



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

September 5, 2024

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

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of the Lakehaven Water & Sewer District for the fiscal year ended December 31, 2021. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the Office of the Washington State Auditor website as a matter of public record.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2021
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

LAKEHAVEN WATER & SEWER DISTRICT

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

Board of Commissioners
Lakehaven Water & Sewer District
Federal Way WA

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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 29, 2023.

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.

A handwritten signature in black ink that reads "Lindley & Associates LLC". The script is cursive and fluid, with the letters "L" and "A" being particularly large and stylized.

Lindley & Associates LLC
September 29, 2023



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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Lakehaven Water & Sewer District
Federal Way WA

OPINION

We have audited the accompanying financial statements of the Lakehaven Water & Sewer District, as of and for the year ended December 31, 2021, 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, 2021, 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. 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 generally accepted 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 generally accepted auditing standards, we:

- 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

We are required to 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

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover 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 September 29, 2023, 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 black ink that reads "Lindley & Associates LLC". The script is cursive and fluid, with the letters "L", "A", and "C" being particularly prominent.

Lindley & Associates LLC
September 29, 2023

Lakehaven Water & Sewer District
Management's Discussion and Analysis
Year Ended December 31, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2021. 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, 2021, the District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$289.0 million (net position). Net position included net investment in capital assets of \$176.4 million, restricted net position of \$58.4 million and unrestricted net position of \$54.2 million.
- In 2021, the District's total net position increased by \$11.5 million.
- In 2021, the District issued \$85.4 million in revenue bonds with an S&P rating of AAA.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements include: The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Fund Net Position, the 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. Revenues 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, maintaining 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.

Lakehaven Water & Sewer District
Management's Discussion and Analysis
Year Ended December 31, 2021

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 comparative statements of net position present the assets and deferred outflows of resources of the District as of December 31, 2021, and 2020 and show the mix of liabilities and deferred inflows of resources and net position used to acquire these assets and deferred outflows of resources:

	As of December 31, 2021			As of December 31, 2020		
<u>Assets</u>	Water	Waste Water	Total	Water	Waste Water	Total
Current Assets	\$ 61,242,072	\$ 63,850,660	\$ 125,092,732	\$ 37,146,277	\$ 22,227,642	\$ 59,373,919
Noncurrent Assets						
Noncurrent Other	4,727,559	4,668,856	9,396,415	403,320		403,320
Capital Assets - Net	138,776,331	143,152,076	281,928,407	128,339,283	124,344,435	252,683,717
Total Assets	204,745,962	211,671,592	416,417,554	165,888,880	146,572,077	312,460,956
<u>Deferred Outflow of Resources</u>						
Total Deferred Outflows	3,210,886	991,139	4,202,025	3,216,781	1,028,208	4,244,989
<u>Liabilities</u>						
Current Liabilities	6,346,869	6,424,651	12,771,521	4,477,574	5,107,186	9,584,760
Noncurrent Liabilities:	48,810,335	60,065,091	108,875,426	21,603,546	6,248,822	27,852,368
Total Liabilities	55,157,204	66,489,742	121,646,947	26,081,120	11,356,008	37,437,128
<u>Deferred Inflow of Resources</u>						
Total Deferred Inflows	5,107,531	4,880,987	9,988,518	1,213,858	568,197	1,782,055
<u>Net Position</u>						
Net Investment in Capital Assets	91,947,466	84,405,585	176,353,051	112,292,692	121,985,296	234,277,989
Restricted	24,138,789	34,290,314	58,429,103	491,580	411,229	902,809
Unrestricted	31,605,857	22,596,103	54,201,960	29,026,409	13,279,556	42,305,965
Total Net Position	\$ 147,692,112	\$ 141,292,002	\$ 288,984,114	\$ 141,810,681	\$ 135,676,081	\$ 277,486,762

Current Assets consist of cash and cash equivalents, as well as accounts receivable, prepaid expenses, inventory, and accrued interest. Current assets increased by approximately \$65.7 million. The increase primarily is due to the increased cash from the issuance of bonds.

