



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Lakehaven Water & Sewer District

For the period January 1, 2020 through December 31, 2020

Published December 22, 2022

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**Office of the Washington State Auditor
Pat McCarthy**

December 22, 2022

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

Report on Financial Statements

Please find attached our report on the Lakehaven Water & Sewer District's financial statements.

We are issuing this report in order to provide information on the District's financial activities and condition.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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*

Lakehaven Water & Sewer District January 1, 2020 through December 31, 2020

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 the Lakehaven Water & Sewer District, as of and for the year ended December 31, 2020, 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 15, 2022.

REPORT ON 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) as a basis for designing 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 a 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 above 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 or significant deficiencies may exist that were not identified.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 results 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. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy, State Auditor

Olympia, WA

December 15, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Lakehaven Water & Sewer District January 1, 2020 through December 31, 2020

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the Lakehaven Water & Sewer District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Lakehaven Water & Sewer District, as of December 31, 2020, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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

The other information comprises the District's Management Statement of Net Position, Management Statement of Revenues, Expenses and Changes in Fund Net Position and Management Statement of Cash Flows but does not include the basic financial statements and our auditor's report thereon. Management is responsible for the other information included with the financial statements. Our opinion on the basic financial statements does not cover this other information, and we do not express an opinion or provide any assurance thereon. In connection with the audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2022 on our consideration of the 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 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 the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

December 15, 2022

FINANCIAL SECTION

Lakehaven Water & Sewer District January 1, 2020 through December 31, 2020

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2020

Statement of Revenues, Expenses and Changes in Fund Net Position – 2020

Statement of Cash Flows – 2020

Notes to Financial Statements – 2020

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2020

Schedule of Employer Contributions – PERS 1, PERS 2/3

Schedule of Changes in Total OPEB Liability and Related Ratios – 2020

SUPPLEMENTARY AND OTHER INFORMATION

Management Statement of Net Position – 2020

Management Statement of Revenues, Expenses and Changes in Fund Net Position – 2020

Management Statement of Cash Flows – 2020

Lakehaven Water and Sewer District
Management's Discussion and Analysis
December 31, 2020

Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of Lakehaven Water & Sewer District (the District) for the year ended December 31, 2020. Readers are encouraged to read this section in conjunction with the accompanying financial statements and notes to the financial statements, which follow.

FINANCIAL HIGHLIGHTS

- As of December 31, 2020, the District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$277.5 million (net position). Net position included net investment in capital assets of \$234.3 million, restricted net position of \$0.9 million and unrestricted net position of \$42.3 million.
- In 2020, the District's total net position increased by \$4.9 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic 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 based on the economic resources measurement focus and the full accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments.

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. All transactions that affect net position are included. Revenues are reported by major source. Expenses are reported by function. Revenue and expenses are distinguished between operating and nonoperating. This statement 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, noncapital financing, capital, and related financing, and investing activities over the course of the year. It presents information regarding where the cash came from and what it was used for.

The notes to the financial statements provide additional information essential to a full understanding of the District's financial statements. The notes disclose the District's significant accounting policies, significant account balances and activities, certain material risks, estimates, obligations, commitments,

contingencies, and subsequent events, if any. The notes to the financial statements can be found immediately following the basic financial statements.

In addition to the basic financial statements and accompanying notes, required supplementary information is also presented. The required supplementary information immediately follows the notes to the financial statements.

The combining statements are presented in separate sections immediately after the required supplementary information for the purposes of additional analysis.

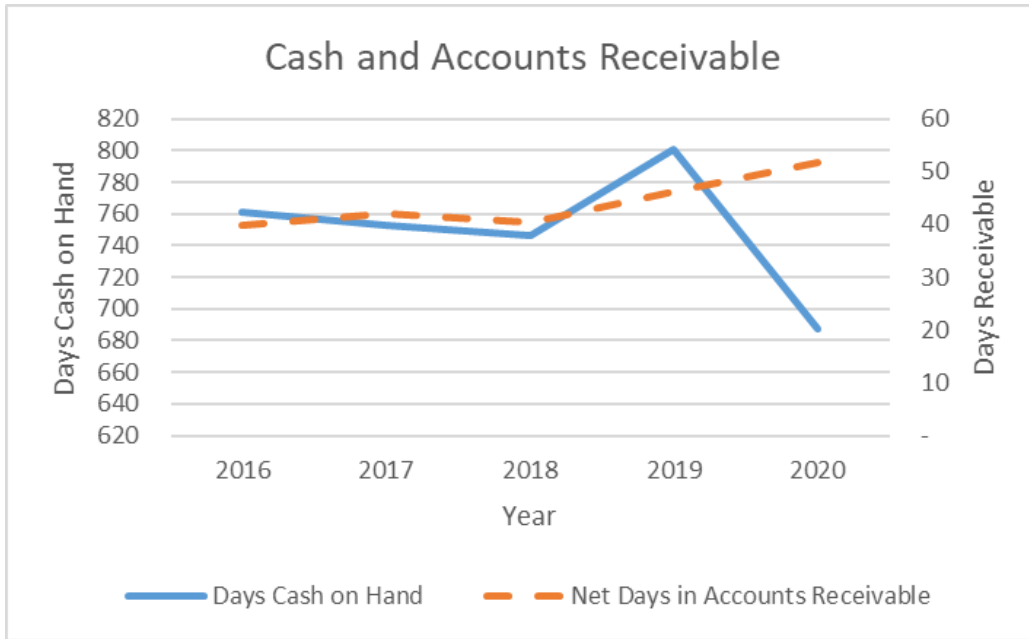
ANALYSIS OF THE CONDENSED COMPARATIVE STATEMENTS OF NET POSITION

The following condensed statements of net position present the assets and deferred outflows of resources of the District as of December 31, 2020, and 2019 and show the mix of liabilities and deferred inflows of resources and net position used to acquire these assets and deferred outflows of resources:

<u>Assets</u>	As of December 31, 2020			As of December 31, 2019		
	Water	Waste Water	Total	Water	Waste Water	Total
Current Assets	\$ 37,146,277	\$ 22,227,642	\$ 59,373,919	\$ 38,932,738	\$ 25,653,804	\$ 64,586,542
Noncurrent Assets						
Capital Assets - Net	128,742,602	124,344,435	253,087,037	124,271,671	121,161,257	245,432,928
Total Assets	165,888,880	146,572,077	312,460,957	163,204,409	146,815,061	310,019,470
<u>Deferred Outflow of Resources</u>						
Total Deferred Outflows	3,216,781	1,028,208	4,244,989	166,149,090	147,545,540	313,694,630
<u>Liabilities</u>						
Current Liabilities	4,477,574	5,107,186	9,584,760	4,578,069	5,632,603	10,210,672
Noncurrent Liabilities:	21,603,546	6,248,822	27,852,367	22,732,152	5,896,672	28,628,824
Total Liabilities	26,081,120	11,356,008	37,437,127	27,310,221	11,529,275	38,839,496
<u>Deferred Inflow of Resources</u>						
Total Deferred Inflows	1,213,858	568,197	1,782,055	1,139,046	1,125,478	2,264,524
<u>Net Position</u>						
Net Investment in Capital Assets	112,292,694	121,985,295	234,277,989	106,568,691	118,653,227	225,221,918
Restricted	491,580	411,229	902,809	1,046,469	1,083,126	2,129,595
Unrestricted	29,026,409	13,279,556	42,305,965	30,084,663	15,154,434	45,239,097
Total Net Position	\$141,810,683	\$ 135,676,080	\$277,486,763	\$ 137,699,823	\$ 134,890,787	\$272,590,610

Current Assets consist of cash and cash equivalents, as well as accounts receivable, prepaid expenses, inventory, and accrued interest. Current assets decreased by approximately \$5.2 million. The decrease is the result of multiple factors. Net increase in capital assets of \$7.7 million and decrease in total liabilities of \$1.4 million was offset by capital contributions of \$4.5 million and excess of revenues over expenses of \$.4 million.

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 by \$0.06 million in 2020 primarily due to slower collection from customers. Restricted cash decreased by \$1.2 million as funds were reserved for utility taxes as described in Note 13. Unrestricted cash decreased by \$4.4 million in 2020. See the days of cash on hand and the accounts receivable chart below.

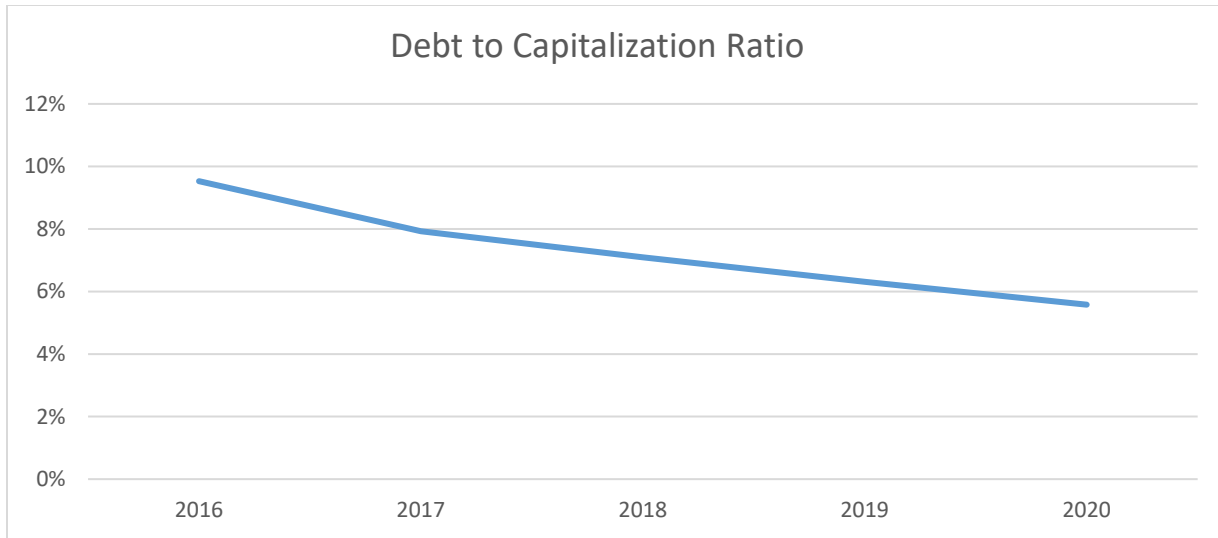


Capital Assets consist of net capital assets, which include land, construction in progress, equipment, buildings, infrastructure, and intangibles. Capital assets increased by \$7.7 million in 2020. The increase was primarily due to increases in capital project spending, which was partially offset by depreciation expense.

