



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

# **Financial Statements Audit Report**

## **Lakewood Water District**

**For the period January 1, 2019 through December 31, 2019**

**Published December 21, 2020**

**Report No. 1027524**





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

December 21, 2020

Board of Commissioners  
Lakewood Water District  
Lakewood, Washington

**Report on Financial Statements**

Please find attached our report on the Lakewood Water District's financial statements.

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

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**INDEPENDENT AUDITOR'S 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**

**Lakewood Water District  
January 1, 2019 through December 31, 2019**

Board of Commissioners  
Lakewood Water District  
Lakewood, 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 Lakewood Water District, as of and for the year ended December 31, 2019, 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 17, 2020.

As discussed in Note 10 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

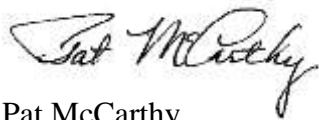
## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 17, 2020

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Lakewood Water District January 1, 2019 through December 31, 2019**

Board of Commissioners  
Lakewood Water District  
Lakewood, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Lakewood Water District, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lakewood Water District, as of December 31, 2019, 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.

As discussed in Note 10 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District. Our opinion is not modified with respect to this matter.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2020 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 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 cursive script that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

December 17, 2020



## **FINANCIAL SECTION**

### **Lakewood Water District January 1, 2019 through December 31, 2019**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2019

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2019

Statement of Revenues, Expenses and Changes in Fund Net Position – 2019

Statement of Cash Flows – 2019

Notes to the Financial Statements – 2019

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2019

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2019

Lakewood Water District  
Management's Discussion and Analysis  
Year Ended December 31, 2019

Our discussion and analysis of Lakewood Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2019. Lakewood Water District's overall financial position as of December 31, 2019 remains stable and unchanged from last year. Please read it in conjunction with the District's audited financial statements, which follow this section.

The audited financial statements which follow this section consist of the following: Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District as a whole and about its activities in a way that helps communicate the financial condition of the District. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's Net Position and changes in them. The District's Net Position is the difference between assets and liabilities. It is one way to measure the District's financial position. Over time, increases or decreases in the District's Net Position are one indicator of whether its financial conditions are improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's funding structures to assess the overall financial condition of the District.

The Statement of Cash Flows (presented using the Direct Method) show the changes in cash position for the District for the year. These statements show the amount of cash generated (or depleted) from operations, from non-capital financing activities, from capital and related investing activities, and from investment activities.

Lakewood Water District  
Management's Discussion and Analysis  
Year Ended December 31, 2019

Condensed Comparative Statement of Net Position

<b>ASSETS</b>	2019	2018	CHANGE	% CHANGE
Cash and Equivalent	2,091,759	2,959,542	(867,783)	(29.32%)
Other Current Assets	3,123,178	2,631,989	491,189	18.66%
Total Current Assets	5,214,937	5,591,531	(376,594)	(6.74%)
Restricted Assets	18,846,703	7,219,444	11,627,259	161.05%
Utility Plant (Net)	102,395,431	78,501,257	23,894,174	30.44%
Total Assets	126,457,072	91,312,233	35,144,839	38.49%
Deferred Outflows of Resources	415,813	426,208	(10,395)	(2.44%)
<b>LIABILITIES</b>				
Current Liabilities	3,703,435	2,894,178	809,257	27.96%
Long-Term liabilities	54,402,975	26,925,100	27,477,875	102.05%
Total Liabilities	58,106,409	29,819,277	28,287,132	94.86%
Deferred Inflows of Resources	689,587	634,675	54,912	8.65%
Net investment in Capital Assets	56,892,641	55,003,162	1,889,479	3.44%
Restricted Assets	9,975,641	5,224,814	4,750,827	90.93%
Unrestricted Net Position	1,208,606	1,056,512	152,094	14.40%
Total Net Position	68,076,888	61,284,488	6,792,400	11.08%

Analysis of the Condensed Comparative Statement of Net Position

Assets – The District's current assets decreased by 6.74% from 2018 to 2019. The District utilized cash and equivalent funds in current operations that dropped down the balance as compared to the previous year. In 2019, restricted assets had an increase of \$11,627,259 primarily from the two new bond issuances for capital projects.

Capital Assets – The Utility Plant accounts increased by \$23,894,174 in 2019 from 2018. There were two primary capital spending emphasis in 2019 which include the Wholesale Transmission Main (WTME), which would enable Lakewood Water District to supply wholesale water to Rainier View Water, Firgrove Mutual Water, Summit Water, and Spanaway Water system through the use of a 181 mile transmission line (and 11.3 miles of 16 inch mains) that consists of two booster stations for delivery to the wholesale partners in January

Lakewood Water District  
Management's Discussion and Analysis  
Year Ended December 31, 2019

2020. The other capital spending emphasis is related to the District's Mains Replacement & Rehabilitation (R&R) Program. The District's R&R Program intends to replace the District's aging infrastructure which include the replacement of old mains. In 2019, the completed or near completed projects included water main replacement at Motor Ave, Ft. Steilacoom Park, 123<sup>rd</sup> Street, and Arrowhead Phase II.

The 2019 capital budget was \$30,352,597 which was an increase of \$23,039,809 compared to the 2018 budget. This was primarily due to the budgeting related to the Wholesale Transmission Main Project which was initially estimated to cost approximately \$22 million. The 2019 capital budget includes \$2,255,000 for the R&R program and \$2,486,000 for the Granulated Active Carbon (GAC) system.

For 2020, the District has a capital budget of \$15,231,800 which is driven by the District's Wholesale Booster Pump Stations, the Scott's Well Treatment Project, the Arrowhead Phase III Project, and the Nyanza Tank Project which comprised 56% of the total capital budget for the year.