Lakehaven Water & Sewer District
Management's Discussion and Analysis
Year Ended December 31, 2021

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 \$0.9 million in 2021 primarily due to slower collection from customers. Restricted cash increased by \$55.8 million as bonds proceeds are restricted to funding capital projects. Unrestricted cash increased \$9.3 million in 2021. See the days of cash on hand and the accounts receivable chart below.



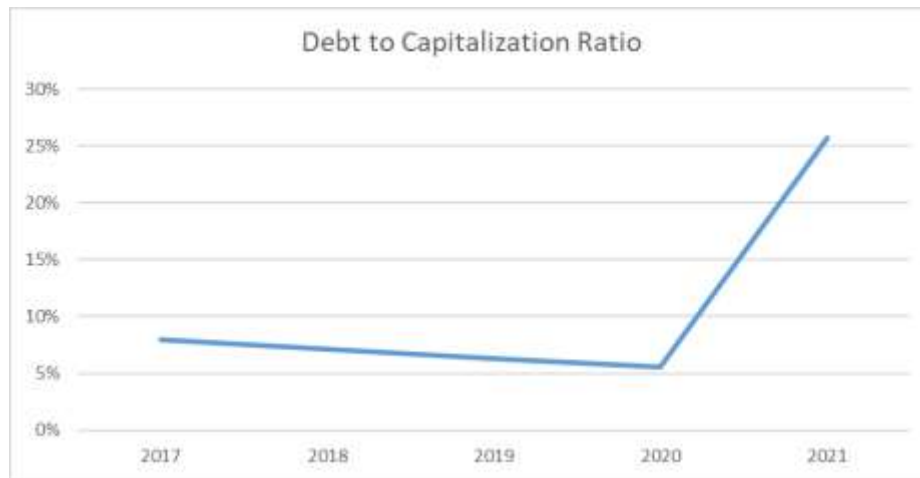
Capital Assets consist of net capital assets, which include land, construction in progress, equipment, buildings, infrastructure, and intangibles. Capital assets increased by \$29.2 million in 2021. The increase was primarily due to increases in capital project spending, which was partially offset by depreciation expense.

Deferred Outflows of Resources consist of pension and OPEB deferred outflows, and deferral related to asset retirement obligations. Pension deferred outflows totaled \$1.2 million in 2021, a decrease of \$0.9 million from 2020. The increase was primarily due to the net effect of differences between expected and actual experience, changes in assumptions and proportionate share and contributions subsequent to the measurement date. OPEB deferred outflows totaled \$0.8 million in 2021, a decrease of \$63.3 thousand from 2020. Asset retirement obligations deferred outflows totaled \$2.2 million in 2021, an increase of \$0.9 million from 2020. See Note 14 for more information.

Current Liabilities include accounts payable, deposits, interest payable on debt, retainage and the current portion of noncurrent debts. Current liabilities increased by \$3.2 million in 2021. The increase was primarily due to the net effect of an increase in current accounts payable. The District had accounts payable of \$8.2 million as of December 31, 2021, compared to \$5.3 million as of December 31, 2020. The increase 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 and Revenue bonds. Noncurrent liabilities also include compensated absences, co-op certificates, pension liability, net other post-employment benefits and excise tax payable. Noncurrent liabilities increased \$81.0 million in 2021 primarily due to the issuance of revenue bonds. See the debt to capitalization ratio chart below and Note 8 for more information.