Deferred Outflows of Resources consist of pension and OPEB deferred outflows, and deferral related to asset retirement obligations. Pension deferred outflows totaled \$1.3 million in 2020, an increase of \$.2 million from 2019. The increase was primarily due to the net effect of differences between expected and actual experience and contributions subsequent to the measurement date. OPEB deferred outflows totaled \$.9 million in 2020, an increase of \$.5 million from 2019. The District implemented GASB 83, Asset Retirement Obligations in 2020 which resulted in a deferred outflow of \$2.1 million in 2020. See Note 15 for more information.

Current Liabilities include accounts payable, deposits, interest payable on debt, retainage and the current portion of noncurrent debts. Current liabilities decreased by \$0.6 million in 2020. The decrease was primarily due to the net effect of decrease in current accounts payable. The District had accounts payable of \$5.3 million as of December 31, 2020, compared to \$6.2 million as of December 31, 2019. The decrease in accounts payable was primarily due to the timing of payments made to vendors.

Noncurrent Liabilities include the noncurrent portion of Public Works Trust Fund/Department of Health Office of Drinking Water and State Revolving Fund loans. Noncurrent liabilities also include compensated absences, co-op certificates, pension liability, net other post employment benefits and excise tax payable. Noncurrent liabilities decreased by \$0.8 million in 2020. The District is continuing to pay down its debts, and the debt to capitalization ratio has decreased in the last five years. See the debt to capitalization ratio chart below.

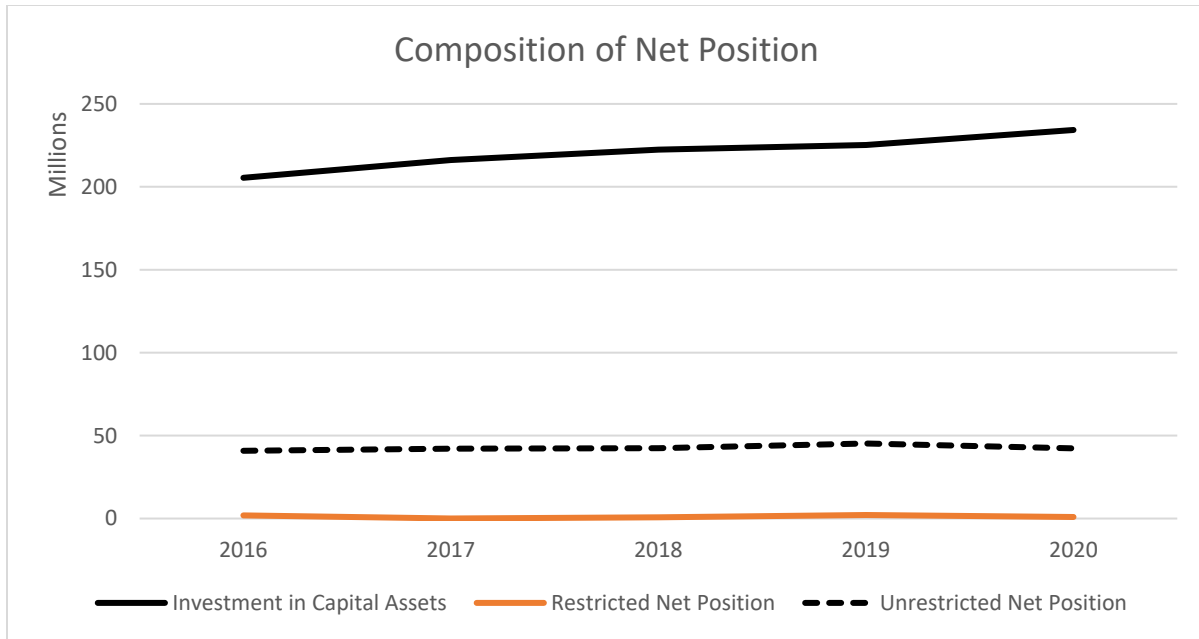


Deferred Inflows of Resources consist of pension, OPEB and lease-related deferred inflows. Pension deferred inflows decreased by approximately \$.5 million. The decrease is due to net effect of differences in projected and actual earnings on pension plan investments, differences between expected and actual experience, and changes of assumptions.

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 \$277.5 million is in three categories.

- Investment in Capital Assets represents the book value amount invested in capital assets net of depreciation and the related debt. The primary changes that affected this category were the continued lowering of the District's overall debt through the normal repayment and reduction of the principal partially offset by the net increase in the District's capital assets.
- The Restricted Net Position consists primarily of utility taxes collected as imposed by the City of Federal Way and held with the King County Investment Pool. See Note 13.
- The Unrestricted Net Position represents the District's unrestricted cash and investments, which is essentially anything that does not fall into the first two categories. The increase in this category is primarily the result of positive change in fund net position. The District is accumulating cash reserves in order to fund future capital and renovation projects.

The District's net position increased by \$4.9 million in 2020. See the five years net position chart below. The increase in net position in 2020 reflects the District's ability to meet current and future obligations in the course of its activities.



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

The following statements of revenues, expenses and changes in fund net position for the years ended December 31, 2020, and 2019 present the annual surplus or deficiency of revenues over expenses (the change in net position):

	As of December 31, 2020			As of December 31, 2019		
	Water	Waste Water	Total	Water	Waste Water	Total
Revenues						
Operating Revenues	\$ 17,191,021	\$ 20,009,552	\$ 37,200,573	\$ 17,258,527	\$ 19,276,497	\$ 36,535,024
Investment Income	634,679	361,544	996,223	998,035	682,840	1,680,875
Grants	14,275	14,275	28,550	-	-	-
Other Income	1,025,031	109,549	1,134,580	946,274	68,017	1,014,291
Total Revenues	18,865,006	20,494,920	39,359,926	19,202,836	20,027,354	39,230,190
Expenses						
Maintenance & Operations	8,586,711	12,963,887	21,550,598	7,694,870	10,874,814	18,569,684
Administrative & General	2,134,822	2,091,588	4,226,410	2,501,178	2,474,615	4,975,793
Depreciation & Amortization	4,640,525	5,013,531	9,654,056	4,432,356	4,675,108	9,107,464
Taxes	1,755,759	1,609,917	3,365,676	1,804,004	1,585,689	3,389,693
Public Works & SRF Interest	168,005	5,331	173,336	182,219	6,968	189,187
Total Expenses	17,285,822	21,684,254	38,970,076	16,614,627	19,617,194	36,231,821
Change in Net Position before Capital Contributions	1,579,184	(1,189,334)	389,850	2,588,209	410,160	2,998,369
Capital Contributions	2,531,678	1,974,626	4,506,304	3,277,863	2,312,017	5,589,880
Change in Net Position	4,110,862	785,292	4,896,154	5,866,072	2,722,177	8,588,249
Total Net Position, January 1	137,699,821	134,890,788	272,590,609	131,833,749	132,168,611	264,002,360
Total Net Position, December 31	\$141,810,683	\$ 135,676,080	\$ 277,486,763	\$137,699,821	\$134,890,788	\$272,590,609

Revenues

Water operating revenues decreased by \$0.07 million in 2020 due to normal variation in billing cycles. Wastewater operating revenues increased by \$0.7 million in 2020 due to a rate increase of 8.25% enacted in 2020. Total operating revenues increased by \$0.7 million in 2020.

Investment income decreased by \$0.7 million in 2020. The decrease was due to a reduction in average interest rate from 2.18% in 2019 to 1.35% in 2020 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 increased in 2020 by \$0.9 million, and Wastewater maintenance and operations costs increased by \$2.1 million in 2020. Total maintenance and operations costs increased by \$3.0 million in 2020.

The District had a decrease in administrative and general expenses, approximately \$0.7 million in 2020. Administrative and general expenses have varied over time.

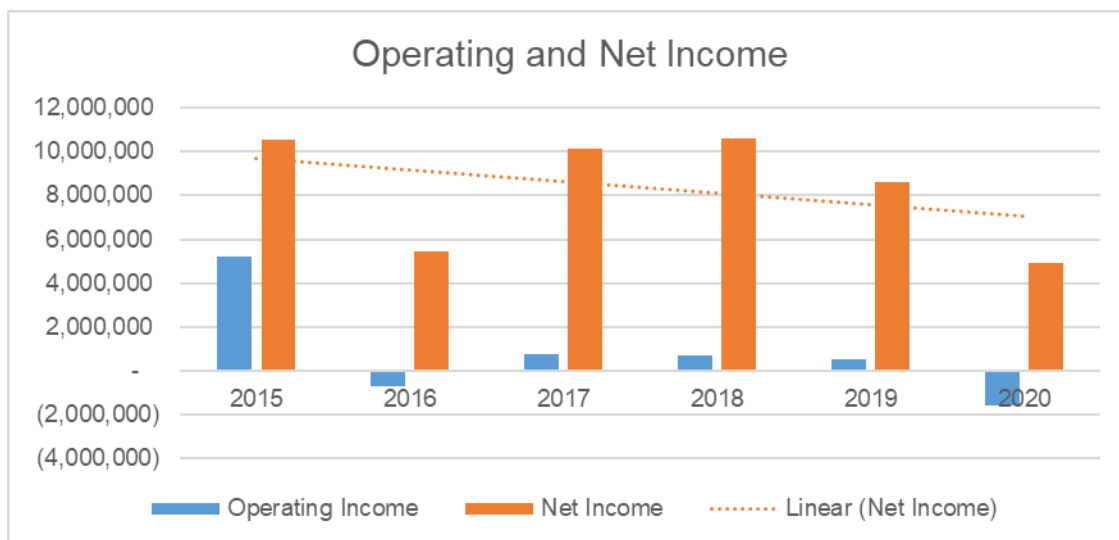
The increase in depreciation and amortization of \$0.5 million was primarily due to the increase in depreciable capital assets in 2020.