Liabilities – Current liabilities increased by \$809,257 from year-end 2018. The primary reason was the increase in debt payment due within one year of the District's year end. Additionally, there was an increase in outstanding construction progress billings that were not paid in 2019 but were paid in early 2020.

Long-term Liabilities – Longer term liabilities increased by \$27,477,875. This is a combination of the ongoing principal payments of previously outstanding bonds, and the issuance of the 2019A and 2019B bonds with the primary purpose of funding the District's capital projects budgeted through the next few years.

Deferred Outflows and Inflow – With implementation of GASB 68 there is recognition of Deferred outflows \$415,813 and Deferred inflows of \$689,587.

Net Position – Net Position increased by \$6,792,400. See Management's discussion on the 2019 income statement.

Lakewood Water District  
Management's Discussion and Analysis  
Year Ended December 31, 2019

Condensed Comparative Statement of Revenues, Expenses & Changes Net Position

	2019	2018	CHANGE	% CHANGE
OPERATING REVENUES				
Water Revenues	10,952,903	10,430,531	522,371	5.01%
Other Operating Revenues	629,642	546,147	83,495	15.29%
Total Operating Revenues	11,582,545	10,976,679	605,866	5.52%
OPERATING EXPENSES				
Operating Expenses	5,151,286	5,622,027	(470,741)	(8.37%)
Depreciation	2,302,659	2,193,424	109,235	4.98%
Total Operating Expense	7,453,945	7,815,451	(361,506)	(4.63%)
Net Operating Income	4,128,600	3,161,228	967,372	30.60%
Other Revenue/(Expenses)	(803,964)	(104,442)	(699,522)	669.77%
Net Income Before Capital Contributions	3,324,637	3,056,786	267,851	8.76%
Capital Contributions	3,774,568	1,320,470	2,454,097	185.85%
Extraordinary item	(306,805)			
CHANGE IN NET POSITION	6,792,400	4,377,256	2,415,143	
Total Net Position, January 1	61,284,488	56,907,232		
Total Net Position, December 31	68,076,888	61,284,488	6,792,400	11.08%

Comparative Analysis of Changes in Revenue and Expenses

In 2019, the District experienced a net income before Capital Contributions of \$3,324,637, an increase of \$267,851 from 2018. The increase can be primarily attributed to the increase in revenues due to the rate increase and due to less expenses incurred for the year. The change in Net Position in 2019 was \$6,792,400. The increase was primarily from the District's capital contributions specifically the state funds received from the WA Department of Ecology for the

Lakewood Water District  
Management's Discussion and Analysis  
Year Ended December 31, 2019

Ponders Well Treatment project (amounting to \$2,528,231), the increase in revenues resulting from the water rate increase and lower operating expenses.

In December 2018, the District's Board of Commissioners voted to implement an approximate 8.00% rate increase to fund general water operations and continued revenue support for the District's system wide R&R program. This rate increase as well as the increased rental costs for Cell Towers resulted in an increase in operating revenues of \$605,866 as compared to the previous year.

Operating Expenses decreased \$361,506 or (4.63%). The primary decrease was caused by the overall decrease in the cost of doing business as a water district. This includes the decrease in power supply costs due to the Ponders Well Site being down for maintenance, salaries and benefits decrease due to a retirement, procurement costs, etc. Additionally, the District's depreciation expense increased by \$109,235 or 4.98%.

Non-operating revenues/(expenses) in 2019 decreased by \$699,522 (increase in expenses). Interest expense increased by \$428,387 in Fiscal Year 2019. Offsetting this increase in interest expense is an increase in interest income in the amount of \$186,456. This is primarily due to the increase in interest rates and also an increase in our cash reserves. Additionally, the District recognized a non-operating revenue from its settlement with the Town of Steilacoom.

#### Capital Assets – Utility Plant

Capital Assets consist of land, construction work in progress, and capital assets such as infrastructure (mains, services, etc), buildings, furniture, and equipment. The assets are recorded at historical cost. Depreciation expense for assets other than land is then recorded each year according to the straight-line method over the estimated useful lives of the assets (3 to 100 years). A corresponding contra-asset account depicts the accumulated depreciation.

Starting in 2014, the District launched a major 50 year replacement and rehabilitation program (R&R) that will replace over 180 miles of our 261 miles of transmission pipe in our system. This program will represent approximately \$3.4 million of our capital program outlays and will be escalated 3% each year. The R&R Program for 2020 is budgeted for \$4,449,775 which is an increase from the projected \$3.4 million. In 2020, the District has a capital budget of \$15,231,800 which are driven by the Nyanza Tank project, the Wholesale Transmission Booster Pump Stations and four R&R main replacement projects (including Arrowhead Phase 3, Sylvan Park Phase 4, 32<sup>nd</sup> Ave and 39<sup>th</sup> Ave).

Lakewood Water District  
Management's Discussion and Analysis  
Year Ended December 31, 2019

