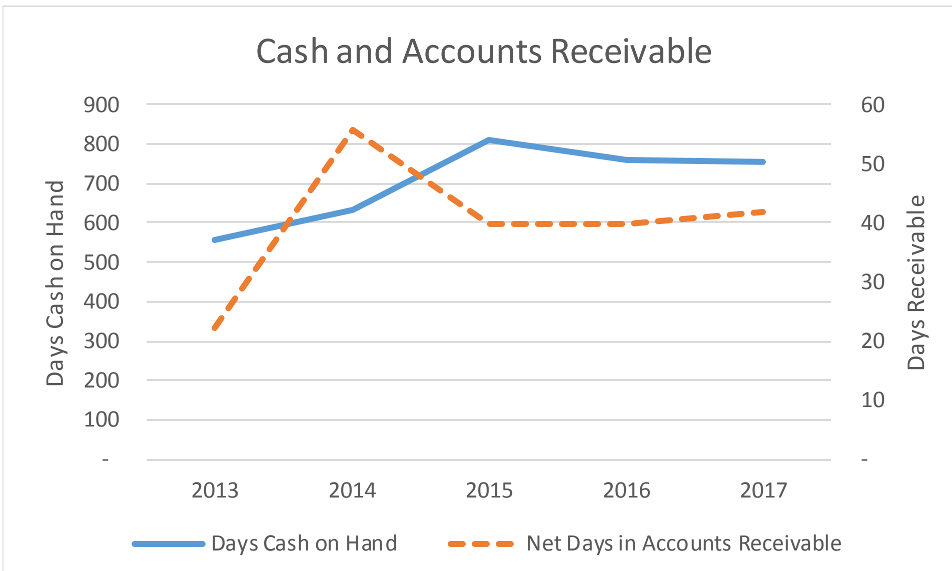
	As of December 31, 2017			As of December 31, 2016		
Assets	Water	Wastewater	Total	Water	Wastewater	Total
Current Assets	$ 30,682,799	$ 24,965,029	$ 55,647,828	$ 28,091,924	$ 27,601,254	$ 55,693,178
Noncurrent Assets:						
Capital Assets - Net	124,454,095	113,963,529	238,417,624	123,961,660	107,603,997	231,565,657
Total Assets	155,136,894	138,928,558	294,065,452	152,053,584	135,205,251	287,258,835
Deferred Outflow of Resources						
Total Deferred Outflows	445,560	445,560	891,120	699,517	678,191	1,377,708
Liabilities						
Current Liabilities	4,136,972	3,972,506	8,109,478	5,586,217	3,699,313	9,285,530
Noncurrent Liabilities:						
Long-Term Debt	18,890,136	1,390,528	20,280,664	20,602,374	1,634,486	22,236,860
Other	5,323,286	5,287,265	10,610,551	4,407,197	4,377,164	8,784,361
Total Liabilities	28,350,394	10,650,299	39,000,693	30,595,788	9,710,963	40,306,751
Deferred Inflow of Resources						
Total Deferred Inflows	507,110	507,110	1,014,220	77,083	77,083	154,166
Net Position						
Net Investment in Capital Assets	103,814,708	112,100,030	215,914,738	99,892,313	105,553,664	205,445,977
Restricted for Impaired Investments and Debt Service	17,746	16,881	34,627	1,782,127	102,949	1,885,076
Unrestricted	22,892,496	16,099,798	38,992,294	20,405,790	20,438,783	40,844,573
Total Net Position	$ 126,724,950	$ 128,216,709	$ 254,941,659	$ 122,080,230	$ 126,095,396	$ 248,175,626

Note: The 2016 condensed financial statements have not been restated.

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 bond accounts as well as accounts receivable, prepaid expenses, inventory, and accrued interest. Current assets decreased by $45,350. The decrease is largely due to payoff of the revenue bonds during the year along with capital spending, which was partially offset by increases in customer accounts receivable. 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 increased primarily due to the timing of payments and restricted cash decreased due to payments on the revenue bonds.



Noncurrent assets consist of net capital assets, which include land, construction in progress, equipment, buildings, infrastructure, and intangibles. Noncurrent assets increased by $6,851,966 in 2017. The increase was primarily due to increases in capital project spending, which was partially offset by depreciation expense.

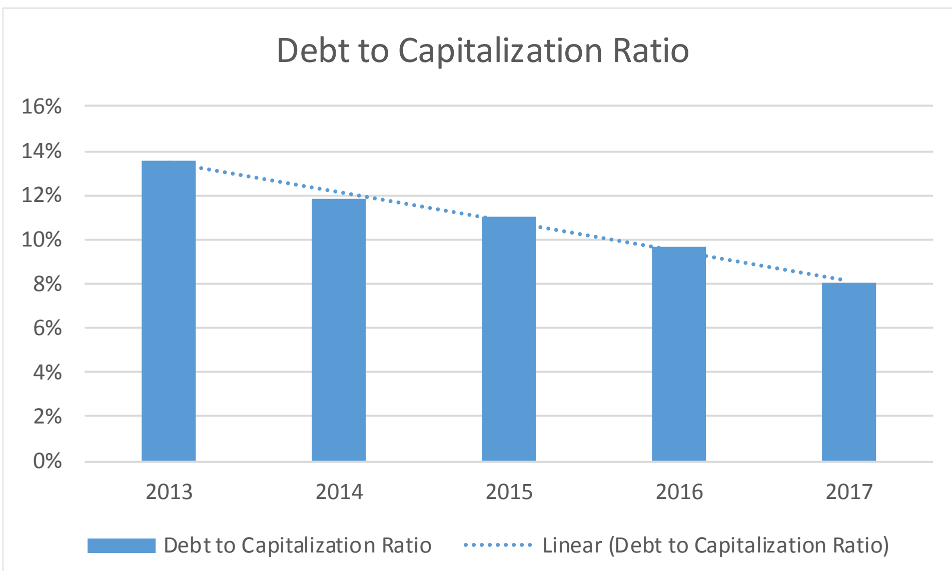
Deferred outflows of resources consists of pension deferred outflows and unamortized losses on the refunding of revenue bonds. Pension deferred outflows totaled $891,120 in 2017. Pension deferred outflows decreased by $459,316 in 2017 due to a decrease in the deferred pension outflows of the pension plan as a whole. Deferred outflow of resources related to unamortized losses on refunding decreased by $27,272 due to amortization of the deferred losses.

ANALYSIS OF THE CONDENSED COMPARATIVE STATEMENT OF NET POSITION (CONTINUED)

LIABILITIES AND NET POSITION

Current liabilities include accounts payable, deposits, interest payable on debt, retainage and the current portion of long term debt. Current liabilities decreased by $1,176,052 in 2017. Current liabilities decreased primarily due to decreases in development deposits and current portion of long term debt which were partially offset by an increase in accounts payable and retainage due to contractors. The current portion of debt, including interest payable, decreased by $1,960,773 during the year. This decrease is primarily due to a decrease in the current portion of long term debt related to revenue bonds which were paid off during 2017.