Taxes are State and local assessments, not income taxes. The taxes are based on revenues from services and charges. Decreases in taxes were primarily due to the decrease in the amount of water billed in 2020.

Interest expense decreased by \$0.01 million because of the overall decrease in debts.

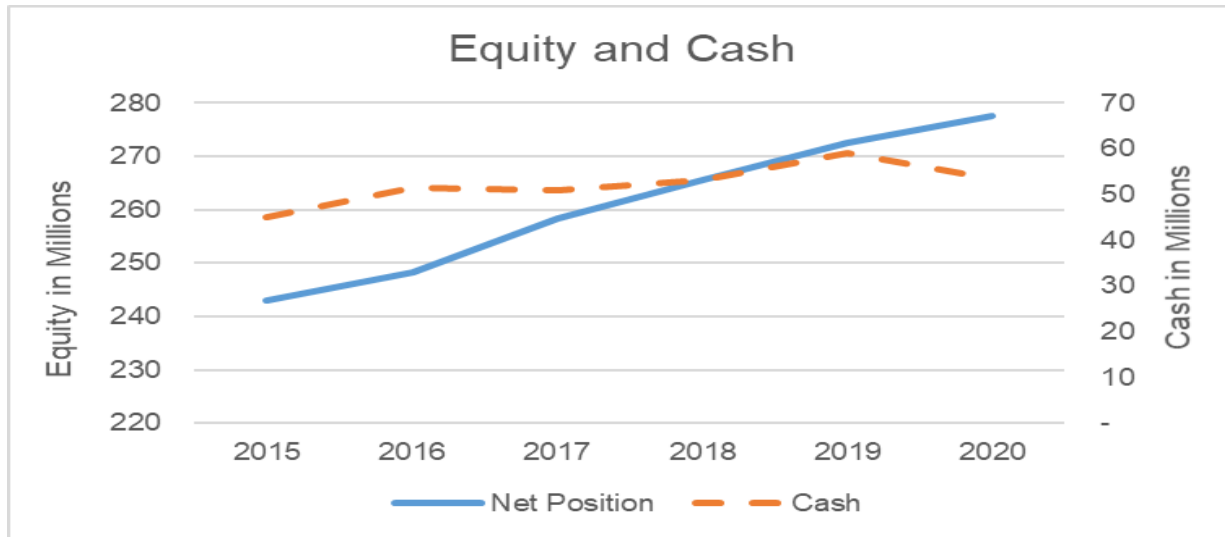
Capital Contribution

The District had \$4.5 million in capital contribution from development activities in 2020. It decreased from \$5.6 million in 2019. This decrease is primarily due to the completion of private development activities in the District during 2020. See the six-year operating and net income chart below.



Net Position

The District's operating expenses exceeded operating revenues in 2020. For 2020, total revenues exceeded expenses before capital contributions by \$.4 million. This is a decrease of \$2.6 million compared to \$3.0 million income before capital contributions in 2019. Capital contributions further added \$4.5 million to the final increase in net position of \$4.9 million. The change in net position for 2020 was \$3.7 million less than 2019. The overall financial position of the District has improved in 2020 which indicates its ability to meet its ongoing obligations. See the following equity and cash chart.



Capital Assets

Capital assets consist of land, construction in progress, equipment, buildings, infrastructure, and intangibles. Net capital assets increased by \$7.7 million in 2020. The increase was primarily due to spending for capital projects, which was partially offset by depreciation and amortization expense of \$9.7 million.

Significant district capital projects included in the 2020 capital assets are infrastructure improvements and new building facilities totaling \$2.8 million; AMR automated reading meters replacement totaling \$1.0 million, and \$1.8 million for new facilities project.

Over the next ten years, it is anticipated that capital spending will be in the range of \$365 million, with approximately 37% of that for water projects and 63% for wastewater projects. The areas of major emphasis in the capital budget include upgrades to water treatment and filtration, existing infrastructure, system improvements, pump stations and additional water sources. See Note 3 for more information.

Capital assets for the years ended December 31, 2020 and 2019 were as follows:

	As of December 31, 2020			As of December 31, 2019		
	Water	Waste Water	Total	Water	Waste Water	Total
Land	\$ 986,595	\$ 5,376,746	\$ 6,363,341	\$ 986,595	\$ 5,376,746	\$ 6,363,341
Construction in Progress	7,550,358	17,545,247	25,095,605	951,788	11,369,863	12,321,651
Equipment	15,227,904	27,920,153	43,148,057	15,109,032	27,036,704	42,145,736
Buildings	1,563,468	1,062,580	2,626,048	1,562,937	1,062,048	2,624,985
Infrastructure	122,638,679	174,421,976	297,060,655	119,755,570	170,187,442	289,943,012
Intangibles	67,257,204	1,054,699	68,311,903	69,348,871	5,316,901	74,665,772
Accumulated Depreciation & Amortization	(86,884,926)	(103,036,966)	(189,921,892)	(83,443,122)	(99,188,447)	(182,631,569)
Total Capital Assets, Net	\$128,339,282	\$ 124,344,435	\$252,683,717	\$ 124,271,671	\$ 121,161,257	\$245,432,928

Additional Comments

In 2020 the District implemented Water rate increases of approximately 2.5% for years 2020 through 2029. For Wastewater, the District implemented rate increases of 8.25% for years 2020 through 2024; additional subsequent increase of 3.0% for years 2025 through 2029. 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 are included in the planned rates.

Request for Information

This financial report is designed to provide a general overview of the District’s finances to all those with an interest in the District’s finances. Questions concerning any information provided in this report should be addressed to: Lakehaven Water and Sewer District, 31627 1st Avenue South, Federal Way, WA 98063.

Lakehaven Water and Sewer District
Statement of Net Position
December 31, 2020

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 52,517,446
Accrued Interest Receivable	41,544
Accounts Receivables - Customers	4,390,771
Accounts Receivables - Other	62,764
Lease Receivable	204,346
Inventory	791,536
Prepaid Expenses	462,703
Restricted Assets:	
Cash and Cash Equivalents	902,809
Total Current Assets	<u>59,373,919</u>

Noncurrent Assets

Lease Receivable	403,320
Capital Assets Not Being Depreciated	
Land	6,363,341
Construction in Progress	25,095,605
Capital Assets Being Depreciated	
Equipment	43,148,057
Buildings	2,626,048
Infrastructure	297,060,655
Intangibles	68,311,903
Less Accumulated Depreciation	<u>(189,921,892)</u>
Total Capital Assets Being Depreciated	<u>221,224,771</u>
Total Capital Assets	<u>252,683,717</u>
Total Non-Current Assets	<u>253,087,037</u>
TOTAL ASSETS	<u>312,460,957</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	1,262,958
Deferred Outflows Relate to OPEB	877,385
Deferred Outflows Related to Asset Retirement Obligations	<u>2,104,646</u>
Total Deferred Outflows of Resources	4,244,989
Total Assets and Deferred Outflows of Resources	<u>\$ 316,705,946</u>

See accompanying notes to financial statements

Lakehaven Water and Sewer District
Statement of Net Position
December 31, 2020

LIABILITIES

Current Liabilities

Accounts Payable	5,310,782
Deposits, Customers and Developers	1,986,336
Retainage Due Contractors	242,030
Current Portion of Leases	21,076
Current Portion of Loans	1,874,687
Current Portion of Other Postemployment Benefit Liability	96,198
Interest Payable	53,651
Total Current Liabilities	9,584,760

Noncurrent Liabilities

Loans (Less Current Portion)	14,521,943
Compensated Absences	1,175,079
Net Pension Liability	3,681,315
Other Postemployment Benefits Liability (Less Current Portion)	6,261,095
Long-Term Lease Liability	58,365
Asset Retirement Obligation	2,129,570
Other Non-Current Liabilities	25,000
Total Noncurrent Liabilities	27,852,367

Total Liabilities	37,437,127
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Leases	607,667
Deferred Inflows Related to Pensions	1,013,122
Deferred Inflows Related to OPEB	161,266
Total Deferred Inflows of Resources	1,782,055

Total Liabilities and Deferred Inflows of Resources	39,219,182
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NET POSITION

Invested in Capital Assets, Net of Related Debt	234,277,989
Restricted Net Assets	902,809
Unrestricted Net Assets	42,305,965
Total Net Position	\$ 277,486,763

See accompanying notes to financial statements

Lakehaven Water and Sewer District
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended December 31, 2020

OPERATING REVENUES	
Customer Sales and Service Fees	\$ 35,768,841
Permits, Inspections & Delinquency Fees	227,107
Developer Revenues & Administrative Charges	1,114,014
Street Lighting Revenues	90,611
Total Operating Revenue	<u>37,200,573</u>
OPERATING EXPENSES	
Maintenance and Operations	21,550,598
Administrative and General	4,226,410
Depreciation and Amortization	9,654,056
Taxes, Other than Income Tax	3,365,676
Total Operating Expenses	<u>38,796,740</u>
NET OPERATING INCOME (LOSS)	<u>(1,596,167)</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest Expense	(173,336)
Investment Income	996,223
Grants	28,550
Other Income (Expense)	1,134,580
Total Non-Operating Revenues (Expenses)	<u>1,986,017</u>
Income before Contributions, Transfers, Extraordinary and Special Items	389,850
CAPITAL CONTRIBUTIONS	<u>4,506,304</u>
CHANGE IN NET POSITION	4,896,154
BEGINNING TOTAL NET POSITION	<u>272,590,609</u>
ENDING TOTAL NET POSITION	<u><u>\$ 277,486,763</u></u>

See accompanying notes to financial statements

Lakehaven Water and Sewer District
Statement of Cash Flows
Year Ended December 31, 2020