Debt Administration – Long Term Debt

	Date of Original Issue	Date of Maturity	Beginning Outstanding Debt 1/1/2019	Amount Issued in 2019	Amount Redeemed in 2019	Ending Outstanding Debt 12/31/2019
<b>Water Revenue Bonds Payable</b>						
Water Revenue Bond - 2003	2003	2023	440,000	-	440,000	-
Water Revenue Bond - 2006	2006	2026	480,000	-	480,000	-
Water Revenue Bond - 2012	2012	2022	1,535,000	-	365,000	1,170,000
Water Revenue Bond - 2014	2014	2033	9,550,000	-	250,000	9,300,000
Water Revenue Bond - 2016	2016	2026	3,271,331	-	442,091	2,829,240
Water Revenue Bond – 2017	2017	2042	7,140,000	-	-	7,140,000
Water Revenue Bond – 2019A	2019	2048	-	18,895,000		18,895,000
Water Revenue Bond – 2019B	2019	2048	-	9,805,000		9,805,000
Bond Anticipation Note- 2018	2018	-	1,600,000	1,400,000	3,000,000	
Bond Anticipation Note- 2019	2019	2048	-	9,905,836	9,905,836	
<b>Total Revenue Bonds Payable</b>			<b>24,016,331</b>	<b>40,005,836</b>	<b>14,882,927</b>	<b>49,139,240</b>
<b>Public Works Trust Fund Loans Payable</b>						
PWTF #1	2001	2021	258,470	-	86,157	172,313
PWTF #2	2002	2022	251,350	-	62,838	188,513
PWTF #4	2011	2031	547,369	-	42,105	505,263
PWTF #5	2012	2033	572,526	-	40,895	531,631
<b>Total PWTF Loans Payable</b>			<b>1,629,715</b>	<b>-</b>	<b>231,995</b>	<b>1,397,720</b>
<b>TOTAL</b>			<b>25,646,046</b>	<b>40,005,836</b>	<b>15,114,922</b>	<b>50,536,960</b>

Lakewood Water District  
Management's Discussion and Analysis  
Year Ended December 31, 2019

The Water Revenue Bonds are secured by, and payable solely from the net operating revenues of the District, as defined in the revenue bond covenants. The District is required to establish, maintain, and collect rates and charges for water service (and for all other utility services that may be provided by the System) that will yield net revenues equal to at least 1.25 times the average annual debt service. The District has adopted a more stringent internal policy of maintaining 2.0 ratio of net revenue to bond debt service. For the year-ended 2019, with the issuance of two new bonds, the District had structured its outstanding bonds to require no bond reserve funds. In 2015, management produced Financial Policies for the District that were presented to the Board of Commissioners. The Board agreed with Financial Policies and approved using the Financial Policies as a guideline for management on financial directions and decisions at the District.

In Fiscal Year 2019, the District continued to draw down on the 2018 Bond Anticipation Note in the amount of \$1.4 million. Additionally, the District acquired the 2019 Bond Anticipation Note due to the time sensitivity nature of the Wholesale Transmission Main Project. This resulted in a draw of \$9,905,386 which is in anticipation of the bond issuances. In July of 2019, the District successfully issued the 2019A and 2019B Bonds which replaced (and defeased) the 2018 and 2019 Bond Anticipation Notes (BAN). These bond funds were issued to fund the District's budgeted capital projects.



Lakewood Water District  
Management's Discussion and Analysis  
Year Ended December 31, 2019

Other Operational Information

<u>District Operating Statistics</u>	<u>2019</u>	<u>2018</u>
Service Connections (domestic)	16,978	16,941
Water Used, MGD Average	9.9	9.9
Peak Day Use, MGD	19.9	20.3
Equivalent Resident Units	28,963	28,896

<u>Bi-Monthly Retail Water Rates</u>	<u>2019</u>	<u>2018</u>
Base Rate (0-800 cubic feet)	\$8.30	\$7.62
801-2,000 cubic feet (per ccf)	\$1.76	\$1.62
Over 2,000 cubic feet (per ccf)	\$2.39	\$2.20

<u>Bi-Monthly R&amp;R Fixed Fee based on meter size</u>	<u>2019</u>	<u>2018</u>
5/8"	\$ 29.44	\$ 27.77
1"	\$ 32.38	\$ 30.55
1.5"	\$ 41.21	\$ 38.88
2"	\$ 52.99	\$ 49.99
3"	\$ 85.38	\$ 80.55
4"	\$ 323.85	\$ 305.52
6"	\$ 412.17	\$ 388.84
8"	\$ 853.79	\$ 805.46
10"	\$ 1,118.76	\$ 1,055.43
2"	\$ 1,324.84	\$ 1,249.85

LAKEWOOD WATER DISTRICT  
Statement of Net Position  
December 31, 2019

<i>Assets</i>	2019
<u>Current Assets</u>	
Cash	\$ 2,084,481
Working Fund	7,278
Accounts Receivable	1,183,566
Inventory	216,043
Prepayments	1,008,679
Other Current and Accrued Assets	714,890
 Restricted Assets:	
Revenue Bond Fund	
Cash	\$ 1,012,697
Construction and Replacement Fund	
Cash	17,834,006
 Total Current Assets	<u>\$ 24,061,640</u>
 <u>Non Current Assets</u>	
Utility Plant in Service	\$ 105,293,140
Land And Water Rights	5,761,743
Other Utility Plant	132,213
Construction Work in Progress	29,177,456
Less:Accumulated Depreciation	<u>(37,969,120)</u>
Net Utility Plant	\$ 102,395,431
 Total Non-Current Assets	<u>\$ 102,395,431</u>
 Total Assets	<u><u>\$ 126,457,072</u></u>
 <i>Deferred Outflows of Resources</i>	
Deferred Outflows Related to Pensions	\$ 415,813
Total Deferred Outflows of Resources	<u><u>\$ 415,813</u></u>

The accompanying notes are an integral part of this Financial Statement.

LAKEWOOD WATER DISTRICT  
Statement of Net Position  
December 31, 2019

2019

*Liabilities*

Current Liabilities

Accounts Payable	\$ 1,761,935
Customer Deposits	103,388
Compensated Absences	229,175
Other Current and Accrued Liabilities	175,630

Payables from Restricted Assets:

Revenue Bond Outstanding	\$ 1,078,805
Public Work Trust Fund Loans	231,995
Interest Payable	122,506

Total Current Liabilities	\$ 3,703,435
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NonCurrent and Other Liabilities

Revenue Bond Outstanding	\$ 48,060,435
Public Work Trust Fund Loans	1,165,727
Debt Premium	3,837,885
Compensated Absences	306,095
Net Pension Liability	1,032,833

Total NonCurrent Liabilities	\$ 54,402,975
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Total Liabilities	\$ 58,106,409
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*Deferred Inflows of Resources*

Deferred Inflows Related to Pensions	\$ 689,587
Total Deferred Inflows of Resources	\$ 689,587

*Net Position*

Net Investment in Capital Assets	\$ 56,892,641
Restricted for Debt Service & Capital Construction	9,975,641
Unrestricted	1,208,606
Total Net Position	\$ 68,076,888

The accompanying notes are an integral part of this Financial Statement.