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, net pension liability and net other postemployment benefits liability. Noncurrent liabilities decreased by $1,306,058 in 2017. 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 of $1,956,191, a decrease in the net pension liability in the amount of $1,728,184, net of the recognition of $3,509,060 net other postemployment benefits liability.



Deferred inflows of resources consist of pension deferred inflows of $1,014,220. Pension deferred inflows increased by $860,054. The increase is primarily due to differences in projected and actual earnings on pension plan investments.

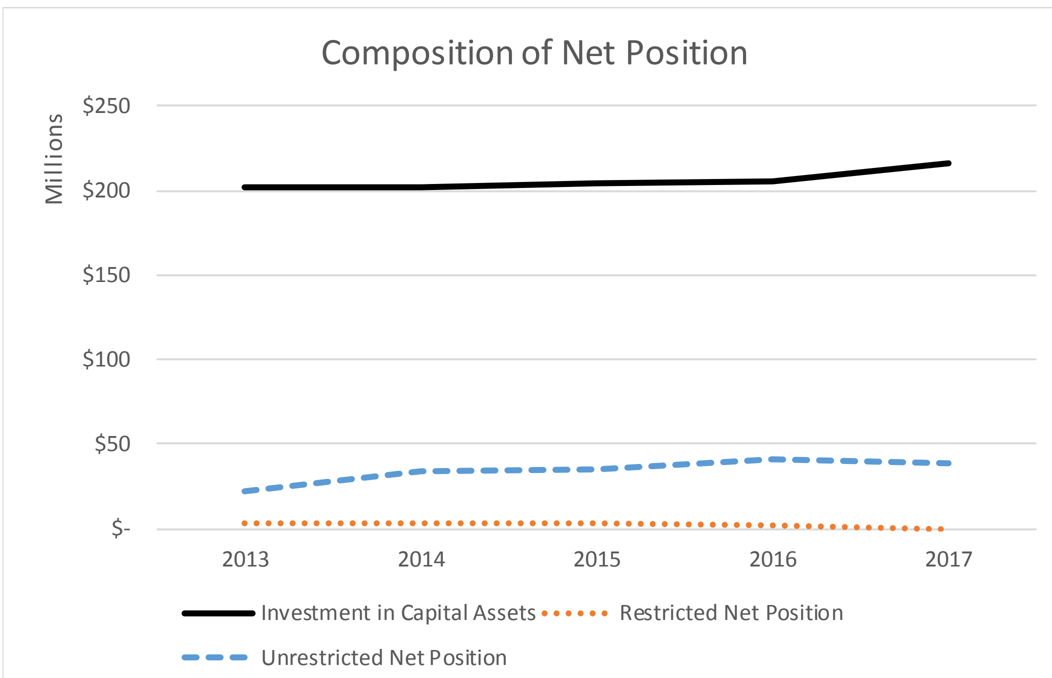
ANALYSIS OF THE CONDENSED COMPARATIVE STATEMENT OF NET POSITION (CONTINUED)

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 $254,808,470 is in three categories:

- Net 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 impaired investments held in the King County Investment Pool.

- The Unrestricted Net Position represents essentially anything that does not fall into the first two categories. The increase in this category is primarily the result of positive net income. The District is accumulating cash reserves in order to fund future capital and renovation projects.



CONDENSED COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND 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, 2017 and 2016 presents the annual surplus or deficiency of revenues over expenses (the change in net position):

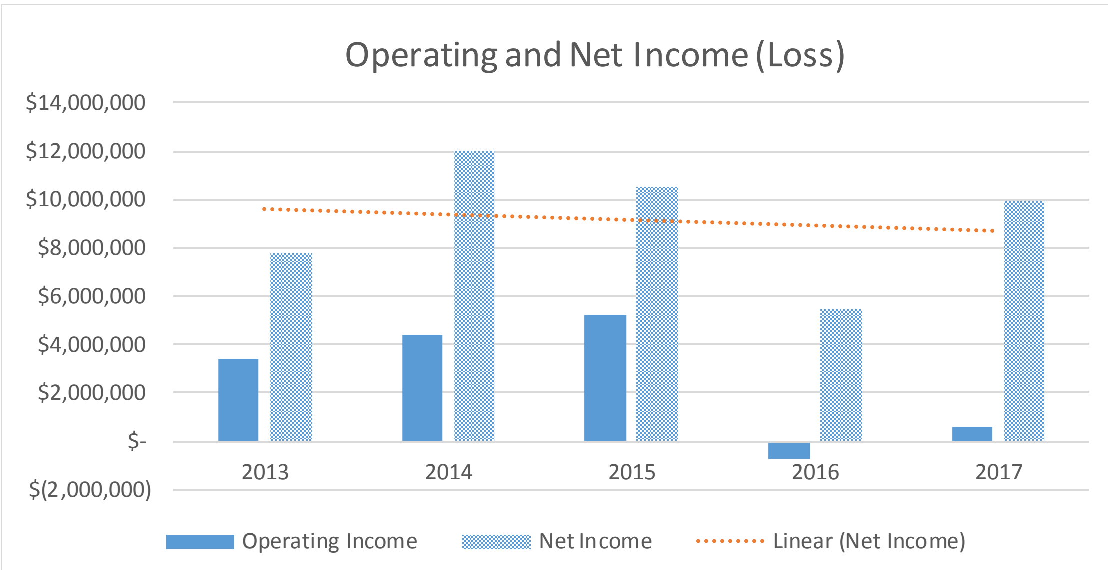
	Year Ended December 31, 2017			Year Ended December 31, 2017		
Revenues	Water	Wastewater	Total	Water	Wastewater	Total
Operating Revenues	$ 16,376,762	$ 17,442,457	$ 33,819,219	$ 15,655,935	$ 16,338,891	$ 31,994,826
Investment Income	225,542	206,012	431,554	167,902	180,088	347,990
Gain on Sale of Capital Assets	606	607	1,213	15,944	26,414	42,358
Other Income	908,559	57,409	965,968	541,485	10,766	552,251
Total Revenues	17,511,469	17,706,485	35,217,954	16,381,266	16,556,159	32,937,425
Expenses						
Maintenance and Operations	6,473,092	12,321,163	18,794,255	6,917,734	11,828,401	18,746,135
Administrative and General	2,032,359	2,099,577	4,131,936	2,235,687	2,296,533	4,532,220
Depreciation and Amortization	4,138,082	4,181,457	8,319,539	3,939,376	4,027,214	7,966,590
Taxes	1,171,028	800,543	1,971,571	939,453	531,066	1,470,519
Casualty Loss	-	-	-	-	1,232,639	1,232,639
Public Works and SRF Interest	219,863	(143,413)	76,450	213,054	11,879	224,933
Revenue Bond Interest	-	-	-	116,927	18,451	135,378
Total Expenses	14,034,424	19,259,327	33,293,751	14,362,231	19,946,183	34,308,414
Change in Net Position Before Capital Contributions	3,477,045	(1,552,842)	1,924,203	2,019,035	(3,390,024)	(1,370,989)
Capital Contributions	2,742,463	5,248,943	7,991,406	3,649,664	3,188,556	6,838,220
Change in Net Position	6,219,508	3,696,101	9,915,609	5,668,699	(201,468)	5,467,231
Net Position - January 1, As Previously Reported	122,080,230	126,095,396	248,175,626	116,533,904	126,419,237	242,953,141
Restatement - Prior Period Adjustment	(1,574,788)	(1,574,788)	(3,149,576)	(122,373)	(122,373)	(244,746)
Net Position - January 1, As Restated	120,505,442	124,520,608	245,026,050	116,411,531	126,296,864	242,708,395
Total Net Position, December 31	$ 126,724,950	$ 128,216,709	$ 254,941,659	$ 122,080,230	$ 126,095,396	$ 248,175,626