<u>Cash Flows from Operating Activities</u>	
Cash Received from Customers	\$ 38,274,244
Cash Paid to Suppliers	(17,787,273)
Cash Paid to Employees	(12,357,042)
Net Cash Provided by Operating Activities	8,129,929
 <u>Cash Flows Provided by Noncapital Financing Activities:</u>	
Noncapital Grants	28,550
Net Cash Provided by Noncapital Financing Activities	28,550
 <u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition & Construction of Capital Assets	(15,064,466)
Acquisition of Lease Assets	79,442
Asset Retirement Obligations	(106,680)
Payment of Bond Principal & Other Financing	(1,958,080)
Interest Paid	(179,355)
Cash Contributions in Aid of Construction	2,340,143
Net Cash Provided (Used) by Capital and Related Financing Activities	(14,888,996)
 <u>Cash Flows From Investing Activities</u>	
Interest Received on Investments	1,066,058
Net Cash Provided by Investing Activities	1,066,058
 <u>Net Increase in Cash & Cash Equivalents</u>	
Cash & Cash Equivalents - Beginning	59,084,714
Cash & Cash Equivalents - Ending	\$ 53,420,255
 <u>Noncash Investing, Capital and Financing Activities</u>	
Contributions of Capital Assets from Developers	\$ 2,161,999

See accompanying notes to financial statements

Statement of Cash Flows
Year Ended December 31, 2020

Reconciliation of Net Operating Income to Net Cash Provided
by Operating Activities

Net Operating Income (Loss)	\$	(1,596,167)
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Adjustments to Reconcile Operating Income to Net Cash Provided by
Operating Activities

Depreciation & Amortization		9,654,056
Other Income		1,134,580

Changes in Assets, Deferred Outflow of Resources Liabilities
& Deferred Inflow of Resources

Decrease in Accounts Receivable		(60,909)
(Increase) in Inventory		(364,855)
Decrease in Prepaid Expenses		153,700
Increase in Accounts Payable		(980,924)
Increase in Compensated Absences		287,539
(Increase) in Deferred Outflow of Resources - Pension		(569,829)
Increase in Deferred Inflow of Resources - Pension		(482,468)
(Decrease) in Net Pension Liabilities		(20,500)
Increase in Prior year Adjustments (OPEB)		975,706
Total Adjustments		<u>9,726,096</u>
Total Cash Provided by Operating Activities	\$	<u><u>8,129,929</u></u>

See accompanying notes to financial statements

Lakehaven Water and Sewer District
Notes to Financial Statements
Year Ended December 31, 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lakehaven Water & Sewer District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (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.

Reporting Entity

The District is a municipal corporation governed by a five-member elected board. The District's primary activity is to provide water and wastewater 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.

Basis of Accounting and Presentation

The District uses a single enterprise fund, and its financial statements are presented based on the flow of economic resources measurement focus and the full accrual basis of accounting. The proprietary fund is comprised of two divisions: water and wastewater. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Unbilled utility service receivables are accrued 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 from 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 costs of sales and services, administration expenses and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

Cash and cash equivalents consist of bank accounts maintained at U.S. Bank, pooled investments in the King County Investment Pool (the KCIP), and restricted cash maintained by other entities. 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.

The District voluntarily participates in the KCIP maintained by the King County Treasury Operation Section. The King County Treasurer acts as custodian for the District's cash. The KCIP functions essentially as a demand deposit account where the District receives an allocation of its proportionate share of pooled earnings. Interest earnings distributed are used for the District's operations. The District's equity share of the KCIP's net position is reported on the statement of net position as cash and cash equivalents and reflects the change in fair value of the corresponding investment securities. See Note 2, Deposits and Investments.

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 the authority to record liens for its receivables and does not experience significant uncollectible amounts.

Inventories

Inventories are valued at average cost. The cost is recorded as an expense at the time an individual inventory item is consumed rather than purchased. A comparison to market value is not considered necessary.

Prepays

Payments made in advance to vendors for certain goods or services, such as insurance, that will benefit future periods are recorded as prepaid items. The expenses are recognized in the period of consumption or occupancy.

Capital Assets

Capital assets include land, construction in progress, buildings, equipment, infrastructure, and intangible assets. Construction in progress reports all costs associated with projects being developed. Costs relating to projects which are ultimately put into service are transferred to capitalized utility plant. Costs relating to abandoned projects are charged to expense when it is determined that they will not be put into service. Assets acquired through contributions are recorded as additions to the appropriate property, plant and equipment accounts.

Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost when purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Costs for additions or improvements to capital assets are capitalized when they increase the life, effectiveness or efficiency of the asset. Expenditures for maintenance and repairs are charged to expenses as incurred. It is the District's policy to capitalize interest on construction of governmental capital assets.

Provision for depreciation is computed on the straight-line method with the following estimated 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. See Note 3.

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.

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.

Medical Insurance

The District's medical, dental and life insurance program is purchased through Health Care Authority of the State of Washington (see Note 10).

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.

Capital Contributions

Grants, ULID assessments, and contributions in aid of construction from property owners are recorded as capital contributions in the statement of revenues, expenses and changes in fund net position.

Noncurrent Debt

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

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.

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 relating to pension plans consist of contributions subsequent to the 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 outflows relating to other post employment benefits (OPEB) are similar to pension described above.

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.

In 2019, the District implemented GASB Statement 83 and recognized the deferred outflows of resources for its asset retirement obligations. The recognition of deferred outflows is to offset the liability recognized.

In 2020, the District implemented GASB Statement 87 and recognized the deferred inflows of resources for its leases. The recognition of deferred inflows is to offset the asset recognized.

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, that restrict the use of net assets.

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.”

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.

Accounting Pronouncements

GASB Statement No. 87, Leases. This new GASB statement establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset (ROU). As a result of GASB Statement No. 95, the GASB Statement No. 87 became effective for reporting periods ending June 30, 2022. The District decided to implement this new GASB statement in 2020. The District used the federal prime rate at each individual lease date. As a result, the District recognized ROUs and lease liabilities of \$105,069 at the implementation date. See Notes 6 and 7 for more details.

GASB Statement No. 91, Conduit Debt Obligations. This new GASB statement defines conduit debt obligation and requires issuers to disclose information about the conduit debt obligations organized by type of commitment and improve comparability by removing the diversity in current practice. This statement also includes note disclosures that help inform users of the potential impact of commitments on financial resources. It is effective for reporting beginning after December 15, 2020. Earlier application is encouraged. Management has determined that this new GASB statement is not applicable to the District.

GASB Statement No. 92, Omnibus 2020. This new GASB statement addresses a variety of topics including issues related to reinsurance recoveries and terminology used to refer to derivative instruments, intra-entity transfers, post employment benefit arrangements, and the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition. It is effective for periods beginning after June 15, 2020. Earlier application is encouraged and is permitted by topic. The District is currently evaluating the impact of this new GASB statement.

GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. This statement postpones the newly issued GASB Statements No. 83, 84, 88, 89, 90, 92 and 93 by one year. In addition, this statement postpones GASB Statement No. 87 by 18 months. This new GASB was issued in May 2020 and became effective immediately. The District implemented GASB No. 83, 88 and 89 in 2019 and GASB No. 87 in 2020. The District considered GASB Statements No. 84, 90 and 93 and determined they were not applicable. The District has postponed the implementation of GASB No. 92.

NOTE 2 DEPOSITS AND INVESTMENTS

The District’s cash and investment balances, including restricted cash and cash equivalent, at December 31, 2020 are listed below:

Bank Deposits	\$	27,900.00
Restricted Cash in Pierce County Clerk		96,756
Restricted Cash deposit City of Tacoma		151,687
Investment in King County Investment Pool		53,129,287
Restricted Impaired Investment in King County Investment Pool		14,625
Total Cash & Investments, including restricted	\$	53,420,255

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).

Unimpaired Investments in King County Investment Pool

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

The KCIP is not registered with the Securities and Exchange Commission as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC), which serves the role of the County Finance Committee as defined in RCW 36.48.070. All investments are subject to written policies and procedures adopted by the EFC.

The District receives an allocation of its proportionate share of pooled earnings. Unrealized gains and losses due to changes in the fair values are not distributed to the District. However, the District has adopted GASB 72 and reports its investments in the KCIP at fair value. The unrealized gains or losses are recognized in the statement of revenues, expenses, and changes in fund net position.

As of December 31, 2020, the District had the following unimpaired investments in the KCIP:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$ 53,129,287	1.20 Years

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation of inputs used to measure the fair value of assets. Level 1 inputs are quoted prices in an active market from identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. The following is a summary of inputs in valuing the District's unimpaired investment in the KCIP as of December 31, 2020:

Fair Value Measurements Using				
Investments at Fair Value Level	Fair Value 12/31/20	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobserv- able Inputs (Level 3)
Governmental Agencies	\$ 31,179,099	\$ -	\$ 31,179,099	\$ -
Commercial Paper	2,979,573	-	2,979,573	-
Corporate Notes	2,979,573	-	2,979,573	-
Treasury Securities	7,821,378	7,821,378	-	-
Subtotals	\$ 44,959,623	\$ 7,821,378	\$ 37,138,245	\$ -
Investments measured at amortized cost (not subject to Fair Value Hierarchy)				
Repurchase Agreements	\$ 948,735			
State government Investment Pool	7,220,929			
Subtotal investments measured at cost	8,169,664			
Total investments in Investment Pool	\$ 53,129,287			

U.S. Treasury Securities are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy.

U.S. Agency Securities, Commercial Paper, and Bank Corporate Notes are valued using standard inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications.

Repurchase Agreements and State Government Investment Pool are overnight securities and are not subject to GASB Statement No. 72 and reported at amortized costs.

Impaired Investment Pool

As of December 31, 2020, the District had the following impaired investments in the KCIP:

<u>Investment Type</u>	<u>Fair Value</u>
King County Investment Impaired Pool	\$ 14,625

The King County Executive Finance Committee approved the bifurcation of the investment pool as of September 1, 2008. This separated the impaired investments into their own pool distinct from the main pool of performing investments. The reasons for bifurcating the pool were to: (1) ensure the yield on the performing assets is not negatively impacted by the impaired investments; (2) enhance transparency about the value of the performing pool and the impaired pool; and (3) ease the implementation of the restructuring processes for the impaired investments.