LAKEWOOD WATER DISTRICT  
Statement of Revenues, Expenses, and Changes in Net Position  
Year Ending December 31, 2019

	2019
<u>OPERATING REVENUES</u>	
Customer Sales and Service Fees	\$ 10,952,903
Water Tanks Rents	<u>629,642</u>
Total Operating Revenues	\$ 11,582,545
<u>OPERATING EXPENSES</u>	
Operations	\$ 3,150,506
Maintenance	1,521,123
Depreciation	2,302,659
Taxes Other than Income Taxes	<u>479,657</u>
Total Operating Expenses	<u>\$ 7,453,945</u>
Net Operating Income	\$ 4,128,600
<u>NON-OPERATING REVENUES (EXPENSES)</u>	
Interest Expense	\$ (1,282,140)
Other expense	(257,928)
Gains (Losses) on Capital Assets Disposition	62,375
Interest Income	378,589
Other Income	<u>295,140</u>
Total Non-Operating Revenues (Expenses)	<u>\$ (803,964)</u>
Net Income Before Contributions	\$ 3,324,637
Capital Contributions	3,774,568
Extraordinary Item	<u>(306,805)</u>
Changes in Net Position	<u>\$ 6,792,400</u>
Total Net Position, January 1	\$ 61,284,488
Total Net Position, December 31	<u><u>\$ 68,076,888</u></u>

The accompanying notes are integral part of this Financial Statement

LAKEWOOD WATER DISTRICT  
Statement of Cash Flows  
Year Ended December 31, 2019

	2019
<u>Cash Flows From Operating Activities</u>	
Cash Received From Customers	\$ 12,200,126
Cash Paid to Suppliers	(2,994,195)
Cash Paid to Employees	<u>(2,870,269)</u>
Net Cash Provided by Operating Activities	<u>\$ 6,335,663</u>
<u>Cash Flows From Noncapital Related Financing Activities</u>	
Transfer of Funds	<u>\$ -</u>
<u>Cash Flows From Capital and Related Financing Activities</u>	
Acquisition and Construction of Capital Assets	(26,182,826)
Proceeds from Bond Anticipation Notes	11,305,836
Proceeds from Sale of Revenue Bonds	28,456,467
Premium from Sale of Revenue Bonds	3,126,086
Payment of Bond Anticipation Notes	(12,949,692)
Payment of Bond Principal	(1,977,091)
Payment of Public Work Trust Fund	(231,995)
Interest Paid	(1,276,129)
Cash Contributions in Aid of Construction	<u>3,774,568</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>\$ 4,045,223</u>
<u>Cash Flows From Investing Activities</u>	
Interest Received on Investments	<u>378,589</u>
Net Cash Provided by Investing Activities	<u>\$ 378,589</u>
<u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	
Net Cash Activities from Above	10,759,475
Cash & Cash Equivalents - January 1, 2019	\$ 10,178,986
Cash & Cash Equivalents - December 31, 2019	\$ 20,938,462

The accompanying notes are integral part of this Financial Statement.

LAKEWOOD WATER DISTRICT  
Statement of Cash Flows  
Year Ended December 31, 2019

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

Operating income	4,128,600
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and Amortization expense	2,302,659
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(494,067)
(Increase) decrease in inventory	(33,142)
(Increase) decrease in prepayment	145,420
(Increase) decrease in other assets	(109,400)
(Decrease) increase in accounts payable	820,779
(Decrease) increase in customer deposits	96
(Decrease) increase in accrued current liabilities	(102,705)
(Decrease) increase in compensated absences	(20,043)
Changes related to pension amounts	(302,534)
	-----
Total Adjustments	\$ 2,207,063
	-----
Net Cash Flow from Operating Activities	<u>\$ 6,335,663</u>

The accompanying notes are integral part of this Financial Statement.

LAKEWOOD WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For The Year Ended December 31, 2019

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Lakewood Water District conform to generally accepted accounting principles as applicable to proprietary funds of governmental units (in most respects). The Governmental Accounting Standards Board (GASB), GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies:

a. Reporting Entity

The Lakewood Water District is a municipal corporation governed by an elected three member Board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The Lakewood Water District has no component units.

b. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the "Uniform System of Accounts for Class A & B Water Utilities" (NARUC).

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital assets purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

Unbilled utility service receivables are recorded at year-end. Operating income includes fees and charges. Interest income, interest expense, and other income are treated as non-operating revenues/(expenses). Gains and losses from the disposal of utility plant assets are treated as non-operating revenues/(expenses).

c. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers cash and highly liquid investments with maturity of three months or less as cash equivalents. Cash and Cash Equivalents as of December 31, 2019 are comprised of:

Current Asset - Cash	\$2,091,759
Bond Reserve - Cash	\$1,012,697
Construction & Replacement – Cash	<u>\$17,834,006</u>
Total	\$20,938,462

The District has savings accounts with the Washington State Local Government Investment Pool. The Washington State Local Government Investment Pool (LGIP) is operated in a manner consistent with SEC's 2a-7 of the investment act of 1940, and is unrated.

d. Utility Plant and Depreciation

See Note 4.

e. Restricted Funds

In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including debt service, rehabilitation and replacement activities and also capital and construction activities. The District's statement of net position reports \$18,846,703 of restricted cash, of which \$18,846,703 is restricted by enabling legislation. Restricted funds at December 31, 2019 were as follows:

Rehabilitation & Replacement:	\$ 12,849,376
Capital & Construction:	4,899,937
Debt Service:	1,012,697
Joint Facilities	<u>84,693</u>
Total	\$ 18,846,703

f. Receivables

All water accounts receivable are collectible. Therefore, no reserve for bad debt losses have been provided.



g. Inventories

Inventories are valued at average cost which approximates the market value.

h. Investments

See Note 3.

i. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave.