Lakehaven Water & Sewer District
Management's Discussion and Analysis
Year Ended December 31, 2021



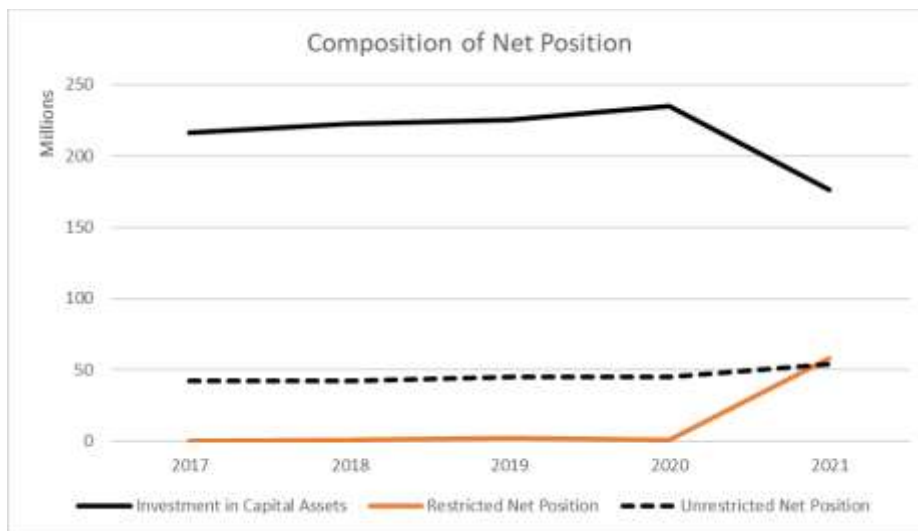
Deferred Inflows of Resources consist of pension, OPEB and lease-related deferred inflows. Pension deferred inflows increased by approximately \$8.4 million. The increase is due to net effect of differences in projected and actual earnings on pension plan investments, differences between expected and 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 \$289.0 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 increase of the District's overall debt and principal partially offset by the net increase in the District's capital assets.
- The Restricted Net Position consists primarily of unspent proceeds of the revenue bonds held with the King County Investment Pool and restricted net pension asset. See Note 1 and 8.
- 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 \$11.5 million in 2021. See the five years net position chart below. The increase in net position in 2021 reflects the District's ability to meet current and future obligations in the course of its activities.

Lakehaven Water & Sewer District
Management's Discussion and Analysis
Year Ended December 31, 2021



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, 2021, and 2020 present the annual surplus or deficiency of revenues over expenses (the change in in net position):

	As of December 31, 2021			As of December 31, 2020		
	Water	Waste Water	Total	Water	Waste Water	Total
Revenues						
Operating Revenues	\$ 18,493,432	\$ 22,201,699	\$ 40,695,131	\$ 17,191,021	\$ 20,009,552	\$ 37,200,573
Investment Income	-	-	-	634,679	361,544	996,223
Grants	-	2,424	2,424	14,275	14,275	28,550
Other Income	1,122,883	(3,670)	1,119,213	1,025,031	109,549	1,134,580
Total Revenues	19,427,615	22,200,453	41,628,068	18,865,006	20,494,920	39,359,926
Expenses						
Maintenance & Operations	6,800,059	10,744,664	17,544,723	8,586,711	12,963,887	21,550,598
Administrative & General	1,947,125	2,097,124	4,044,249	2,134,824	2,091,587	4,226,411
Depreciation & Amortization	4,662,648	4,986,900	9,649,548	4,640,525	5,013,531	9,654,056
Taxes	1,709,600	1,778,592	3,488,192	1,755,759	1,609,917	3,365,676
Public Works & SRF& Bonds Interest	288,509	250,911	539,420	168,005	5,331	173,336
Investment Loss	128,879	115,976	244,855	-	-	-
Total Expenses	15,536,820	19,974,167	35,510,987	17,285,824	21,684,253	38,970,077
Change in Net Position before Capital Contributions	3,890,795	2,226,286	6,117,081	1,579,182	(1,189,333)	389,849
Capital Contributions	1,990,636	3,389,635	5,380,271	2,531,678	1,974,626	4,506,304
Change in Net Position	5,881,431	5,615,921	11,497,352	4,110,860	785,293	4,896,153
Total Net Position, January 1	141,810,681	135,676,081	277,486,762	137,699,821	134,890,788	272,590,609
Total Net Position, December 31	<u>\$147,692,112</u>	<u>\$ 141,292,002</u>	<u>\$ 288,984,114</u>	<u>\$141,810,681</u>	<u>\$135,676,081</u>	<u>\$277,486,762</u>