As of December 31, 2020, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool held one commercial paper asset where the impaired investment pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The District's share of the impaired pool principal was \$23,452 and the total fair value of these investments was \$14,625. The District's unrealized loss for this investment is \$8,827 as of December 31, 2020.

Interest Rate Risk. As of December 31, 2020, the Pool's average duration was 1.2 years. As a means of limiting its exposure to rising interest rates, securities purchased in the KCIP must have a final maturity, or weighted average life, no longer than five years. While the KCIP's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The KCIP distributes earnings monthly using an amortized cost methodology.

Credit Risk. As of December 31, 2020, the District's investment in the KCIP was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, KCIP's policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage- backed securities, corporate notes (rated at least "A" by two NRSROs), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public 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, 2020 were as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land and Land Rights	\$ 6,363,341	\$ -	\$ -	\$ 6,363,341
Construction in progress	12,321,651	14,231,638	1,457,684	25,095,605
Total capital assets not being depreciated	<u>18,684,992</u>	<u>14,231,638</u>	<u>1,457,684</u>	<u>31,458,946</u>
Capital assets being depreciated:				
Equipment	42,145,736	1,027,168	24,847	43,148,057
Buildings	2,624,985	1,063	-	2,626,048
Infrastructure	289,943,012	7,647,603	529,960	297,060,655
Intangibles	74,665,772	414,476	6,768,345	68,311,903
Total capital assets being depreciated	<u>409,379,505</u>	<u>9,090,310</u>	<u>7,323,152</u>	<u>411,146,663</u>
Less accumulated depreciation:				
Equipment	18,192,822	2,986,011	1,166,793	20,012,040
Buildings	1,341,874	140,832	88,321	1,394,385
Infrastructure	143,874,801	10,760,725	4,169,274	150,466,252
Intangibles	19,222,072	3,091,588	4,264,445	18,049,215
Total accumulated depreciation	<u>182,631,569</u>	<u>16,979,156</u>	<u>9,688,833</u>	<u>189,921,892</u>
Total capital assets being depreciated, net	<u>226,747,936</u>	<u>18,779,143</u>	<u>24,302,308</u>	<u>221,224,771</u>
TOTAL CAPITAL ASSETS, NET	<u><u>\$245,432,928</u></u>	<u><u>\$ 33,010,781</u></u>	<u><u>\$ 25,759,992</u></u>	<u><u>\$ 252,683,717</u></u>

The District capitalizes employee wages and benefits in connection with the construction of utility plant assets. In 2020, total wage and benefit costs of \$2,192,676 was capitalized.

The District implemented GASB 89, Accounting for Interest Cost Incurred before the End of a Construction Period, and interest costs incurred for the construction of capital assets during the reporting period are no longer capitalized.

Total depreciation expense of \$9,654,056 was reported on the accompanying statement of revenues, expenses, and changes in fund net position.

NOTE 4 RESTRICTED ASSETS

Cash and cash equivalents held in the Revenue Bond Fund were no longer restricted as all the outstanding bonds were paid off in 2017. The restricted cash account had not been closed yet. The remaining balance was \$262 as of December 31, 2020.

Restricted cash and cash equivalents also included utility tax payable to City of Federal Way and City of Edgewood as required by the contractual terms. See Note 13 Franchise Fees.

Restricted cash and cash equivalents are invested into the King County Investment Pool and reported at fair value. See Note 2 Deposits and Investments.

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 \$361,853 in 2020. This asset and related liability are excluded from the accompanying financial statements.

NOTE 6 LEASES (LESSEE)

The District leases copiers, printers, and postage machines from various vendors. All leases were made using a State of Washington contract in effect at the time of the lease. All leases have a sixty month lease term with equal monthly or quarterly payments.

Lease assets and the related accumulated amortization are as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u> <u>Balance</u>
Leased Equipment	\$ 105,069	\$ -	\$ -	\$ 105,069
Accumulated Amortization	\$ -	\$ (25,628)	\$ -	\$ (25,628)
Total	<u>\$ 105,069</u>	<u>\$ (25,628)</u>	<u>\$ -</u>	<u>\$ 79,441</u>

The beginning balance of the leased equipment was restated as a result of the implementation of GASB 87 in 2020.

As of December 31, 2020, the principal and interest requirements to maturity are as follows:

Year ended	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
31-Dec			
2021	\$ 21,076	\$ 2,896	\$ 23,972
2022	18,368	2,091	20,459
2023	19,118	1,280	20,398
2024	15,164	480	15,644
2025	<u>5,715</u>	<u>76</u>	<u>5,791</u>
Total	<u>\$ 79,441</u>	<u>\$ 6,823</u>	<u>\$ 86,264</u>

NOTE 7 LEASES (LESSOR)

The District leases space on its water towers and pump stations to various vendors to place their telecommunications equipment on. Leases are made for a period of five or ten years. Each lease is negotiated individually and requires payments either monthly, quarterly or annually depending on the

amount of the lease. Each lease is cancellable, by the lessee, before the term of the contract. A cancellation fee is applicable.

During 2020, the District recognized \$220,655 in lease revenues and an associated \$33,108 in interest revenues. As of December 31, 2020, the District had nineteen leases in place with a valuation of \$607,666.

As of December 31, 2020, future lease receivable principal and interest payments are as follows:

Year ended			
31-Dec	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 204,346	\$ 22,955	\$ 227,301
2022	175,380	14,002	189,382
2023	123,992	7,033	131,025
2024	99,988	2,153	102,141
2025	<u>3,960</u>	<u>11</u>	<u>3,971</u>
Total	<u>\$ 607,666</u>	<u>\$ 46,154</u>	<u>\$ 653,820</u>

NOTE 8 NONCURRENT DEBTS AND LIABILITIES

The District implemented GASB 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements in 2019. All of the District’s loans below are direct borrowings.

Direct Borrowings

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 long term loans as direct borrowings:

Type	Contract	Project	<u>Origination</u> Date	Maturity Date	Interest Rate	Original Debt	<u>Current</u> Balance
Loan	PW-00-691-34	Wastewater treatment plant upgrades	3/30/2000	7/1/2020	1.000%	\$ 1,575,700	\$ -
Loan	PW-02-691-031	Second supply project	3/28/2002	7/1/2022	0.500%	10,000,000	1,058,822
Loan	PW-04-691-039	Water filtration at various well sites	4/8/2004	7/1/2024	0.228%	1,700,000	378,026
Loan	PW-04-691-PRE-130	Redondo outfall replacement	6/30/2004	7/1/2024	0.500%	570,705	121,560
Loan	PW-06-962-021	Redondo outfall replacement	6/5/2006	7/1/2026	0.500%	2,400,000	781,053
Loan	PC-12-951-018	Green River Water Treatment Plant Filtration Facility	4/8/2004	6/1/2031	0.500%	10,000,000	5,894,908
Loan	DM 12-952-108	Green River Filtration Facility	6/3/2012	10/1/2035	1.500%	5,982,486	4,515,208
Loan	DM 10-952-030	Green River Treatment Plant/Filtration Facility	8/26/2010	10/1/2034	1.500%	3,030,000	2,132,053
Loan	DM 11-952-021	Green River Treatment Plant/Filtration Facility	6/30/2011	10/1/2035	1.500%	2,020,000	1,515,000
						Total Outstanding	16,396,630
						Less: Current portion	(1,874,687)
						Long Term Debt	\$ 14,521,943

The District has pledged future water and wastewater net revenue to repay \$16,396,630 in loans issued between 2002 and 2011. The loans are payable through 2035. The loans are revenue obligations of the District payable solely from the net revenue of the District. Net revenue means gross revenue minus expenses of maintenance and operations. The District retains the right to issue future bonds and notes that constitute a lien and change on net revenue superior to the liens and charges of the existing loan contracts. The District has the right to prepay the unpaid balance of the loan in full at any time or make accelerated payments without penalty.

Loan payments 30 days or more delinquent will be assessed a daily penalty of 12% per annum on the entire due balance. If the lender terminates the loan agreement for cause or convenience, there is no effect on the District's obligations to repay the unpaid balance of the loan.

The annual debt service requirements to maturity for debt from direct borrowings and direct placements are as follows:

<u>Year Ending 12/31/2020</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 1,874,687	\$ 163,606
2022	1,874,688	148,689
2023	1,345,276	133,773
2024	1,345,276	121,503
2025	1,220,380	109,234
2026-2030	5,581,196	375,401
2031-2035	3,155,127	115,976
	<u>\$ 16,396,630</u>	<u>\$ 1,168,182</u>

Changes in Long-term Liabilities

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Loans	\$ 18,354,712	\$ -	\$ (1,958,082)	\$ 16,396,630	\$ 1,874,687
Pension Liability	3,701,815	-	(20,500)	3,681,315	-
OPEB	5,381,587	975,706	-	6,357,293	-
Compensated Absences	887,540	287,539	-	1,175,079	-
Asset Retirement Obligations	2,236,250	-	(106,680)	2,129,570	-
Lease Liabilities	105,069	-	(25,628)	79,441	21,076
Other Long-term Liabilities	25,000	-	-	25,000	-
	<u>\$ 30,691,973</u>	<u>\$ 1,263,245</u>	<u>\$ (2,110,890)</u>	<u>\$ 29,844,328</u>	<u>\$ 1,895,763</u>

NOTE 9 PENSIONS

The following table represents the aggregate pension amounts for all plans for the year 2020:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$3,681,316
Pension assets	\$ -
Deferred outflows of resources	\$1,262,958
Deferred inflows of resources	\$1,013,122
Pension expense/expenditures	\$212,513

State Sponsored Pension Plans

Substantially all of the District’s full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

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 non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions - The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – August 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%
September – December 2020		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.97%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%.

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

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

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

are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions - The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – August 2020		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%
September – December 2020		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.97%	7.90%

* For employees participating in JBM, the contribution rate was 19.75%.