The District recognizes vacation benefits only when earned. This practice conforms to generally accepted accounting principles. At December 31, 2019, the recorded liability for vacation pay was \$229,175. Sick leave may accumulate up to 720 hours. At December 31, 2019, the recorded liability for sick pay was \$306,095. Accumulated sick leave is payable only at retirement eligibility (up to 480 hours at 100% and 240 hours at 50%).

h. 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.

See Note 7 – Pension Plans for details

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The District is unaware of any violations of finance related legal or contractual provisions.

### NOTE 3 - DEPOSITS AND INVESTMENTS

The District's deposits 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). The District has a 3 member investment committee to provide oversight for investments. The District does not have a specific policy that addresses a specific type of custodial risk that the District is exposed to for investments and deposits.

As of December 31, 2019, Lakewood Water District funds were held primarily in checking and savings accounts. Additionally, funds are held with the Washington State Local Government Investment Pool which had a balance of \$19,975,410 on December 31, 2019.

As of December 31, 2019, Lakewood Water District did not have any investments.

### NOTE 4 - UTILITY PLANT AND DEPRECIATION``

In December 2015, the Board of Commissioners approved a new Fixed Asset policy. The policy addressed the practices and policies that the District follows, a summary of the policy follows. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Capital assets are defined by the District as assets with initial individual costs of more than \$5,000 and an estimated useful life in excess of one year. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Utility plant in service is recorded at cost. Donations by developers and customers are recorded at the contract price and donor cost (acquisition value - the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date – in accordance with GASB 72).

The original cost of operating property retired or otherwise disposed of and the cost of installation, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to non-operating revenue/(expense).

Depreciation is computed on the “straight-line” method with useful lives of 5 to 100 years. Initial depreciation on utility plant is recorded in the month after it is added to utility plant. The change in the useful life is supported by documentation from industry standard setters, American Water Works Association (AWWA) and American Ductile Iron Manufacturers (ADIM).

The District’s significant asset categories useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Transmission Mains	100
Tanks	60
Water Treatment Equipment	5
Meters	20
Buildings	25

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant; charges that relate to abandoned projects are expensed.

The following is a summary of the capital assets as of December 31, 2019:

	<b>BEGINNING</b>			<b>ENDING</b>
	<b>BALANCE</b>	<b>INCREASE</b>	<b>DECREASE</b>	<b>BALANCE</b>
<u>Utility Plant Not Being Depreciated</u>				
Land and Water rights	\$5,466,671	\$ 295,072	-	\$5,761,743
Other Utility Plant	132,213	-	-	132,213
CWIP	7,149,142	\$29,567,869	\$7,539,555	\$29,177,456
Total Utility Plant Not Being Depreciated	\$12,748,026	\$29,862,941	\$7,539,555	\$35,071,412
<u>Utility Plant Being Depreciated</u>				
Plant	\$93,900,797	\$3,373,173	164,297	97,109,673
Equipment	7,636,172	\$ 547,509	214	8,183,466
Total Utility Plant Being Depreciated	\$101,536,969	\$3,920,682	164,511	\$ 105,293,140
Total Accumulated Depreciation	\$35,783,738	\$2,302,659	\$ 117,277	\$ 37,969,120
Total Utility Plant Depreciated, Net	\$65,753,231	\$1,618,023	\$ 47,234	\$ 67,324,020
Total Utility Plant, Net	\$78,501,257	\$31,480,964	\$7,586,789	\$102,395,432

## NOTE 5 - LEASE COMMITMENTS

### a. Operating Lease

The District does not capitalize equipment by using lease rental arrangements. There are no commitments under non-capitalized leases for equipment that provide for minimum annual rental. There are no significant commitments to disclose.

## NOTE 6 - LONG-TERM DEBT.

The District issued \$6,135,000 of revenue bonds on December 1, 2003 for the purpose of carrying out part of the Comprehensive Plan. This includes, but is not limited to, financing the purchase of water rights, a tank replacement, a transmission main, and other improvements. The bonds bear interest rates from 1.1 to 4.6 percent and will be redeemed over the next twenty years from water revenue sales. In Fiscal Year 2019, these bonds have been considered defeased.

The District issued \$7,145,000 of revenue bonds on April 3, 2006 for the purpose of carrying out part of the Comprehensive Plan, including, but not limited to, financing the purchase of water rights, a tank replacement, a transmission main, and other system improvements. In fiscal year 2016, the District refunded a substantial portion of the bonds (\$4,080,000 in principal balance) to attain financial and economic savings. As a result, a portion of the 2006 Revenue Bonds are considered defeased and the liability for those bonds has been removed from the Statement of Net Position. Furthermore, in Fiscal Year 2019, the District issued two sets of bonds which resulted in the defeasance of the remaining portion of the bond that was not refunded. The District's refunded debt, in the amount of \$4,133,479, has an interest rate of 1.8 percent. This resulted in a reduction of total debt service payments over 10 years by \$466,149 and an economic gain (difference between the present values of the debt services on the old and new debt) of \$416,730. As of December 31, 2019, the 2016 refunded bond balance is \$2,829,240.

On April 3, 2012, the District refunded \$1,215,000 of its Water Revenue Refunding Bonds, 2001 (all series outstanding) and advance refunded \$3,180,000 of the District's outstanding Water Revenue Bonds, 2003 maturing in the years 2014 through 2018, inclusive, and 2023 (except that a portion of the 2023 Term Bond scheduled for retirement in 2023 in the amount of \$440,000 will continue to remain outstanding), The refunded bonds no longer appear in the District's financial statements. The balance as of December 31, 2019 of the advance refunded bonds is \$1,170,000.