Lakehaven Water & Sewer District
Management's Discussion and Analysis
Year Ended December 31, 2021

Revenues

Water operating revenues increased by \$1.3 million in 2021 due to a rate increase of approximately 2.5% and normal variation in billing cycles. Wastewater operating revenues increased by \$2.2 million in 2021 due to a rate increase of 8.25% enacted in 2020. Total operating revenues increased by \$3.5 million in 2021.

Investment income decreased by \$1.2 million in 2021 resulting in an unrealized loss of \$0.3 million. The decrease was due to a reduction in average interest rate from 1.35% in 2020 to 0.65% in 2021 in the King County Investment Pool and portion of fair market value losses. The average balance being invested varies from year to year and can result in differences in the investment income (loss) collected by the District.

Expenses

Water maintenance and operations costs decreased in 2021 by \$1.8 million, and Wastewater maintenance and operations costs decreased by \$2.2 million in 2021. Total maintenance and operations costs decreased by \$4.0 million in 2021. Maintenance and operations expenses have varied over time.

The District had a decrease in administrative and general expenses, approximately \$0.2 million, in 2021. Administrative and general expenses have varied over time.

The slight decrease in depreciation and amortization of \$4,508 in 2021 was due to asset disposals and assets becoming fully depreciated in 2021.

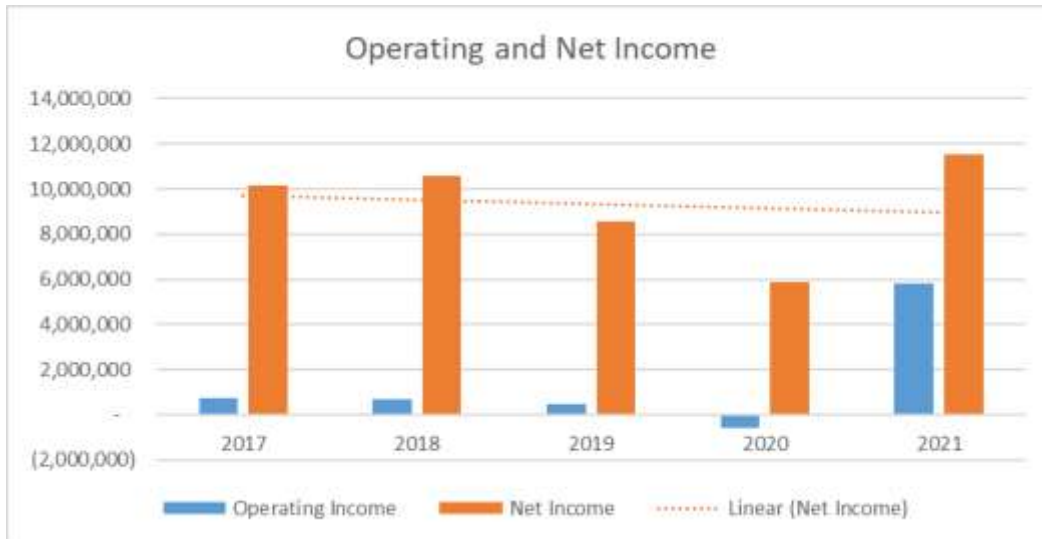
Taxes are State and local assessments, not income taxes. The taxes are based on revenues from services and charges. Increases in taxes were primarily due to the increase in the amount of water billings in 2021.

Interest expense increased by \$0.4 million because of the overall increase in debt from the issuance of revenue bonds.