ANALYSIS OF THE CONDENSED COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

REVENUES

Water operating revenues increased by $720,827 in 2017, primarily due to a rate increase of 1.75% enacted in January of 2017, as well as a 4% increase in consumption. Wastewater operating revenues increased by $1,103,566 in 2017, primarily due to a rate increase of 2.75% enacted in January of 2017. Total operating revenues increased by $1,824,393 in 2017.

Investment income increased by $83,564 in 2017. 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 maintenance and operations costs decreased in 2017 by $444,642 and Wastewater maintenance and operations costs increased in 2017 by $492,762 for a total annual increase of $48,120. The Water decrease was primarily due to the fact that 2016 included a charge of $504,831 for a water system plan, which is required every six years. The Wastewater increase was primarily due to a 75% decrease in capitalized wages in 2017 as compared to 2016.

Water and Wastewater administrative and general expenses decreased by $400,284 for the year or 8.8%.

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.

Interest expense decreased by $283,861 compared to 2016. This decrease was primarily due to a $206,512 increase of capitalized interest in 2017 along with a decrease in average debt outstanding during the year.

ANALYSIS OF THE CONDENSED COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION (CONTINUED)

CAPITAL CONTRIBUTIONS

The District experienced a $1,153,186 increase in capital contributions in 2017. This increase is primarily due to increased development activity in the District in 2017.

PRIOR PERIOD ADJUSTMENT

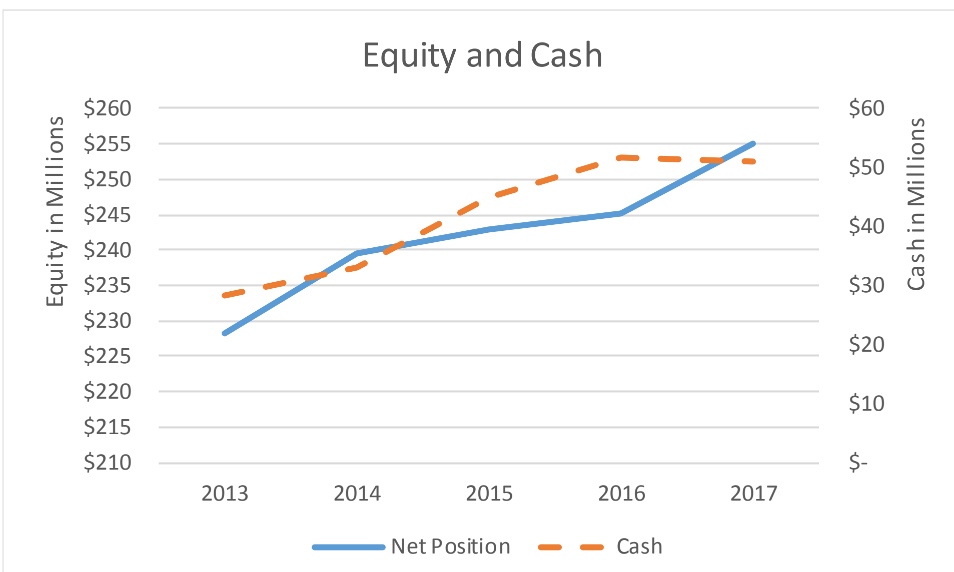
The District concluded that it had an obligation for postemployment benefits as retirees are allowed to purchase insurance with subsidized premiums. As a result, net position as of January 1, 2016 in the table below has been reduced by $3,727,848 and the 2016 condensed statement of revenues, expenses and changes in fund net position has been restated. The restatement in the financial statements is as of January 1, 2017.

NET POSITION

In 2017, Water experienced an increase in net position of $6,219,508 and Wastewater experienced an increase in net position of $3,696,101 for a total increase in net position of $9,915,609.

ANALYSIS OF OVERALL FINANCIAL CONDITION

The District experienced positive net operating income of $601,918; the District also had an increase in net position compared to 2016, and sustained positive cash flows which resulted in an improvement of the District's financial condition in 2017.



ANALYSIS OF THE CONDENSED COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION (CONTINUED)

CAPITAL ASSETS

Capital assets consist of land, construction in progress, equipment, buildings, infrastructure, and intangibles. Net capital assets increased by $6,851,967 in 2017. The increase was due to donated systems (infrastructure donated by developers) in the amount of $4,499,505 and spending for capital projects in the amount of $10,539,715 which was partially offset by depreciation and amortization expense of $8,319,539.

Principal projects included in the 2017 capital spending were Lakota treatment upgrades totaling $4,846,214, Redondo treatment upgrades of $1,086,869, water main replacements of $1,453,092, service connections of $483,097, well upgrades of $350,884, Oasis Phase I costs of $291,245 and meter installations of $204,322 are included in the 2017 capital asset additions. Over the next ten years it is anticipated that capital spending will be in the range of $207 million with approximately 46% of that for water projects and 54% for wastewater projects. The areas of major emphasis in the capital budget include upgrades to water treatment and filtration, existing infrastructure, pump stations and additional water sources. See Note 3 for more information.

Capital assets by division for the year ended December 31, 2017 were as follows:

	Water	Wastewater	Total
Land	$ 1,064,117	$ 5,376,745	$ 6,440,862
Construction in Progress	3,413,394	11,266,782	14,680,176
Equipment	13,565,096	20,825,292	34,390,388
Buildings	1,562,581	1,061,692	2,624,273
Infrastructure	111,549,788	163,130,629	274,680,417
Intangibles	68,071,415	2,430,347	70,501,762
Accumulated Depreciation and Amortization	(74,772,296)	(90,127,958)	(164,900,254)
Total Capital Assets, Net	$124,454,095	$113,963,529	$238,417,624

CAPITAL ASSETS (CONTINUED)

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

	Water	Wastewater	Total
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	108,449,276	160,125,544	268,574,820
Intangibles	67,989,378	2,340,571	70,329,949
Accumulated Depreciation and Amortization	(70,647,470)	(85,959,758)	(156,607,228)
Total Capital Assets, Net	$123,961,660	$107,603,997	$231,565,657

LONG-TERM DEBT

In 2017, long-term debt decreased by $1,956,196. The decrease was driven by principal payments on the Public Works Trust Fund loans and State Revolving Fund loans. Additionally. Revenue bonds totaling $1,945,000, which are were included in current liabilities as of December 31, 2016 were paid off in 2017.