The District’s actual PERS plan contributions were \$547,380 to PERS Plan 1 and \$859,512 to PERS Plan 2/3 for the year ended December 31, 2020.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) 2013-2018 Experience Study and the 2019 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June

30, 2020. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity
- **Investment rate of return:** 7.4%

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. 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 changes in methods and assumptions since the last valuation.

- Updated demographic assumptions based on the results of its latest demographic experience study. More information can be found at 2013-2018 Demographic Experience Study at leg.wa.gov/osa.
- Updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors were used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.
- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- Simplified its modeling of medical premium reimbursements for survivors of duty-related deaths in LEOFF 2.
- Changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. These values were set in 2018 and will be projected into the future using assumptions until the next Demographic Experience Study in 2025. More information on method change can be found at leg.wa.gov/osa.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's 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 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent 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 (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

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, 2020, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Disc Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 3,195,57	\$ 2,551,204	\$ 1,989,287
PERS 2/3	\$ 7,031,862	\$ 1,130,112	\$ (3,729,982)

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, 2020, the District reported a total pension liability of \$3,681,316 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$ 2,551,204

PERS 2/3	\$ 1,130,112
----------	--------------

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

	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 1	.073643%	0.072261%	(0.001382%)
PERS 2/3	.089565%	0.088363%	(0.001202%)

Employer contribution transmittals received and processed by the DRS for its 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* for all plans in which the District participates.

The collective net pension liability (asset) was measured as of June 30, 2020, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2019, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2020, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 73,282
PERS 2/3	139,231
TOTAL	\$ 212,513

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, 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	-	\$ (14,204)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and	-	-

proportionate share of contributions		
Contributions subsequent to the measurement date	\$276,354	-
TOTAL	\$276,354	\$ (14,204)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 404,564	\$ (141,630)
Net difference between projected and actual investment earnings on pension plan investments	-	(57,393)
Changes of assumptions	16,0965	(771,965)
Changes in proportion and differences between contributions and proportionate share of contributions	126,196	(27,930)
Contributions subsequent to the measurement date	439,749	\$ (998,918)
TOTAL	\$ 986,605	\$ 986,605

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$404,564	\$(141,630)
Net difference between projected and actual investment earnings on pension plan investments	-	(71,597)
Changes of assumptions	16,096	(771,965)
Changes in proportion and differences between contributions and proportionate share of contributions	126,196	(27,930)
Contributions subsequent to the measurement date	716,103	-
TOTAL	\$1,262,958	\$(1,013,122)

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	PERS 1
2021	\$ (64,459)
2022	(2,027)

2023	19,668
2024	32,614
Thereafter	-

Year ended December 31	PERS 2/3
2021	\$ (446,654)
2022	(89,815)
2023	42,361
2024	122,116
2025	(25,855)
Thereafter	(54,216)

NOTE 10 OTHER POST EMPLOYMENT BENEFITS (OPEB) PLAN

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB State 75 for the year 2020:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	\$6,357,293
OPEB assets	-
Deferred outflows of resources	877,385
Deferred inflows of resources	161,266
OPEB expenses/expenditures	524,190

OPEB Plan Description

The District provides to its retirees employer subsidies for post employment medical and dental insurance benefits (OPEB) provided through the Public Employees Benefits Board (PEBB). It is a single-employer defined benefit plan and administered by the Washington State Health Care Authority (HCA) per RCW 41.05.065.

The PEBB plan is not a trust and there are no assets available. The plan is financed on a pay-as-you-go basis, meaning that PEBB employers pay these costs as they occur. The actual medical and dental costs are paid through annual fees and premiums to the PEBB. Legally, the District does not have a contractual obligation or a policy to maintain and provide its employees with continued medical and dental 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.

GASB Statement 75, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions, requires governments to account for other post employment benefits (OPEB) on an accrual basis, rather than on a pay as you go basis. The effect is the recognition of an actuarially determined expense on the statement of Activities when a future retiree earns their post employment benefits, rather than when they use their post employment benefit. The post employment benefit liability is recognized on the Statement of Net Position over time.

The PEBB created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including the establishment of eligibility criteria for both active and retired employees. The PEBB program that the District enrolled in covers medical and dental benefits; no other employee benefits are included in the program. The 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.

The Office of the State Actuary, a department within the primary government of the State of Washington, issues a publicly available Other Post employment Benefits Actuarial Valuation Report. The Other Post employment 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>.

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 and spouses
- Implicit Medical and Dental Subsidy

The explicit subsidies are monthly amounts per retiree and spouse. As of the valuation date, the explicit subsidy for post 65 retirees and spouses is the lesser of \$150 or 50% of the monthly premium.

The implicit medical subsidy is the difference between the total cost of medical benefits and the premiums. For pre-65 retirees and spouses, the retirees pay the full premium amount, but that amount is based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average, and therefore can be expected to have lower average health costs. For post 65 retirees and spouses, the retiree does not pay the full premium due to the subsidy discussed above.

Employees covered by benefit terms: At December 31, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	28
Inactive employees entitled to but not yet receiving benefits	-
Active employees	112
Total	140

It is not possible to estimate the number of employees entitled to, but not yet receiving benefits because neither the District nor HCA has an accurate way to measure this.

The plan is funded on a pay as you go basis and there are no assets accumulated in a qualifying trust.

Assumptions and Other Inputs

The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- The actuarial cost method used for determining the benefit obligations is the Entry Age Actuarial Cost method.
- Discount rate is based on Bond Buyer General Obligation 20-Bond Municipal Index. This resulted in a 3.50% discount rate for the beginning total OPEB liability, measured as of June 30, 2019, and 2.21% for the ending total OPEB liability, measured as of June 30, 2020.
- Projected salary changes at 3.50%. In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by merits and longevity.
- Health cost trend rate initially at 6.30% for pre-65 claims and contributions and decreases to 6.10%, 5.40%, 5.20% for the years ending June 30, 2021, 2022, and 2023, respectively. The rate for each year between June 30, 2024 through 2025 is 5.10%. 5.20% for each of next 10 years ending June 30, 2035, 5.30% for each year of next 10 years ending June 30, 2045, 5.10% for each year of next 10 years ending June 30, 2055, 5.0% for each year of next 10 years ending June 30, 2065, 4.30% each year thereafter.
- Health cost trend rate initially at 3.60% for post 65 claims and decreases to 5.70% for year ending June 30, 2021. The rate increases to 8.90% for each of the years ending June 30, 2022 and 2023. The rate for each year between June 30, 2024 through 2034 is 5.10%, 5.20% for each year of next 10 years ending June 30, 2045. 5.10% for each year of next 10 years ending June 30, 2055, 4.90% for each year of next 10 years ending June 30, 2065, and 4.30% per year thereafter.
- Health cost trend rate for the year ending June 30, 2020 is 9.30% for post 65 contributions. 8.70% and 13.40% for the year ending June 30, 2021 and 2022, respectively. Year ending June 30, 2023 is 12.20%. Years ending June 30, 2024 through 2025 is 5.30%. Years ending June 30, 2026 through 2035 is 5.20%. Years ending June 30, 2036 through 2045 is 5.30%. Years ending June 30, 2046 through 2045 is 5.30%. Years ending June 30, 2046 thorough 2055 is 5.20%. Years ending June 30, 2056 thorough 2065 is 4.90%. 4.30% thereafter.
- Dental costs trend at 2.00% for the year ending June 30, 2020, 2.00% for the year ending June 30, 2021, 2.50% for the year ending June 30, 2022, 3.50% or the year ending June 30, 2023, 4.00% for the year ending June 30, 2024, and 4.0% per year thereafter.
- Mortality rates were based on the assumptions from the 2019 actuarial valuation for Washington State retirement systems, adjusted for Lakehaven Water and Sewer District. For all healthy members, PubG.H-2010 base mortality table with generational mortality adjustments using the long-term MP-2017 generational improvement scale was used.
- Inflation rate at 2.75% total economic inflation.
- Post retirement participation percentage of 65% for medical benefits and 50% for dental benefits.
- Percentage with spouse coverage of 45%.

Sensitivity of OPEB Liability

The following presents the total OPEB liability of the District calculated using the current healthcare cost trend rates as well as what the OPEB liability would be if it were calculated using trend rates that are 1-percentage point lower or 1-percentage point higher than the current trend rates.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Total OPEB Liability	\$5,209,819	\$6,357,293	\$7,872,143

The following presents the total OPEB liability of the District calculated using the discount rate of 2.21 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.21%) or 1-percentage point higher (3.21%) than the current rate.

	1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
Total OPEB Liability	\$7,669,453	\$6,357,293	\$5,327,079

Changes in the Total OPEB Liability

<i>Plan Name</i>	
Total OPEB Liability Beginning Balance	\$ 5,381,587
<i>Service cost</i>	238,874
<i>Interest</i>	195,048
<i>Changes of benefit terms</i>	-
<i>*Differences between expected and actual experience</i>	143,478
<i>*Changes of assumptions</i>	494,504
<i>Benefit payments</i>	(96,198)
<i>Other changes</i>	-
Total OPEB Liability Ending Balance	\$ 6,357,293

The net OPEB liability of \$6,357,293 was determined by the actuarial valuation as of July 1, 2020, with the results rolled forward to December 31, 2020. The actuarial valuation and actuarial measurement dates were July 1, 2019 and June 30, 2020, respectively. Discount rates decreased from 3.50% to 2.21% based on the Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years. Service costs, which are the amounts of benefits earned by active employees over the current year, and interest costs on the OPEB liability (or future value subsidy) increased the OPEB liability were \$238,874 and \$195,048, respectively. The net effect of assumptions changes increased the OPEB liability by \$494,504. Benefit payments of \$96,198 were subsidies expected to be paid throughout the year.

The District recognized OPEB expense of \$524,190 in 2020.

At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 125,765	\$ -
Changes of assumptions	696,513	161,266
Contributions mad subsequent to the measurement date	55,107	N/A
TOTAL*	\$ 877,385	\$ 161,266

Contributions made subsequent to the measurement date are expected benefits payments in the half year between the measurement date and the reporting date. Per paragraph 159 of GASB 75, deferred outflows of resources should be reported for benefits that come due subsequent to the measurement date, but prior to the reporting date. Per GASB's illustrations, these amounts should not be reported in the schedule below.