Capital Contribution

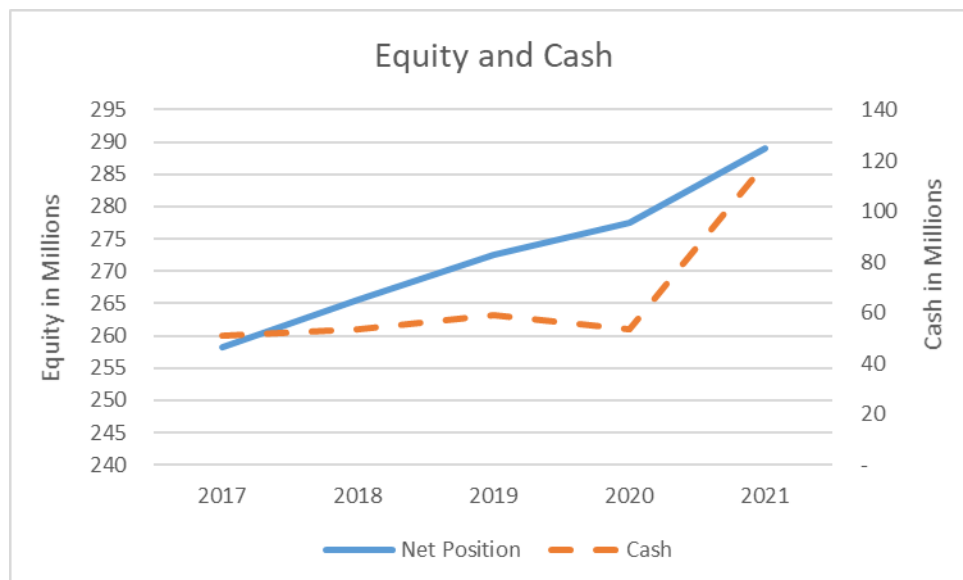
The District had \$5.4 million in capital contributions from development activities in 2021. It increased from \$4.5 million in 2020. This increase is primarily due to the completion of private development activities in the District during 2021. See the five-years operating and net income chart below.

Lakehaven Water & Sewer District
Management's Discussion and Analysis
Year Ended December 31, 2021



Net Position

The District's operating revenues exceeded operating expenses in 2021. For 2021, total revenues exceeded expenses before capital contributions by \$6.1 million. This is an increase of \$5.7 million compared to \$0.4 million in income before capital contributions in 2020. Capital contributions further added \$5.4 million to the final increase in net position of \$11.5 million. The change in net position for 2021 was \$6.6 million more than 2020. The overall financial position of the District has improved in 2021 which indicates its ability to meet its ongoing obligations. See the following five years equity and cash chart.



Lakehaven Water & Sewer District
Management's Discussion and Analysis
Year Ended December 31, 2021

Capital Assets

Capital assets consist of land, construction in progress, equipment, buildings, infrastructure, and intangibles. Net capital assets increased by \$29.2 million in 2021. 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 2021 capital assets are infrastructure improvements and new building facilities totaling \$33.1 million.

Over the next ten years, it is anticipated that capital spending will be in the range of \$365 million, with approximately 36% of that for water projects and 64% 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, 2021 and 2020 were as follows:

	As of December 31, 2021			As of December 31, 2020		
	Water	Waste Water	Total	Water	Waste Water	Total
Land	\$ 985,776	\$ 5,376,746	\$ 6,362,522	\$ 986,595	\$ 5,376,746	\$ 6,363,341
Construction in Progress	21,202,159	36,836,300	58,038,459	7,550,358	17,545,247	25,095,605
Equipment	15,337,109	29,211,697	44,548,806	15,227,904	27,920,153	43,148,057
Buildings	1,304,965	1,062,580	2,367,545	1,563,468	1,062,580	2,626,048
Infrastructure	123,434,525	177,531,135	300,965,660	122,638,679	174,421,976	297,060,655
Intangibles	67,259,604	1,057,099	68,316,703	67,257,204	1,054,699	68,311,903
Accumulated Depreciation & Amortization	(90,747,807)	(107,923,481)	(198,671,288)	(86,884,926)	(103,036,966)	(189,921,892)
Total Capital Assets, Net	\$138,776,331	\$ 143,152,076	\$281,928,407	\$128,339,282	\$124,344,435	\$252,683,717

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 waste water revenue within the city limits. Effective June 1, 2018, the City of Edgewood imposed a 6% utility tax on all District water and wastewater revenue within the city limits. These taxes are included in the planned rates. See Note 15, Subsequent Events, for more information on a 2022 rate increase.