At December 31, 2017, the District had total Public Works Trust Fund and State Revolving Fund loans outstanding of $22,236,860. See Note 7 for more information.

ADDITIONAL COMMENTS

The District has planned Water rate increases of approximately 1.8% per year for 2018, 2019, and 2020. The District has planned Wastewater rate increases of approximately 2.8% for 2018, 2019, and 2020. On March 27, 2018, the City of Federal Way imposed a 7.75% utility tax on all District water and sewer revenue within the city limits. Effective June 1, 2018, the City of Edgewood imposed a 6% utility tax on all District water and sewer revenue within the city limits. These taxes will be added to the planned rates.

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, 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS	
Unrestricted:	
Cash and Cash Equivalents	$ 51,011,663
Accrued Interest Receivable	54,411
Receivables - Customers	3,699,215
Receivables - Other	108,305
Inventory	245,282
Prepaid Expenses	494,325
Restricted:	
Cash and Cash Equivalents	34,627
Total Current Assets	55,647,828
NONCURRENT ASSETS	
Capital Assets Not Being Depreciated:	
Land	6,440,862
Construction in Progress	14,680,176
Capital Assets Being Depreciated:	
Equipment	34,390,388
Infrastructure	274,680,417
Buildings	2,624,273
Intangibles	70,501,762
Less Accumulated Depreciation and Amortization	(164,900,254)
Net Capital Assets	238,417,624
Total Noncurrent Assets	238,417,624
Total Assets	294,065,452
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	891,120
Total Deferred Outflows of Resources	891,120

LAKEHAVEN WATER & SEWER DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2017

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

CURRENT LIABILITIES	
Accounts Payable	$ 4,155,439
Deposits, Customers and Developers	1,660,234
Retainage Due Contractor	266,026
Public Works Trust Fund and State Revolving Fund Loans (Current Portion)	1,956,196
Accrued Interest Payable	71,583
Total Current Liabilities	8,109,478
NONCURRENT LIABILITIES	
Compensated Absences	813,201
Public Works Trust Fund and State Revolving Fund Loans (Less Current Portion)	20,280,664
Net Pension Liability	6,263,290
Net Other Postemployments Benefits Obligation	3,509,060
Co-op Certificates	25,000
Total Noncurrent Liabilities	30,891,215
Total Liabilities	39,000,693
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	1,014,220
Total Deferred Inflows of Resources	1,014,220
NET POSITION	
Net Investment in Capital Assets	215,914,738
Restricted for Impaired Investments	34,627
Unrestricted	38,992,294
Total Net Position	$ 254,941,659

LAKEHAVEN WATER & SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITON
YEAR ENDED DECEMBER 31, 2017

OPERATING REVENUES		
Customer Sales and Service Fees	$	32,598,057
Permits, Inspections, and Delinquency Fees		435,362
Developer Revenues and Administrative Charges		695,051
Street Lighting Revenues		90,749
Total Operating Revenue		33,819,219
OPERATING EXPENSES		
Maintenance and Operations		18,794,255
Administrative and General		4,131,936
Depreciation and Amortization Expense		8,319,539
Taxes, Other than Income Tax		1,971,571
Total Operating Expenses		33,217,301
Net Operating Income		601,918
NONOPERATING REVENUES (EXPENSES)		
Interest Expense		(76,450)
Investment Income		431,554
Gain on Sale of Capital Assets		1,213
Other Income		965,968
Total Nonoperating Revenues (Expenses)		1,322,285
Income Before Contributions		1,924,203
Capital Contributions		7,991,406
Change in Net Position		9,915,609
Net Position - January 1, As Previously Reported		248,175,626
Restatement - Prior Period Adjustment		(3,149,576)
Net Position - January 1, As Restated		245,026,050
Total Net Position, December 31	$	254,941,659

LAKEHAVEN WATER & SEWER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

Cash Flows From Operating Activities		
Cash Received From Customers	$	34,433,690
Cash Paid to Suppliers		(13,188,270)
Cash Paid to Employees		(12,179,845)
Net Cash Provided by Operating Activities		9,065,575
Cash Flows From Capital and Related Financing Activities		
Acquisition and Construction of Capital Assets		(9,735,034)
Payment of Bond Principal and Other Financing		(3,901,191)
Interest Paid		141,556
Proceeds from Sale of Capital Assets		2,116
Cash Contributions in Aid of Construction		3,443,469
Net Cash (Used) by Capital and Related Financing Activities		(10,049,084)
Cash Flows From Investing Activities		
Interest Received on Investments		418,107
Net Cash Provided by Investing Activities		418,107
Net Decrease in Cash and Cash Equivalents		(565,402)
Cash and Cash Equivalents - January 1		51,611,692
Cash and Cash Equivalents - December 31	$	51,046,290
Noncash Investing, Capital and Financing Activities		
Contributions of Capital Assets from Developers	$	4,499,505

LAKEHAVEN WATER & SEWER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2017

Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities		
Net Operating Income	$	601,918
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization		8,319,539
Other Income		965,968
Changes in Assets, Deferred Outflow of Resources Liabilities and Deferred Inflow of		
(Increase) in Accounts Receivable		(351,497)
(Increase) in Inventory		(5,267)
(Increase) in Prepaid Expenses		(101,409)
(Decrease) in Accounts Payable		(359,661)
Increase in Compensated Absences		45,314
Decrease in Deferred Outflow of Resources - Pension		459,316
Increase in Deferred Inflow of Resources - Pension		860,054
(Decrease) in Net Pension Liabilities		(1,728,184)
Increase in Other Postemployment Benefits Obligation		359,484
Total Adjustments		8,463,657
Total Cash Provided by Operating Activities	$	9,065,575

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 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 fund is comprised of two divisions: 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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 – 50 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 capital contributions at acquisition value, which is determined by developer cost, and added 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.

i. 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.

j. Medical Insurance

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. 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.

l. Capital Contributions

Grants, ULID assessments, and contributions in aid of construction from property owners are recorded as capital contribution revenue.

m. Long-Term Debt

Long-term debt is recorded net of premiums and discounts. Premiums and discounts on long-term debt are amortized by the interest method over the period the related debt is outstanding. Amortization of discounts/premiums is included in interest expense.

n. Net Position

Net position is classified in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, and capital-related deferred outflows of resources reduced by the outstanding balances of any capital-related borrowings and deferred inflows of resources. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of assets restricted by external creditors (such as through debt covenants), grantors, contributors or others reduced by related liabilities and deferred inflows of resources.

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

The District applies unrestricted and restricted resources to purposes for which both unrestricted and restricted net resources are available based on management's discretion.

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.

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. Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the following year. Deferred outflows of resources for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred outflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the District's proportionate share of deferred inflows related to pension plans. Deferred inflows of resources for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

NOTE 2 DEPOSITS AND INVESTMENTS

The District's cash and investment balances at December 31, 2017 are listed below:

Bank Deposits	$ 25,850
Investment in King County Investment Pool	51,020,440
Total Cash and Investments	$ 51,046,290

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).