The District issued \$9,900,000 of revenue bonds on March 31, 2014 for the purpose of carrying out part of the Comprehensive Plan, including, but not limited to, financing the water main replacement program, AMI water meter purchases, and other system improvements. The bonds bear interest rates from 2.00 to 5.00 percent and will be redeemed over the next twenty years from water revenue sales. Principal was deferred for the first two years of the bonds. The balance as of December 31, 2019 of these revenue bonds outstanding was \$9,300,000.

The District issued \$7,140,000 of revenue bonds on July 27, 2017 for the purpose of carrying out part of the Comprehensive Plan, including, but not limited to, financing the water main replacement program and other system improvements. The bonds bear interest rates from 3.38 to 4.00 percent and will be redeemed over the next twenty years from water revenue sales. Principal payments are deferred until 2034. The balance as of December 31, 2019 of these revenue bonds outstanding was \$7,140,000.

The District issued a Junior Lien Water Revenue Bond Anticipation Note in 2018 for \$3,000,000 pursuant to Resolution No. B-1444 to provide the funds to pay part of the cost of construction and betterments to the System described in the District's Comprehensive Plan, and to pay the cost of issuance and sale of the Note. As of December 31, 2019, this Revenue Bond Anticipation Note has been completely satisfied and paid off.

The District issued an \$18,895,000 Water Revenue Private Activity AMT Bonds on July 9, 2019 for the purpose of carrying out the District Wholesale Transmission Main Extension Project that would deliver wholesale water to the District's partners in 2020. The bonds bear interest rates from 4.00 to 5.00 percent and will be redeemed over the next twenty-five years from water revenue sales – specifically, the wholesale water revenues. Principal payments are deferred until 2021. The balance as of December 31, 2019 of these revenue bonds outstanding was \$18,895,000.

Additionally, the District issued a second set of bonds in the amount of \$9,805,000 Water Revenue Bonds on July 9, 2019 for the purpose of carrying out part of the Comprehensive Plan, including, but not limited to, financing the water main replacement program and other system improvements. The bonds were also issued pursuant to Resolution No. B-1452. The bonds bear interest rates from 3.00 to 4.00 percent and will be redeemed over the next thirty years from water revenue sales. Principal payments are deferred until 2044. The balance as of December 31, 2019 of these revenue bonds outstanding was \$9,805,000.

The District has been awarded two loans by the Washington State Public Works Trust Board (PWTB) for the purpose of financing water quality and supply improvements. Terms of the first loan authorize a borrowing not to exceed \$1,700,000 with payments

over a period of 20 years at an interest rate of half percent per annum. The terms of the second loan authorizes a borrowing not to exceed \$1,232,500 with payments over a period of twenty years at an interest rate of half percent per annum.

In 2011 the District was awarded a loan by the PWTB for the purpose of financing the Wholesale Booster Pump Station. Terms of the fourth loan authorize a borrowing not to exceed \$800,000 with payments over a period of 20 years at an interest rate of half percent per annum

In 2012 the District was awarded a loan by the PWTB for the purpose of financing the Springbrook Water Main Replacement. Terms of the fifth loan authorize a borrowing not to exceed \$777,000 with payments over a period of 20 years at an interest rate of half percent per annum.

The balance as of December 31, 2019 of the combined Public Works Trust Fund loans was \$1,397,720.

The annual requirements to amortize all bonded debt and Public Work Trust Fund loans outstanding as of December 31, 2019, including interest, are as follows:

Years Ended December 31, 2019:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	1,310,799	2,004,688	3,315,487
2021	1,647,076	1,976,324	3,623,400
2022	1,601,548	1,932,554	3,534,102
2023	1,578,881	1,893,670	3,472,551
2024	1,508,429	1,836,118	3,344,547
2025-2029	7,268,333	8,366,675	15,635,008
2030-2034	8,096,895	6,670,042	14,766,936
2035-2039	8,030,000	4,980,075	13,010,075
2040-2044	9,940,000	3,077,200	13,017,200
2045-2049	9,555,000	852,200	10,407,200
Total	50,536,961	33,589,545	84,126,506

During the year ending December 31, 2019, the following changes occurred in long-term liabilities.

	<b>Beginning Outstanding Debt 1/1/2019</b>	<b>Amount Issued in 2019</b>	<b>Amount Redeemed in 2019</b>	<b>Ending Outstanding Debt 12/31/2019</b>	<b>Amount Due in 2020</b>
<b>Revenue Bonds Payable</b>					
Revenue Bond-2003	440,000	0	440,000	0	0
Revenue Bond-2006	480,000	0	480,000	0	0
Revenue Bond-2012	1,535,000	0	365,000	1,170,000	380,000
Revenue Bond-2014	9,550,000	0	250,000	9,300,000	250,000
Revenue Bond-2016	3,271,331	0	442,091	2,829,240	448,805
Revenue Bond-2017	7,140,000	0	0	7,140,000	0
Revenue Bond-2019A	0	18,895,000	0	18,895,000	0
Revenue Bond-2019B	0	9,805,000	0	9,805,000	0
Bond Anticipation Note – 2018	1,600,000	1,400,000	3,000,000	0	0
Bond Anticipation Note – 2019	0	9,905,836	9,905,836	0	0
<b>Total Revenue Bonds</b>	<b>24,016,331</b>	<b>40,005,836</b>	<b>14,882,927</b>	<b>49,139,240</b>	<b>1,078,805</b>
	<b>Beginning Outstanding Debt 1/1/2019</b>	<b>Amount Issued in 2019</b>	<b>Amount Redeemed in 2019</b>	<b>Ending Outstanding Debt 12/31/2019</b>	<b>Amount Due in 2020</b>
<b>Public Works Trust Fund Loans Payable</b>					
Public Works Trust #1	258,470	0	86,157	172,313	86,157
Public Works Trust #2	251,350	0	62,838	188,513	62,838
Public Works Trust #4	547,369	0	42,105	505,263	42,105
Public Works Trust #5	572,526	0	40,895	531,631	40,895
<b>Total PWTF Loans</b>	<b>1,629,715</b>	<b>0</b>	<b>231,995</b>	<b>1,397,720</b>	<b>231,995</b>

The District as of December 31, 2019 has \$1,012,697 for bond payment reserves. These represent sinking funds and reserve requirements as contained in the various indentures.