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, 2021

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 61,775,637
Accrued Interest Receivable	25,583
Accounts Receivables - Customers	5,264,725
Accounts Receivables - Other	81,183
Lease Receivable	175,478
Inventory	508,180
Prepaid Expenses	517,553
Restricted Assets:	
Cash and Cash Equivalents	56,718,321
Accrued Interest	26,072
Total Current Assets	<u>125,092,732</u>

Noncurrent Assets

Net Pension Assets	9,154,619
Lease Receivable	241,796
Capital Assets Not Being Depreciated	
Land	6,362,522
Construction in Progress	58,038,459
Capital Assets Being Depreciated	
Equipment	44,548,806
Buildings	2,367,545
Infrastructure	300,965,660
Intangibles	68,316,703
Less Accumulated Depreciation	<u>(198,671,288)</u>
Total Capital Assets Being Depreciated	<u>217,527,426</u>
Total Capital Assets	<u>281,928,407</u>
Total Non-Current Assets	<u>291,324,822</u>
TOTAL ASSETS	<u>416,417,554</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Asset Retirement Obligations	2,208,657
Deferred Outflows Relate to OPEB	814,119
Deferred Outflows Related to Pensions	<u>1,179,249</u>
Total Deferred Outflows of Resources	4,202,025

Total Assets and Deferred Outflows of Resources	<u><u>\$ 420,619,579</u></u>
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See accompanying notes to the financial statements.

Lakehaven Water and Sewer District
Statement of Net Position
December 31, 2021

LIABILITIES

Current Liabilities

Accounts Payable	8,193,930
Deposits, Customers and Developers	1,772,634
Retainage Due Contractors	266,383
Current Portion of Leases	18,368
Current Portion of Loans	1,874,687
Current Portion of Other Postemployment Benefits	110,213
Current Portion of Compensated Absences	105,839
Interest Payable	429,466
Total Current Liabilities	<u>12,771,521</u>

Noncurrent Liabilities

Revenue Bonds and Premium	85,384,815
Loans (Less Current Portion)	12,647,252
Compensated Absences	952,554
Net Pension Liability	905,410
Accrued Other Postemployment Benefits Liability	6,661,138
Long-Term Lease Liability	39,997
Asset Retirement Obligation	2,259,261
Other Non-Current Liabilities	25,000
Total Noncurrent Liabilities	<u>108,875,426</u>
Total Liabilities	<u>121,646,947</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Leases	417,274
Deferred Inflows Related to Pensions	9,441,598
Deferred Inflows Related to OPEB	129,646
Total Deferred Inflows of Resources	<u>9,988,518</u>

Total Liabilities and Deferred Inflows of Resources	<u>131,635,465</u>
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NET POSITION

Invested in Capital Assets, Net of Related Debt	176,353,051
Debt Service	56,744,393
Pension	1,684,710
Unrestricted Net Assets	54,201,960
Total Net Position	<u>\$ 288,984,114</u>

See accompanying notes to the financial statements.

Lakehaven Water and Sewer District
Statement of Revenue, Expenditures and Changes in Net Position
Year Ended December 31, 2021