Year ended December 31,	Amount
2021	\$ 90,268
2022	90,268
2023	90,268
2024	90,268
2025	90,268
Thereafter	\$ 209,672

NOTE 11 RISK MANAGEMENT

The District is a member of Cities Insurance Association of Washington (CIAW). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 29.34 RCW (Interlocal Cooperation Act), nine cities originally formed CIAW on January 1, 1981. CIAW was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. CIAW has approximately 162 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without a deductible. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefit liability. Limits are \$4 million per occurrence in the self-insured layer, and \$21 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by types of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$400 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the member's deductible to \$250,000 and insured above that \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. CIAW contracts for certain claims investigations, consultants for personnel issues and land use issues, insurance brokerage, actuarial and lobbyist services.

CIAW is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance, and other administrative expenses. As outlined in the interlocal, CIAW retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of CIAW's assets in financial instruments, which comply with all State guidelines.

A Board of Directors governs CIAW, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The CIAW Executive Director reports to the Executive Committee and is responsible for conducting the day-to-day operations of CIAW.

In the last three years, 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 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. No claims or reimbursements were paid in 2020.

Property Risks

The District carries commercial insurance for all other risks of loss, including property, earth movement, flood, electronic data processing equipment and boiler & machinery insurance. No claims or reimbursements were paid in 2020.

NOTE 12 SECOND SUPPLY PROJECT PARTNERSHIP AGREEMENT

In 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 a second supply 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 shares of second diversion water simultaneously. The participants understand and acknowledge that the capability of project facilities at any point in time is dependent upon the use being made of the project by the participants, and external factors as well. Tacoma shall own the project, and all facilities related thereto,

up to points of diversion. Each participant has a contractual obligation to pay its participant share of project costs, initially as a capital contribution in exchange for, and to qualify each participant to enjoy, the rights and interest as described in section 5 of the agreement, and upon operation as a share of operating and maintenance costs of a project providing water that is furnished by each of the participants to its customers.

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 \$75,561,225 towards this project through 2020. Further information can be obtained from the District office.

NOTE 13 FRANCHISE AGREEMENT WITH THE CITY OF FEDERAL WAY

On March 27, 2020, the City of Federal Way imposed a 7.75% utility tax on all District water and sewer revenue within the city limits. The District contested the legality of the tax in King County Superior Court. The initial ruling upholding the legality of the tax was appealed by the District directly to the Washington Supreme Court. During the pendency of the legal challenge, the District imposed a tax on rates and connection charges earned within the City of Federal Way and deposited these funds into an account with King County, the District's Treasurer. In July 2020, the Supreme Court ruled in favor of the City. Based on the guidance from the City, the District will be implementing collection of the tax on revenues the City has determined to be subject to the tax. Taxes collected and held in the King County account will be transferred to the City of Federal Way in 2021. The district recorded a liability of \$619,053 in 2020.

Further information can be obtained from the District office.

NOTE 14 CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

As of December 31, 2020, the District is obligated under various construction contracts totaling \$8,045,716 of which \$5,427,184 has been expensed.

NOTE 15 ASSET RETIREMENT OBLIGATIONS

The District has wells which have legally enforceable liabilities associated with their retirements. There are currently no assets restricted for payment of the liabilities. As of December 31, 2020, the District reported an asset retirement obligation (the ARO) of \$2,129,570 and related deferred outflows of resources of \$2,104,646.

Wells have explicit decommissioning requirements per the Washington State Department of Ecology. There are two types of wells with related regulations: including water wells (RCW 18.104 and WAC 173-160-381) and resource monitoring wells (WAC 173-160-460). The ARO liabilities were estimated based on the estimated costs of decommissioning. The decommissioning cost for a well is assumed at \$100 per foot of depth, including labor and equipment costs of \$75 per foot and grout or other plugging material costs of \$25 per foot. The District currently has a total of 52 wells, ranging from 34 feet to 1,097 feet in depth.

The functional life of a well hole and casing is estimated to be 120 years. The remaining useful life of each well is determined based on the year of the well placed in service, in a range of 63 to 118 years.

NOTE 16 SUBSEQUENT EVENTS

As the world continues responding to the outbreak of a novel strain of the coronavirus (“COVID-19”), the District is working to do our part by ensuring the safety of our employees, striving to protect the health and well-being of the communities in which the District operates, and providing resources to our communities to help them to their best work while remote. The COVID-19 pandemic continues to impact our operations. There is uncertainty in the nature and degree of its continued effects over time. The District has seen a strong recovery in overall economic activity starting in the second half of 2020 that has continued through the first half of 2021. While there is still considerable uncertainty from the ever-changing COVID-19 landscape, the District will continue to closely monitor the situation and adjust as necessary.

On September 29, 2021, the District issued and delivered revenue bonds with proceeds of \$85,384,815 for the cost of certain capital projects, including the headquarters building, and the costs of issuance of the bonds. The bonds are dated with stated maturities on October 1 in the years 2024 through 2031. The bonds bear interest from date of delivery with interest payments commencing on April 1, 2022 and continuing semiannually thereafter.

Lakehaven Water and Sewer District
Schedule of Proportionate Share of the Net Pension Liability
PERS 1

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Employer's proportion of the net pension liability (asset)	0.072261%	0.073643%	0.071163%	0.070027%	0.069877%	0.069594%	0.071239%	0.046870%		
Employer's proportionate share of the net pension liability	\$ 2,778,692	\$ 3,288,921	\$ 3,178,165	\$ 3,322,836	\$ 3,752,724	\$ 3,640,414	\$ 3,588,698	\$ 2,738,733		
Covered payroll	\$ 11,602,736	\$ 10,099,294	\$ 9,131,898	\$ 8,536,481	\$ 8,080,298	\$ 7,830,626	\$ 7,647,088	\$ 7,455,744		
Employer's proportionate share of the net pension liability as a percentage of covered payroll	23.95%	32.57%	34.80%	38.93%	46.44%	46.49%	46.93%	36.73%		
Plan fiduciary net position as a percentage of the total pension liability	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%			

Lakehaven Water and Sewer District
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Employer's proportion of the net pension liability (asset)	0.089565%	0.089565%	0.085640%	0.084629%	0.084187%	0.084600%	0.086424%	0.060311%		
Employer's proportionate share of the net pension liability	\$ 858,305	\$ 1,529,243	\$ 1,462,227	\$ 2,940,454	\$ 4,238,750	\$ 3,022,806	\$ 1,746,942	\$ 2,575,289		
Covered payroll	\$ 10,852,421	\$ 9,857,052	\$ 8,891,877	\$ 8,304,868	\$ 7,863,094	\$ 7,614,472	\$ 7,445,501	\$ 7,253,724		
Employer's proportionate share of the net pension liability as a percentage of covered payroll	7.91%	15.51%	16.44%	35.41%	53.91%	39.70%	23.46%	35.50%		
Plan fiduciary net position as a percentage of the total pension liability	97.22%	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%			

Notes to Schedule:

*Until a full 10-year trend is compiled, only information for those years available is presented.

Lakehaven Water and Sewer District
Schedule of Employer Contributions
PERS 1

For the year ended December 31
Last 10 Fiscal Years*

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Statutorily or contractually required contributions	\$ 547,380	\$ 525,839	\$ 506,907	\$ 442,993	\$ 413,916	\$ 353,367	\$ 318,625	\$ 232,460		
Contributions in relation to the statutorily or contractually required contributions	\$ (547,380)	\$ (525,839)	\$ (506,907)	\$ (442,993)	\$ (413,916)	\$ (353,367)	\$ (318,625)	\$ (232,460)		
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Covered payroll	\$ 11,062,736	\$ 10,099,294	\$ 9,652,251	\$ 8,709,281	\$ 8,388,336	\$ 7,837,215	\$ 7,455,744	\$ 7,088,370		
Contributions as a percentage of covered payroll	4.95%	5.21%	5.25%	5.09%	4.93%	4.51%	4.27%	3.28%		

Lakehaven Water and Sewer District
Schedule of Employer Contributions
PERS 2/3

For the year ended December 31
Last 10 Fiscal Years*

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Statutorily or contractually required contributions	\$ 859,512	\$ 772,773	\$ 705,267	\$ 582,100	\$ 508,798	\$ 425,476	\$ 371,781	\$ 323,470		
Contributions in relation to the statutorily or contractually required contributions	\$ (859,512)	\$ (772,773)	\$ (705,267)	\$ (582,100)	\$ (508,798)	\$ (425,476)	\$ (371,781)	\$ (323,470)		
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Covered payroll	\$ 10,852,421	\$ 10,099,294	\$ 9,652,251	\$ 8,709,281	\$ 8,388,336	\$ 7,837,215	\$ 7,455,744	\$ 7,088,370		
Contributions as a percentage of covered payroll	7.92%	7.65%	7.31%	6.68%	6.07%	5.43%	4.99%	4.56%		

Notes to Schedule:

*Until a full 10-year trend is compiled, only information for those years available is presented.

Lakehaven Water and Sewer District
 Schedule of changes in Total OPEB Liability and Related Ratios

As of June 30, 2020

Last 10 Fiscal Years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total OPEB Liability, beginning	\$ 5,381,587	\$ 4,721,642								
Service Cost	238,874	205,875								
Interest on total OPEB liability	195,048	189,079								
Changes of benefit terms	-	-								
Differences between expected and actual experience	143,478	-								
Changes of assumptions	494,504	349,309								
Benefit payments	(96,198)	(84,318)								
Total OPEB liability, ending	<u>\$ 6,357,293</u>	<u>\$ 5,381,587</u>								
Covered employee payroll	\$ 10,617,238	\$ 9,993,945								
Total OPEB liability as a % of covered employee payroll	59.88%	53.85%								

Notes to Schedule:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Until a full 10 year trend is compiled, only information for those years available is presented.

Changes of assumptions and other inputs reflect the effects of changes in the discount rate, election, demographic and health assumptions each period.