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

In accordance with state investment laws, the District's governing body 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 be invested in the King County Investment Pool (Pool).

As of December 31, 2017, the District had the following investments:

Investment Type	Fair Value	Effective Duration
King County Investment Pool	$ 51,020,440	1.02 Years

Impaired Investments

As of December 31, 2017, all impaired commercial paper investments had 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 principal was $51,376 and the District's fair value of the investments is $34,627 as of December 31, 2017.

Interest Rate Risk

As of December 31, 2017, the Pool's average duration was 1.02 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, 2017, 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, bank corporate note (rated at least "A"), 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 depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

NOTE 3 CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land and Land Rights	$ 6,440,862	$ -	$ -	$ 6,440,862
Construction in Progress	11,875,625	11,341,987	(8,537,436)	14,680,176
Total capital assets not being depreciated	18,316,487	11,341,987	(8,537,436)	21,121,038
Capital assets being depreciated:				
Equipment	28,361,147	6,056,657	(27,416)	34,390,388
Buildings	2,590,482	33,791	-	2,624,273
Infrastructure	268,574,820	6,105,597	-	274,680,417
Intangibles	70,329,949	171,813	-	70,501,762
Total capital assets being depreciated	369,856,398	12,367,858	(27,416)	382,196,840
Less Accumulated Depreciation for:				
Equipment	13,730,726	1,325,168	(26,513)	15,029,381
Buildings	1,183,031	52,148	-	1,235,179
Infrastructure	127,256,865	5,385,048	-	132,641,913
Intangibles	14,436,606	1,557,175	-	15,993,781
Total Accumulated Depreciation	156,607,228	8,319,539	(26,513)	164,900,254
Total capital assets being depreciated, net	213,249,170	4,048,319	(903)	217,296,586
TOTAL CAPITAL ASSETS, NET	$ 231,565,657	$ 15,390,306	$ (8,538,339)	$ 238,417,624

The District capitalizes employee wages and benefit costs in connection with the construction of utility plant assets. In 2017, the total wage and benefit expense was $12,184,135 of which $1,220,582 was capitalized.

Interest costs incurred for the construction of capital assets are subject to capitalization. The District's total interest cost was $282,962 in 2017, of which $206,512 was capitalized as construction period interest.

NOTE 4 RESTRICTED ASSETS

In accordance with the bond resolutions and other agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses.

Restricted cash and cash equivalents consist of impaired investments held in the King County investment pool in the amount of $34,627. As of the end of 2017 the cash and cash equivalents held in the Revenue Bond Fund were no longer restricted as all the outstanding bonds were paid off during the year.

NOTE 5 DEFERRED COMPENSATION PLAN

Pursuant to RCW 41.50.770, Washington State offers its employees and employees of those political subdivisions that elect to participate, a deferred compensation program, in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, disability, death, or unforeseeable financial emergency. This deferred compensation plan is administered by the Washington State Department of Retirement Systems (DRS). Employee deferrals totaled $297,664 in 2017.

NOTE 6 OPERATING LEASES

In September 2013, the District entered into a noncancelable 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 April 2014, the District entered into a noncancelable operating lease agreement with Ricoh USA, Inc. for two copy machines. The lease payments began in 2014 and the terms are for 60 months with payments of $2,123 made quarterly.

In June 2014, the District entered into a noncancelable 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 noncancelable 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.

NOTE 6 OPERATING LEASES (CONTINUED)

In December 2015, the District entered into a noncancelable 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.

In April 2016, the District entered into a noncancelable 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, 2017 the future minimum lease payments under these leases are as follows:

Year Ending December 31,	Amount
2018	$ 35,993
2019	23,939
2020	10,459
2021	1,009
2022	-
Total Future Minimum Lease Payments	$ 71,400

NOTE 7 LONG-TERM DEBT AND LIABILITIES

Public Works Trust Fund and 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 and State Revolving Fund loans:

Loan Description	Principal
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.	$ 250,177
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.	2,647,059
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.	661,546

NOTE 7 LONG-TERM DEBT AND LIABILITIES (CONTINUED)

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

Loan Description	Principal
2004 loan - payable at $30,390 annually through the year 2024, plus interest at ½% per annum. Original debt: $570,705 for Redondo Outfall Replacement.	$ 212,730
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.	1,171,579
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.	7,502,610
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.	2,588,922
2014 loan - payable at $299,124 annually through the year 2035, plus interest at 1½% per annum. Original debt: $5,982,486 for Green River Filtration Facility.	5,384,237
2014 loan - payable at $101,000 annually through the year 2035, plus interest at 1½% per annum. Original debt: $2,020,000 for Green River Water Treatment Plant.	1,818,000
	$ 22,236,860

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

	Principal	Interest	Total
2018	$ 1,956,196	$ 210,341	$ 2,166,537
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	1,872,798	148,293	2,021,091
2023 - 2027	6,212,068	546,485	6,758,553
2028 - 2032	4,905,672	263,960	5,169,632
2033 - 2035	1,504,946	42,870	1,547,816
	$22,236,860	$1,748,658	$ 23,985,518

NOTE 7 LONG-TERM DEBT AND LIABILITIES (CONTINUED)

Changes in Long-Term Liabilities

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

	Balance 1/1/17	Additions	Reductions	Balance 12/31/17	Due In One Year
Revenue Bonds Payable	$ 1,945,000	$ -	$ (1,945,000)	$ -	$ -
Public Works Trust Fund and State Revolving Fund Loans	24,193,051	-	(1,956,191)	22,236,860	1,956,196
Compensated Absences	767,887	921,179	(875,865)	813,201	-
Net Pension Liability	7,991,474	-	(1,728,184)	6,263,290	-
Net Other Postemployment Benefits Obligation	3,149,576	359,484	-	3,509,060	-
Co-Op Certificates	25,000	-	-	25,000	-
Unamortized Bond Premium	2,203	-	(2,203)	-	-
Totals	$ 38,074,191	$ 1,280,663	$ (6,507,443)	$ 32,847,411	$ 1,956,196

NOTE 8 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* as of and for the year ended December 31, 2017:

Aggregate Pension Amounts – All Plans	
Net Pension Liabilities	$6,263,290
Deferred Outflows of Resources	$ 891,120
Deferred Inflows of Resources	$1,014,220
Pension Expense/Expenditures	$ 632,240

NOTE 8 PENSION PLAN (CONTINUED)

State Sponsored Pension Plans

Substantially all 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
PO Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at 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.

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 nonduty 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 (DOL). 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.

NOTE 8 PENSION PLAN (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

Contributions – The PERS Plan 1 member contribution rate is established by State statute at 6%. 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%. 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 2017 were as follows:

PERS Plan 1 Actual Contribution Rates	Employer	Employee
January through June		
PERS Plan 1	6.23 %	6.00 %
PERS Plan 1 UAAL	4.77	
Administrative Fee	0.18	
Total	11.18 %	6.00 %
July through December		
PERS Plan 1	7.49 %	6.00 %
PERS Plan 1 UAAL	5.03	
Administrative Fee	0.18	
Total	12.70 %	6.00 %

The District's actual contributions to the plan were $442,993 to PERS Plan 1 for the year ended December 31, 2017.

PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% 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 3% 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.

NOTE 8 PENSION PLAN (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% 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 nonduty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time duty related death benefit, if found eligible by the DOL. 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 10 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% and escalate to 15% 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%. 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 2017 were as follows:

PERS Plan 2/3 Actual Contribution Rates	Employer 2/3	Employee 2	Employee 3
January through June			
PERS Plan 2/3	6.23 %	6.12 %	Varies
PERS Plan 1 UAAL	4.77		Varies
Administrative Fee	0.18		Varies
Total	11.18 %	6.12 %	
July through December			
PERS Plan 2/3	7.49 %	7.38 %	Varies
PERS Plan 1 UAAL	5.03		Varies
Administrative Fee	0.18		Varies
Total	12.70 %	7.38 %	

The District's actual contributions to the plan were $582,100 to PERS Plan 2/3 for the year ended December 31, 2017.

NOTE 8 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 2017 with a valuation date of June 30, 2016. 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 and the 2015 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016 to June 30, 2017, 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% 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.

- How terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- The average expected remaining service lives calculation was revised.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7% 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% 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, whose rates include a component for the PERS 1). 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% was used to determine the total liability.

NOTE 8 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% was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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, 2017 are summarized in the table below. The inflation component used to create the table is 2.2% 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%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

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%, 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%) or 1-percentage point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$ 4,047,849	$ 3,322,836	$ 2,694,819
PERS 2/3	$ 7,921,889	$ 2,940,454	$(1,141,094)

NOTE 8 PENSION PLAN (CONTINUED)

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, 2017, the District reported a total pension liability of $6,263,290 for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2017):

	Liability (or Asset)
PERS 1	$3,322,836
PERS 2/3	$2,940,454

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	.069877%	.070027%	.000150%
PERS 2/3	.084187%	.084629%	.000442%

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, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the District recognized pension expense as follows:

	Pension Expense
PERS 1	$ 209,908
PERS 2/3	405,657
Fees and Other	16,675
Total	$ 632,240

NOTE 8 PENSION PLAN (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(123,999)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	231,351	-
TOTAL	$ 231,351	$ (123,999)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 297,938	$ (96,707)
Net difference between projected and actual investment earnings on pension plan investments	-	(783,856)
Changes of assumptions	31,233	-
Changes in proportion and differences between contributions and proportionate share of contributions	8,140	(9,658)
Contributions subsequent to the measurement date	322,458	-
TOTAL	$ 659,769	$ (890,221)

Total	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 297,938	$ (96,707)
Net difference between projected and actual investment earnings on pension plan investments	-	(907,855)
Changes of assumptions	31,233	-
Changes in proportion and differences between contributions and proportionate share of contributions	8,140	(9,658)
Contributions subsequent to the measurement date	553,809	-
TOTAL	$ 891,120	$(1,014,220)

NOTE 8 PENSION PLAN (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources

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 ending December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31:	PERS 1	PERS 2/3
2018	$ (83,816)	$(315,607)
2019	26,462	80,440
2020	(6,144)	(67,669)
2021	(60,501)	(313,979)
2022	-	27,782
Thereafter	-	36,123
Total	$(123,999)	$(552,910)

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS

The District provides to its retirees employer subsidies for postemployment medical insurance benefits (OPEB) provided through the Public Employees Benefits Board (PEBB). The actual medical costs are paid through annual fees and premiums to the PEBB.

Plan Description

The PEBB was created within the Washington State Health Care Authority to administer medical, dental and life insurance plans for public employees and retirees and their dependents. District employees who end public employment are eligible to continue PEBB insurance coverage as a retiree if they retire under the public employees' retirement system and are vested in that system.

Legally, the District does not have a contractual obligation or a policy to maintain and provide its employees with continued medical insurance coverage after termination or retirement. The OPEB relationship between PEBB employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

The Office of the State Actuary, a department within the primary government of the State of Washington, issues a publicly available Other Postemployment Benefits Actuarial Valuation Report. The Other Postemployment Benefits Actuarial Valuation Report may be obtained by writing to: Office of the State Actuary, PO Box 40914, Olympia, Washington 98504 or it may be downloaded from the Office of the State Actuary website at http://osa.leg.wa.gov.

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Subsidies

The Public Employees Benefits Board (PEBB) plan offers a subsidized retirement coverage to its plan participants and the District can terminate medical insurance with no future obligation or liability to PEBB or its retirees.

The subsidies provided by PEBB to the District include the following:

- Explicit Medical Subsidy for Post 65 retirees
- Implicit Medical Subsidy for Pre 65 retirees

The explicit subsidies are monthly amounts per retiree. The implicit medical subsidy is the difference between the total cost of pre 65 medical benefits and the pre 65 contributions paid by retirees. Explicit subsidies are capped at $150 per month.

Funding Policy

The funding policy is based upon pay-as-you-go financing requirements.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based upon the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of 20 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB.

Determination of Annual Required Contribution	
Normal Cost at Year End	$ 195,309
Amortization of Unfunded Actuarial Accrued Liability	238,717
Annual Required Contribution	$ 434,026
Determination of Annual OPEB Cost	
Annual Required Contribution	$ 434,026
Net OPEB Obligation Interest	125,983
Net OPEB Obligation Amortization	(182,140)
Annual OPEB Cost	$ 377,869
Determination of Net OPEB Obligation	
Starting Net OPEB Obligation	$ 3,149,576
Annual OPEB Cost	377,869
Contributions	(18,385)
Net OPEB Obligation	$ 3,509,060

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The District's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2017 are as follows:

Year Ended	Annual OPEB Cost	Contributions as a Percentage of OPEB Cost	Net OPEB Obligation
2017	$ 377,869	5%	$ 3,509,060
2016	-	0%	3,149,576
2015	-	0%	-

Funded Status, Funding Progress

As of June 30, 2017, the most recent actuarial valuation date, the plan was 0% funded. As of December 31, 2017, the accrued liability for benefits was $4,127,907, and the actuarial value of assets was $-0-, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of $4,127,907.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

The District used the alternative measurement. Data (e.g., age range, years of service, active age average, etc.) is compiled into the Office of State Actuary GASB No. 45 reporting tool for all active and inactive members to determine the Actuarial Accrued Liability (AAL) and normal cost.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

All demographic assumptions, healthcare assumptions, and methods used match those disclosed in the 2017 OPEB Actuarial Valuation Report published by the Office of the State Actuary. Specifically, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions include a 3.75% discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance the payment of benefits. The healthcare cost inflation trends, which vary by medical plan and age, start at approximately 7% in 2017 and gradually to 5% in 2102 and beyond. The inflation rate assumption sued in the calculation is 3%. The date used for this valuation was identified by department number from the date disclosed in the 2017 OPEB Actuarial Valuation Report. Please see http://leg.wa.gov/osa/Pages/default.aspx for more detail.