OPERATING REVENUES	
Customer Sales and Service Fees	\$ 39,519,046
Permits, Inspections & Delinquency Fees	76,142
Developer Revenues & Administrative Charges	1,009,367
Street Lighting Revenues	90,576
Total Operating Revenue	<u>40,695,131</u>
OPERATING EXPENSES	
Maintenance and Operations	17,544,723
Administrative and General	4,044,249
Depreciation and Amortization	9,649,548
Taxes, Other than Income Tax	3,488,192
Total Operating Expenses	<u>34,726,712</u>
NET OPERATING INCOME (LOSS)	<u>5,968,419</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest (Expense)	(539,420)
Investment (Expense)	(244,855)
Grants	2,424
Other Income (Expense)	1,119,213
Total Non-Operating Revenues (Expenses)	<u>148,662</u>
Income before Contributions, Transfers, Extraordinary and Special Items	<u>6,117,081</u>
CAPITAL CONTRIBUTIONS	<u>5,380,271</u>
CHANGE IN NET POSITION	<u>11,497,352</u>
BEGINNING TOTAL NET POSITION	<u>277,486,762</u>
ENDING TOTAL NET POSITION	<u><u>\$ 288,984,114</u></u>

See accompanying notes to the financial statements.

Lakehaven Water and Sewer District
Statement of Cash Flows
Year Ended December 31, 2021

Cash Flows from Operating Activities

Cash Received from Customers	\$ 40,940,390
Cash Paid to Suppliers	(16,629,084)
Cash Paid to Employees	(12,355,301)
Net Cash Provided by Operating Activities	<u>11,956,005</u>

Cash Flows Provided by Noncapital Financing Activities:

Noncapital Grants	2,424
Other	-
Net Cash Provided by Noncapital Financing Activities	<u>2,424</u>

Cash Flows from Capital and Related Financing Activities

Acquisition & Construction of Capital Assets	(31,031,236)
Acquisition of Lease Assets	(21,076)
Asset Retirement Obligations	129,691
Proceeds from State Revolving Fund Loans	-
Proceeds from Bonds	85,384,815
Payment of Bond Principal & Other Financing	(1,874,691)
Interest Paid	(163,606)
Loss on Disposal of Capital Assets	(188,700)
Cash Contributions in Aid of Construction	1,135,048
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>53,370,245</u>

Cash Flows From Investing Activities

Interest Received on Investments	(254,966)
Restricted Payables	-
Net Cash Provided by Investing Activities	<u>(254,966)</u>

Net Increase in Cash & Cash Equivalents

	65,073,708
Cash & Cash Equivalents - Beginning	53,420,251
Cash & Cash Equivalents - Ending	<u><u>\$ 118,493,958</u></u>

Noncash Investing, Capital and Financing Activities

Contributions of Capital Assets from Developers	<u><u>\$ 4,226,807</u></u>
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See accompanying notes to the financial statements.

Lakehaven Water and Sewer District
Statement of Cash Flows
Year Ended December 31, 2021

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

Net Operating Income (Loss)	\$	5,968,419
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Adjustments to Reconcile Operating Income to Net Cash Provided by
Operating Activities

Depreciation & Amortization		9,649,548
Other Income		1,119,213

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

(Increase) in Accounts Receivable		(873,954)
Decrease in Inventory		283,356
(Increase) in Prepaid Expenses		(88,280)
(Increase) in Net Pension Assets		(9,154,619)
(Decrease) in Accounts Payable		(718,571)
(Decrease) in Compensated Absences		(116,686)
Decrease in Deferred Outflow of Resources - Pension		42,963
Increase in Deferred Inflow of Resources - Pension		8,206,463
Increase in Lease Liability		-
(Decrease) in Net Pension Liabilities		(2,775,905)
Increase in Other Postemployment Benefits Liability		414,058
Other		-
Total Adjustments		5,987,586

Total Cash Provided by Operating Activities	\$	11,956,005
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See accompanying notes to the financial statements.

Lakehaven Water and Sewer District
Notes to Financial Statements
Year Ended December 31, 2021

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.

Lakehaven Water and Sewer District
Notes to Financial Statements
Year Ended December 31, 2021

Receivables

Receivables consist primarily of amounts due from water and wastewater 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
Intangible	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.

Lakehaven Water and Sewer District
Notes to Financial Statements
Year Ended December 31, 2021

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. The deferred outflow of resources related to the retirement of certain tangible capital assets arise from a legal obligation for the District to perform future asset retirement activities to offset the liability recognized.