In accordance with generally accepted accounting principles for regulated businesses, the District implemented GASB 65 in 2013 that required the expensing of all debt financing costs.

There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

#### NOTE 7 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2019:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	(\$ 1,032,833)
Pension assets	\$ -
Deferred outflows of resources	\$ 415,813
Deferred inflows of resources	(\$ 689,587)
Pension expense/expenditures	\$ 70,770

#### **State Sponsored Pension Plans**

Substantially all 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](http://www.drs.wa.gov).

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

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



component.

**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 2019 were as follows:

<b>PERS Plan 1</b>			
<b>Actual Rates</b>	<b>Contribution</b>	<b>Employer</b>	<b>Employee*</b>
January – June 2019			
PERS Plan 1		7.52%	6.00%
PERS Plan 1 UAAL		5.13%	
Administrative Fee		0.18%	
<b>Total</b>		<b>12.83%</b>	<b>6.00%</b>
July – December 2019			
PERS Plan 1		7.92%	6.00%
PERS Plan 1 UAAL		4.76%	
Administrative Fee		0.18%	
<b>Total</b>		<b>12.86%</b>	<b>6.00%</b>

\* 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 2019 were as follows:

PERS Plan 2/3			
Actual Rates	Contribution	Employer 2/3	Employee 2*
January – June 2019			
PERS Plan 2/3		7.52%	7.41%
PERS Plan 1 UAAL		5.13%	
Administrative Fee		0.18%	
Employee PERS Plan 3			Varies
<b>Total</b>		<b>12.83%</b>	<b>7.41%</b>
July – December 2019			
PERS Plan 2/3		7.92%	7.90%
PERS Plan 1 UAAL		4.76%	
Administrative Fee		0.18%	
Employee PERS Plan 3			Varies
<b>Total</b>		<b>12.86%</b>	<b>7.90%</b>

\* For employees participating in JBM, the contribution rate was 18.53% to 19.75%.

The District's actual PERS plan contributions were \$145,686 to PERS Plan 1 (UAAL) and \$227,619 to PERS Plan 2/3 for the year ended December 31, 2019.

### Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, 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 based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

## **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 included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 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 and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

## **Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019, 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.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
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%
	<b>100%</b>	

### **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.

	<b>1% Decrease (6.4%)</b>	<b>Current Discount Rate (7.4%)</b>	<b>1% Increase (8.4%)</b>
PERS 1	\$ 975,498	\$ 778,954	\$ 608,425
PERS 2/3	\$ 1,947,152	\$ 253,879	(\$1,135,563)

### **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, 2019, the District reported a total pension liability of \$1,032,833 for its proportionate share of the net pension liabilities as follows:

	<b>Liability (or Asset)</b>
PERS 1	\$ 778,954
PERS 2/3	\$ 253,879

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.021063%	0.020257%	(0.000806%)
PERS 2/3	0.026137%	0.026941%	0.000804%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2019. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2019, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2019, the state of Washington contributed 39.57 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.43 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

## Pension Expense

For the year ended December 31, 2019, the District recognized pension expense as follows:

	Pension Expense
PERS 1	(\$1,819)
PERS 2/3	\$72,589
TOTAL	\$70,770

## Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	(\$ 52,041)
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$ 71,013	\$
<b>TOTAL</b>	<b>\$ 71,013</b>	<b>(\$ 52,041)</b>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 72,737	(\$ 54,583)
Net difference between projected and actual investment earnings on pension plan investments	\$	(\$ 369,545)
Changes of assumptions	\$ 6,501	(\$106,519)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 147,406	\$ 106,900
Contributions subsequent to the measurement date	\$ 118,156	\$
<b>TOTAL</b>	<b>\$ 344,800</b>	<b>(\$ 637,547)</b>

<b>ALL PENSION PLANS</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 72,737	(\$ 54,583)
Net difference between projected and actual investment earnings on pension plan investments	\$	(\$ 421,585)
Changes of assumptions	\$ 6,501	(\$ 106,519)
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 147,406	(\$ 106,900)
Contributions subsequent to the measurement date	\$ 189,169	
<b>TOTAL</b>	<b>\$ 415,183</b>	<b>(\$ 689,587)</b>

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, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>PERS 1</b>
2020	(\$11,488)
2021	(\$27,212)
2022	(\$ 9,711)
2023	(\$ 3,629)
2024	\$ -
Thereafter	\$ -

<b>Year ended December 31:</b>	<b>PERS 2/3</b>
2020	(\$106,916)
2021	(\$184,956)
2022	(\$ 79,406)
2023	(\$ 40,310)
2024	(\$ 2,506)
Thereafter	\$ 3,191



## NOTE 8 - RISK MANAGEMENT

The District is not self-insured for either property and liability risk or health insurance. (Reference Schedule 21)

The District's property and liability insurance is purchased through Leavitt Group Northwest. The program insurance carrier is Philadelphia Insurance Company. A summary of the types of coverage and deductible amounts are as follows:

Type of Coverage	Deductible
=====	=====
Property	\$ 1,000
Commercial General Liability	\$ 1,000
Automobile	\$ 1,000
Boiler & Machinery	\$ 1,000
Equipment Floater	\$ 1,000
Employee Theft	\$ 10,000
Theft of Money	\$ 10,000
Cyber Liability	\$ 10,000
Directors & Officers	\$ 5,500
Excess Liability	\$ 10,000

The District's health insurance is purchased through our broker, OneDigital. The healthcare insurance carrier is Regence Blue Shield and Delta Dental of Washington. The District has had no settlements that has exceeded insurance coverage's in the past four years

## NOTE 9 – OTHER POST EMPLOYMENT BENEFIT (OPEB) PLANS

The District does not have any OPEB Plans.