NOTE 10 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, 2017, there are 201 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, Clear Risk Solutions 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 $1,784,067.

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.

Privacy and Network Liability coverage is offered with a $10,000 member deductible and $40,000 self-insured retention for systems using encryption and $50,000 member deductible and $50,000 self-insured retention for those without encryption.

Equipment Breakdown insurance is subject to a per-occurrence deductible of $2,500, which may vary per member with the exception of Pumps and 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 and Motors which is $15,000 and is covered by the CIAW.

NOTE 10 RISK MANAGEMENT (CONTINUED)

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.

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, 2017 were $1,501,904.

In the past three years (2017, 2016, and 2015), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/ reinsurance contracts.

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 and machinery insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in 2015 or 2017 fiscal years. In 2016 the District incurred a casualty loss of $1,232,639 in excess of insurance coverage.

NOTE 11 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.

NOTE 11 SECOND SUPPLY PROJECT PARTNERSHIP AGREEMENT (CONTINUED)

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.

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 $73,118,083 towards this project as of December 31, 2017.

Further information can be obtained from the District office.

NOTE 12 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% of revenue generated within the City (as defined by the agreement). The franchise fee increases to 3.8% in 2020-2023, and to 4.0% for 2024-2026. Amounts paid to the City under the agreement totaled $889,587 in 2017.

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 $636,897 in 2017.

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.

On March 27, 2018, the City of Federal Way imposed a 7.75% utility tax on all District water and sewer revenue within the city limits. See Note 16 for more information.

Further information can be obtained from the District office.

NOTE 13 PRIOR PERIOD ADJUSTMENT

During 2017, the District concluded that it had an obligation for postemployment benefits as retirees are allowed to purchase insurance with subsidized premiums. As a result, net position as of January 1, 2017 has been reduced by $3,149,576 to record the liability incurred as of the beginning of the year.

NOTE 14 COMMITMENTS

As of December 31, 2017, the District is obligated under various construction contracts totaling $22,517,103 of which $11,681,305 has been expended.

NOTE 15 SUBSEQUENT EVENT

On March 27, 2018, the City of Federal Way imposed a 7.75% utility tax on all District water and sewer revenue within the city limits. The District is contesting the legality of this tax, but it is unlikely that a final decision will be issued by the court before 2019 at the earliest. The District is paying the amount of the tax in excess of the 3.6% franchise fee into a separate fund maintained by the King County Treasurer until the legality of the tax has been resolved, at which time the funds will either by paid to the City of Federal Way or refunded to the District customers.

LAKEHAVEN WATER & SEWER DISTRICT
OTHER POSTEMPLOYMENT BENEFITS SCHEDULES OF FUNDING PROGRESS
AS OF JUNE 30 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS*
(SEE INDEPENDENT AUDITORS' REPORT)

Actuarial Valuation Date	Year Ended	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funding Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2017	12/31/2017	$ -	$ 4,127,907	$ 4,127,907	0.00%	$ 8,474,842	48.7%
6/30/2015	12/31/2016	-	3,811,690	3,811,690	0.00%	8,166,935	46.7%

* Information is presented only for those years for which information is available.

See accompanying Notes to Required Supplementary Information.

LAKEHAVEN WATER & SEWER DISTRICT
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30 (MEASUREMENT DATE)
LAST 10 FISCAL YEARS*
(SEE INDEPENDENT AUDITORS' REPORT)

PERS 1

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.070027%	$ 3,322,836	$ 8,536,481	38.93%	61.24%
2016	0.069877%	3,752,724	8,080,298	46.44%	57.03%
2015	0.069594%	3,640,414	7,830,626	46.49%	59.10%
2014	0.071239%	3,588,698	7,647,088	46.93%	61.19%
2013	0.046870%	2,738,733	7,455,744	36.73%	

PERS 2/3

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2017	0.084629%	$ 2,940,454	$ 8,304,868	35.41%	90.97%
2016	0.084187%	4,238,750	7,863,094	53.91%	85.82%
2015	0.084600%	3,022,806	7,614,472	39.70%	89.20%
2014	0.086424%	1,746,942	7,445,501	23.46%	93.29%
2013	0.060311%	2,575,289	7,253,724	35.50%	

*Information is presented only for those years for which information is available.

See accompanying Notes to Required Supplementary Information.

LAKEHAVEN WATER & SEWER DISTRICT
SCHEDULES OF EMPLOYER CONTRIBUTIONS
AS OF DECEMBER 31 (EMPLOYER REPORTING DATE)
LAST 10 FISCAL YEARS*
(SEE INDEPENDENT AUDITORS' REPORT)

PERS 1

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2017	$ 442,993	$ (442,993)	$ -	$ 8,709,281	5.09%
2016	413,916	(413,916)	-	8,388,336	4.93%
2015	353,367	(353,367)	-	7,837,215	4.51%
2014	318,625	(318,625)	-	7,455,744	4.27%
2013	232,460	(232,460)	-	7,088,370	3.28%

PERS 2/3

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2017	$ 582,100	$ (582,100)	$ -	$ 8,474,842	6.87%
2016	508,798	(508,798)	-	8,166,935	6.23%
2015	425,476	(425,476)	-	7,621,061	5.58%
2014	371,781	(371,781)	-	7,253,724	5.13%
2013	323,470	(323,470)	-	6,904,440	4.68%

*Information is presented only for those years for which information is available.

See accompanying Notes to Required Supplementary Information.

Note 1

These schedules will be built prospectively until they contain 10 years of data.

Note 2

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

Note 3

Refer to Notes to Financial Statements, Note 8, Actuarial Assumptions.

- Covered payroll is the payroll on which contributions to a pension plan are based.

- Contributions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 contributions that fund the PERS 1 UAAL. Contributions do not include employer-paid member contributions.

LAKEHAVEN WATER & SEWER DISTRICT
STATEMENT OF NET POSITION BY DIVISION
DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	Water Division	Wastewater Division	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Unrestricted:			
Cash and Cash Equivalents	$ 28,380,556	$ 22,631,107	$ 51,011,663
Accrued Interest Receivable	30,437	23,974	54,411
Receivables - Customers	1,688,637	2,010,578	3,699,215
Receivables - Other	78,436	29,869	108,305
Inventory	245,282	-	245,282
Prepaid Expenses	241,705	252,620	494,325
Restricted:			
Cash and Cash Equivalents	17,746	16,881	34,627
Total Current Assets	30,682,799	24,965,029	55,647,828
NONCURRENT ASSETS			
Capital Assets Not Being Depreciated:			
Land	1,064,117	5,376,745	6,440,862
Construction in Progress	3,413,394	11,266,782	14,680,176
Capital Assets Being Depreciated:			
Equipment	13,565,096	20,825,292	34,390,388
Infrastructure	111,549,788	163,130,629	274,680,417
Buildings	1,562,581	1,061,692	2,624,273
Intangibles	68,071,415	2,430,347	70,501,762
Less Accumulated Depreciation and Amortization	(74,772,296)	(90,127,958)	(164,900,254)
Net Capital Assets	124,454,095	113,963,529	238,417,624
Total Noncurrent Assets	124,454,095	113,963,529	238,417,624
Total Assets	155,136,894	138,928,558	294,065,452
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows Related to Pensions	445,560	445,560	891,120
Total Deferred Outflows of Resources	445,560	445,560	891,120