LAKEHAVEN WATER AND SEWER UTILITY
Management Statement of Net Position
As of Dec - 2020

	Water	Waste Water	Total
<u>ASSETS</u>			
<u>Current Assets</u>			
Cash and Cash Equivalents	\$ 33,441,458	\$ 19,075,988	\$ 52,517,446
Accrued Interest Receivable	27,619	13,925	41,544
Accounts Receivables - Customers	1,919,403	2,471,368	4,390,771
Accounts Receivables - Other	59,156	3,608	62,764
Lease Receivable	204,346	-	204,346
Inventory	791,536	-	791,536
Prepaid Expenses	211,179	251,524	462,703
Restricted Assets:			
Cash and Cash Equivalents	491,580	411,229	902,809
Total Current Assets	37,146,277	22,227,642	59,373,919
<u>Noncurrent Assets</u>			
Lease Receivable	403,320	-	403,320
Capital Assets Not Being Depreciated			
Land	986,595	5,376,746	6,363,341
Construction in Progress	7,550,358	17,545,247	25,095,605
Capital Assets Being Depreciated			
Equipment	15,227,904	27,920,153	43,148,057
Buildings	1,563,468	1,062,580	2,626,048
Infrastructure	122,638,679	174,421,976	297,060,655
Intangibles	67,257,204	1,054,699	68,311,903
Less Accumulated Depreciation	(86,884,926)	(103,036,966)	(189,921,892)
Total Capital Assets Being Depreciated	119,802,329	101,422,442	221,224,771
Total Capital Assets	128,339,282	124,344,435	252,683,717
Total Non-Current Assets	128,742,602	124,344,435	253,087,037
TOTAL ASSETS	165,888,880	146,572,077	312,460,957
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Outflows Related to Pensions	656,738	606,220	1,262,958
Deferred Outflows Relate to OPEB	455,397	421,988	877,385
Deferred Outflows Related to Asset Retirement Obligations	2,104,646	-	2,104,646
Total Deferred Outflows of Resources	3,216,781	1,028,208	4,244,989
Total Assets and Deferred Outflows of Resources	\$ 169,105,661	\$ 147,600,285	\$ 316,705,946

LAKEHAVEN WATER AND SEWER UTILITY
Management Statement of Net Position
As of Dec - 2020

	Water	Waste Water	Total
<u>LIABILITIES</u>			
<u>Current Liabilities</u>			
Accounts Payable	1,921,551	3,389,231	5,310,782
Deposits, Customers and Developers	603,062	1,383,274	1,986,336
Retainage Due Contractors	126,884	115,146	242,030
Current Portion of Leases	10,538	10,538	21,076
Current Portion of Loans	1,714,122	160,565	1,874,687
Current Portion of Other Postemployment Benefit Liability	50,023	46,175	96,198
Interest Payable	51,394	2,257	53,651
Total Current Liabilities	4,477,574	5,107,186	9,584,760
<u>Noncurrent Liabilities</u>			
Loans (Less Current Portion)	13,779,896	742,047	14,521,943
Compensated Absences	564,276	610,803	1,175,079
Net Pension Liability	1,914,284	1,767,031	3,681,315
Other Postemployment Benefits Liability (Less Current Portion)	3,161,337	3,099,758	6,261,095
Long-Term Lease Liability	29,183	29,183	58,365
Asset Retirement Obligation	2,129,570	-	2,129,570
Other Non-Current Liabilities	25,000	-	25,000
Total Noncurrent Liabilities	21,603,546	6,248,822	27,852,367
Total Liabilities	26,081,120	11,356,008	37,437,127
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred Inflows Related to Leases	607,667	-	607,667
Deferred Inflows Related to Pensions	526,823	486,299	1,013,122
Deferred Inflows Related to OPEB	79,368	81,898	161,266
Total Deferred Inflows of Resources	1,213,858	568,197	1,782,055
Total Liabilities and Deferred Inflows of Resources	27,294,978	11,924,205	39,219,182
<u>NET POSITION</u>			
Invested in Capital Assets, Net of Related Debt	112,292,694	121,985,295	234,277,989
Restricted Net Assets	491,580	411,229	902,809
Unrestricted Net Assets	29,026,409	13,279,556	42,305,965
Total Net Position	\$ 141,810,683	\$ 135,676,080	\$ 277,486,763

LAKEHAVEN WATER AND SEWER UTILITY
Management Statement of Revenues, Expenses and Changes in Fund Net Position
For the Period Ending Dec-2020

	<u>Water</u>	<u>Waste Water</u>	<u>Total</u>
OPERATING REVENUES			
Customer Sales and Service Fees	\$ 16,322,986	\$ 19,445,855	\$ 35,768,841
Permits, Inspections & Delinquency Fees	37,327	189,780	227,107
Developer Revenues & Administrative Charges	740,097	373,917	1,114,014
Street Lighting Revenues	90,611	-	90,611
Total Operating Revenue	<u>17,191,021</u>	<u>20,009,552</u>	<u>37,200,573</u>
OPERATING EXPENSES			
Maintenance and Operations	8,586,711	12,963,887	21,550,598
Administrative and General	2,134,822	2,091,588	4,226,410
Depreciation and Amortization	4,640,525	5,013,531	9,654,056
Taxes, Other than Income Tax	1,755,759	1,609,917	3,365,676
Total Operating Expenses	<u>17,117,817</u>	<u>21,678,923</u>	<u>38,796,740</u>
NET OPERATING INCOME (LOSS)	<u>73,204</u>	<u>(1,669,371)</u>	<u>(1,596,167)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest Expense	(168,005)	(5,331)	(173,336)
Investment Income	634,679	361,544	996,223
Grants	14,275	14,275	28,550
Other Income (Expense)	1,025,031	109,549	1,134,580
Total Non-Operating Revenues (Expenses)	<u>1,505,980</u>	<u>480,037</u>	<u>1,986,017</u>
Income before Contributions, Transfers, Extraordinary and Special Items	1,579,184	(1,189,334)	389,850
CAPITAL CONTRIBUTIONS	<u>2,531,678</u>	<u>1,974,626</u>	<u>4,506,304</u>
CHANGE IN NET POSITION	<u>4,110,862</u>	<u>785,292</u>	<u>4,896,154</u>
BEGINNING TOTAL NET POSITION	<u>137,699,821</u>	<u>134,890,788</u>	<u>272,590,609</u>
ENDING TOTAL NET POSITION	<u>\$ 141,810,683</u>	<u>\$ 135,676,080</u>	<u>\$ 277,486,763</u>

LAKEHAVEN WATER AND SEWER UTILITY
Management Statement of Cash Flows
For the Period Ending Dec-2020

	Water	Waste Water	Total
<u>Cash Flows from Operating Activities</u>			
Cash Received from Customers	\$ 18,147,565	\$ 20,126,679	\$ 38,274,244
Cash Paid to Suppliers	(6,763,668)	(11,023,605)	(17,787,273)
Cash Paid to Employees	(5,883,314)	(6,473,728)	(12,357,042)
Net Cash Provided by Operating Activities	5,500,583	2,629,346	8,129,929
<u>Cash Flows Provided by Noncapital Financing Activities:</u>			
Noncapital Grants	14,275	14,275	28,550
Net Cash Provided by Noncapital Financing Activities	14,275	14,275	28,550
<u>Cash Flows from Capital and Related Financing Activities</u>			
Acquisition & Construction of Capital Assets	(7,866,400)	(7,198,066)	(15,064,466)
Acquisition of Lease Assets	39,721	39,721	79,442
Asset Retirement Obligations	(106,680)	-	(106,680)
Payment of Bond Principal & Other Financing	(1,714,122)	(243,958)	(1,958,080)
Interest Paid	(173,206)	(6,149)	(179,355)
Cash Contributions in Aid of Construction	1,299,031	1,041,112	2,340,143
Net Cash Provided (Used) by Capital and Related Financing Activities	(8,521,656)	(6,367,340)	(14,888,996)
<u>Cash Flows From Investing Activities</u>			
Interest Received on Investments	674,657	391,401	1,066,058
Net Cash Provided by Investing Activities	674,657	391,401	1,066,058
<u>Net Increase in Cash & Cash Equivalents</u>			
Cash & Cash Equivalents - Beginning	36,265,179	22,819,535	59,084,714
Cash & Cash Equivalents - Ending	\$ 33,933,038	\$ 19,487,217	\$ 53,420,255
<u>Noncash Investing, Capital and Financing Activities</u>			
Contributions of Capital Assets from Developers	\$ 1,218,071	\$ 943,928	\$ 2,161,999

LAKEHAVEN WATER AND SEWER UTILITY
Management Statement of Cash Flows
For the Period Ending Dec-2020

	<u>Water</u>	<u>Waste Water</u>	<u>Total</u>
<u>Reconciliation of Net Operating Income to Net Cash Provided</u>			
<u>by Operating Activities</u>			
Net Operating Income (Loss)	\$ 73,204	\$ (1,669,371)	\$ (1,596,167)
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by</u>			
<u>Operating Activities</u>			
Depreciation & Amortization	4,640,525	5,013,531	9,654,056
Other Income	1,025,031	109,549	1,134,580
<u>Changes in Assets, Deferred Outflow of Resources Liabilities</u>			
<u>& Deferred Inflow of Resources</u>			
Decrease in Accounts Receivable	(68,487)	7,578	(60,909)
(Increase) in Inventory	(364,855)	-	(364,855)
Decrease in Prepaid Expenses	100,757	52,943	153,700
Increase in Accounts Payable	(421,341)	(559,583)	(980,924)
Increase in Compensated Absences	123,521	164,018	287,539
(Increase) in Deferred Outflow of Resources - Pension	(272,100)	(297,729)	(569,829)
Increase in Deferred Inflow of Resources - Pension	74,813	(557,281)	(482,468)
(Decrease) in Net Pension Liabilities	82,148	(102,648)	(20,500)
Increase in Prior year Adjustments (OPEB)	507,367	468,339	975,706
Total Adjustments	<u>5,427,379</u>	<u>4,298,717</u>	<u>9,726,096</u>
Total Cash Provided by Operating Activities	<u>\$ 5,500,583</u>	<u>\$ 2,629,346</u>	<u>\$ 8,129,929</u>

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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