## NOTE 10 – SUBSEQUENT EVENTS

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

On March 19, 2020, Governor Inslee called on public utilities in Washington state to ensure the health and safety of their employees and the public by suspending disconnection tariffs for nonpayment during the COVID-19 pandemic; waiving late fees for customers who are out of work or offering customer payment plans; and expanding bill assistance programs for customers who are economically impacted by this emergency. As such, the District has suspended the disconnection of customers from service based on non-payment and have waived any late, dispatch and disconnect fees. The length of time these measures will be in place, and the full extent of the financial impact on the District is unknown at this time.

#### NOTE 11 – FINANCIAL GUARANTEES

The District does not have any Financial Guarantees.

#### NOTE 12 – EXTRAORDINARY ITEM

On February 20, 2020, the Board of Commissioners approved the write-off of the costs associated with the Joint Base Lewis-McChord (JBLM) privatization solicitation which was submitted to the Base in December 2015. As of December 31, 2019, the total amount for this project was \$306,804.77. The approval by the Board resulted from the lack of feedback from the base and as of 2019, it is highly unlikely that the proposal will result in Lakewood Water District supplying water to JBLM and be its utility partner moving forward to 2020 and beyond.

Under governmental financial reporting standards (GAAP), this item can be considered as an extraordinary item/expense which is defined as a transaction that is both (1) unusual in nature (i.e., uniquely happens and isn't within the normal course of District operations) and (2) infrequent in occurrence (i.e., unlikely to happen again in the future).

# REQUIRED SUPPLEMENTARY INFORMATION - PERS 1

Lakewood Water District  
Schedule of Proportionate Share of the Net Pension Liability  
Public Employees Retirement System 1 (PERS 1)  
As of June 30, 2019  
Last 10 Fiscal Years\*

	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	% 0.020257%	0.021063%	0.017144%	0.019843%	0.018984%
Employer's proportionate share of the net pension liability	\$ 778,954	940,681	813,496	1,065,663	993,040
State's proportionate share of the net pension liability (asset) associated with the employer	\$				
TOTAL	\$ 778,954	940,681	813,496	1,065,663	993,040
Covered payroll	\$ 2,840,531	2,606,770	2,364,713	2,203,212	2,191,514
Employer's proportionate share of the net pension liability as a percentage of covered payroll	% 27.42%	36.09%	34.40%	48.37%	45.31%
Plan fiduciary net position as a percentage of the total pension liability	% 67.12%	63.22%	61.24%	57.03%	59.10%

## Notes to Schedule:

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

# REQUIRED SUPPLEMENTARY INFORMATION - PERS 2/3

Lakewood Water District  
Schedule of Proportionate Share of the Net Pension Liability  
Public Employees Retirement System 2/3 (PERS 2/3)  
As of June 30, 2019  
Last 10 Fiscal Years\*

	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	% 0.026137%	0.026941%	0.022052%	0.025397%	0.024526%
Employer's proportionate share of the net pension liability	\$ 253,879	459,994	766,202	1,278,719	876,328
State's proportionate share of the net pension liability (asset) associated with the employer	\$				
TOTAL	\$ 253,879	459,994	766,202	1,278,719	876,328
Covered payroll	\$ 2,840,531	2,606,770	2,364,713	2,203,212	2,191,514
Employer's proportionate share of the net pension liability as a percentage of covered payroll	% 8.94%	17.65%	32.40%	58.04%	39.99%
Plan fiduciary net position as a percentage of the total pension liability	% 97.77%	95.77%	90.97%	85.82%	89.20%

## Notes to Schedule:

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

# REQUIRED SUPPLEMENTARY INFORMATION - PERS 1

Lakewood Water District  
Schedule of Employer Contributions  
Public Employees Retirement System 1 (PERS 1)  
For the year ended December 31, 2019  
Last 10 Fiscal Years\*

	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	\$ 145,686	139,402	119,690	108,794	97,035
Contributions in relation to the statutorily or contractually required contributions	\$ (145,686)	(139,402)	(119,690)	(108,794)	(97,035)
Contribution deficiency (excess)	\$ 0	0	0	0	0
Covered payroll	\$ 2,947,489	2,753,212	2,441,725	2,280,785	2,217,223
Contributions as a percentage of covered payroll	% 4.94%	5.06%	4.90%	4.77%	4.38%

**Notes to Schedule:**

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

# REQUIRED SUPPLEMENTARY INFORMATION - PERS 2/3

## Lakewood Water District Schedule of Employer Contributions Public Employees Retirement System 2/3 (PERS 2/3) For the year ended December 31, 2019 Last 10 Fiscal Years\*

	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	\$ 227,619	206,490	167,724	142,092	124,533
Contributions in relation to the statutorily or contractually required contributions	\$ (227,619)	(206,490)	(167,724)	(142,092)	(124,533)
Contribution deficiency (excess)	\$ 0	0	0	0	0
Covered payroll	\$ 2,947,489	2,753,212	2,441,725	2,280,785	2,217,223
Contributions as a percentage of covered payroll	% 7.72%	7.50%	6.87%	6.23%	5.62%

### Notes to Schedule:

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

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>