LAKEHAVEN WATER & SEWER DISTRICT
STATEMENT OF NET POSITION BY DIVISION (CONTINUED)
DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	Water Division	Wastewater Division	Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable	$ 1,790,953	$ 2,364,486	$ 4,155,439
Deposits, Customers and Developers	529,897	1,130,337	1,660,234
Retainage Due Contractor	37,013	229,013	266,026
Public Works Trust Fund and State Revolving Fund Loans (Current Portion)	1,712,238	243,958	1,956,196
Accrued Interest Payable	66,871	4,712	71,583
Total Current Liabilities	4,136,972	3,972,506	8,109,478
NONCURRENT LIABILITIES			
Compensated Absences	412,111	401,090	813,201
Public Works Trust Fund and State Revolving Fund Loans (Less Current Portion)	18,890,136	1,390,528	20,280,664
Net Pension Liability	3,131,645	3,131,645	6,263,290
Net Other Postemployments Benefits Obligation	1,754,530	1,754,530	3,509,060
Co-op Certificates	25,000	-	25,000
Total Noncurrent Liabilities	24,213,422	6,677,793	30,891,215
Total Liabilities	28,350,394	10,650,299	39,000,693
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Related to Pensions	507,110	507,110	1,014,220
Total Deferred Inflows of Resources	507,110	507,110	1,014,220
NET POSITION			
Net Investment in Capital Assets	103,814,708	112,100,030	215,914,738
Restricted for Impaired Investments	17,746	16,881	34,627
Unrestricted	22,892,496	16,099,798	38,992,294
Total Net Position	$ 126,724,950	$ 128,216,709	$ 254,941,659

LAKEHAVEN WATER & SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET FUND POSITION BY DIVISION
DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	Water Division	Wastewater Division	Total
OPERATING REVENUES			
Customer Sales and Service Fees	$ 15,660,108	$ 16,937,949	$ 32,598,057
Permits, Inspections and Delinquency Fees	180,483	254,879	435,362
Developer Revenues and Administrative Charges	445,422	249,629	695,051
Street Lighting Revenues	90,749	-	90,749
Total Operating Revenue	16,376,762	17,442,457	33,819,219
OPERATING EXPENSES			
Maintenance and Operations	6,473,092	12,321,163	18,794,255
Administrative and General	2,032,359	2,099,577	4,131,936
Depreciation and Amortization Expense	4,138,082	4,181,457	8,319,539
Taxes, Other than Income Tax	1,171,028	800,543	1,971,571
Total Operating Expenses	13,814,561	19,402,740	33,217,301
Net Operating Income (Loss)	2,562,201	(1,960,283)	601,918
NONOPERATING REVENUES (EXPENSES)			
Interest Expense	(219,863)	143,413	(76,450)
Investment Income	225,542	206,012	431,554
Gain on Sale of Capital Assets	606	607	1,213
Other Income	908,559	57,409	965,968
Total Nonoperating Revenues (Expenses)	914,844	407,441	1,322,285
Income (Loss) Before Contributions	3,477,045	(1,552,842)	1,924,203
Capital Contributions	2,742,463	5,248,943	7,991,406
Change in Net Position	6,219,508	3,696,101	9,915,609
Net Position - January 1, As Previously Reported	122,080,230	126,095,396	248,175,626
Restatement - Prior Period Adjustment	(1,574,788)	(1,574,788)	(3,149,576)
Net Position - January 1, As Restated	120,505,442	124,520,608	245,026,050
Total Net Position, December 31	$ 126,724,950	$ 128,216,709	$ 254,941,659

LAKEHAVEN WATER & SEWER DISTRICT
STATEMENT OF CASH FLOWS BY DIVISION
DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	Water Division	Wastewater Division	Total
Cash Flows From Operating Activities			
Cash Received From Customers	$ 17,093,837	$ 17,339,853	$ 34,433,690
Cash Paid to Suppliers	(4,072,554)	(9,115,716)	(13,188,270)
Cash Paid to Employees	(5,731,332)	(6,448,513)	(12,179,845)
Net Cash Provided by Operating Activities	7,289,951	1,775,624	9,065,575
Cash Flows From Capital and Related Financing Activities			
Acquisition and Construction of Capital Assets	(2,773,945)	(6,961,089)	(9,735,034)
Payment of Bond Principal and Other Financing	(3,482,570)	(418,621)	(3,901,191)
Interest Paid	(162,454)	304,010	141,556
Proceeds from Sale of Capital Assets	1,058	1,058	2,116
Cash Contributions in Aid of Construction	1,229,481	2,213,988	3,443,469
Net Cash Used by Capital and Related Financing Activities	(5,188,430)	(4,860,654)	(10,049,084)
Cash Flows From Investing Activities			
Interest Received on Investments	215,314	202,793	418,107
Net Cash Provided by Investing Activities	215,314	202,793	418,107
Net Increase (Decrease) in Cash and Cash Equivalents	2,316,835	(2,882,237)	(565,402)
Cash and Cash Equivalents - January 1	26,081,467	25,530,225	51,611,692
Cash and Cash Equivalents - December 31	$ 28,398,302	$ 22,647,988	$ 51,046,290
Noncash Investing, Capital and Financing Activities			
Contributions of Capital Assets from Developers	$ 1,494,420	$ 3,005,085	$ 4,499,505

LAKEHAVEN WATER & SEWER DISTRICT
STATEMENT OF CASH FLOWS BY DIVISION (CONTINUED)
DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	Water Division	Wastewater Division	Total
Reconciliation of Net Operating Income (Loss) to Net Cash Provided by Operating Activities			
Net Operating Income (Loss)	$ 2,562,201	$ (1,960,283)	$ 601,918
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities			
Depreciation and Amortization	4,138,082	4,181,457	8,319,539
Other Income	908,559	57,409	965,968
Changes in Assets, Deferred Outflow of Resources Liabilities and Deferred Inflow of Resources			
(Increase) in Accounts Receivable	(191,483)	(160,014)	(351,497)
(Decrease) in Inventory	(5,267)	-	(5,267)
(Increase) in Prepaid Expenses	(48,498)	(52,911)	(101,409)
(Decrease) in Accounts Payable	(74,629)	(285,032)	(359,661)
Increase in Compensated Absences	25,651	19,663	45,314
Decrease in Deferred Outflow of Resources - Pension	229,658	229,658	459,316
Increase in Deferred Inflow of Resources - Pension	430,027	430,027	860,054
(Decrease) in Net Pension Liabilities	(864,092)	(864,092)	(1,728,184)
Increase in Other Postemployment Benefits Obligation	179,742	179,742	359,484
Total Adjustments	4,727,750	3,735,907	8,463,657
Total Cash Provided by Operating Activities	$ 7,289,951	$ 1,775,624	$ 9,065,575