Lakehaven Water and Sewer District
Notes to Financial Statements
Year Ended December 31, 2021

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 addition, the deferred inflows of resources for leases offset the asset 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. The restricted net position for pension in the government-wide financial statements is equal to the net pension asset, minus the deferred inflows, plus the deferred outflows. Only the deferred inflows and deferred outflows for the pension plans that have a net pension asset were included.

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. 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.

Lakehaven Water and Sewer District
Notes to Financial Statements
Year Ended December 31, 2021

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 implemented this GASB statement in 2021.

GASB Statement No. 93, Replacement of Interbank Offered Rates. This statement removes the interbank offered rate (IBOR) as an appropriate benchmark interest rate and identifies a Security Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap. The removal of LIBOR is effective for reporting periods ending after December 31, 2021. All other requirements are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged. Management has determined that this new GASB statement is not applicable to the District.

GASB Statement No. 94, Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs). This statement provides guidance to account for PPPs and APAs. The requirements of this statement are effective for fiscal years beginning after June 15, 2022. Earlier application is encouraged. 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 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 and GASB No. 92 in 2021. The District considered GASB Statements No. 84, 90 and 93 and determined they were not applicable.

GASB Statement No. 96, Subscription-based Information Technology Arrangements. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. This new GASB was issued in May 2020 and is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The District is currently evaluating the impact of this new GASB statement.

GASB Statement No. 98, The Annual Comprehensive Financial Report. This statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This statement's introduction of the new term is founded on a commitment to promoting inclusiveness. The requirements of this statement are effective for fiscal

Lakehaven Water and Sewer District
Notes to Financial Statements
Year Ended December 31, 2021

years ending after December 15, 2021. Earlier application is encouraged. The District implemented this statement as of December 31, 2021.

NOTE 2 DEPOSITS AND INVESTMENTS

The District's cash and investment balances, including restricted cash and cash equivalent, at December 31, 2021, are listed below:

Bank Deposits	\$ 36,250
Restricted cash deposit City of Tacoma	154,094
Investment in King County Pool	61,739,387
Restrtricted Impaired Investment in King County Pool	12,572
Restricted Investment in King County Pool Revenue Bonds	56,551,655
Total Cash and Investments, including restricted	<u>\$ 118,493,958</u>

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

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, 2021, 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	\$ 118,291,042	1.24 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

Lakehaven Water and Sewer District
Notes to Financial Statements
Year Ended December 31, 2021

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, 2021:

Investments Fair Value Level	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
	Quoted Prices in Active Markets for Identical Assets		Significant Other Observable Inputs	Unobservable Inputs
	Fair Value 12/31/21			
Governmental Agencies	\$ 54,515,684	\$ -	\$ 54,515,684	\$ -
Commercial Paper	8,987,401	-	8,987,401	-
Corporate Notes	3,311,148	-	3,311,148	-
U.S. Agency Mortgage-backed Securities	118,255	-	118,255	-
Treasury Securities	37,250,413	37,250,413	-	-
Subtotals	<u>\$ 104,182,901</u>	<u>\$ 37,250,413</u>	<u>\$ 66,932,488</u>	<u>\$ -</u>

Investments measured at amortized cost
(not subject to Fair Value Hierarchy)

Repurchase Agreements	2,015,449
Local government Investment Pool	12,092,693
Subtotal investments measured at cost	<u>14,108,141</u>
Total investment in Investment Pool	<u>\$ 118,291,042</u>

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

Governmental Agencies, Commercial Paper, Corporate Notes and US Agency Mortgage-backed Securities 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. These investments are valued at Level 2 of the fair value hierarchy.

Repurchase Agreements and the Local 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, 2021, the District had the following impaired investments in the KCIP:

<u>Investment Type</u>	<u>Fair Value</u>
King County Investment Pool	\$ 12,572

Lakehaven Water and Sewer District
Notes to Financial Statements
Year Ended December 31, 2021

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, 2021, 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 \$19,872 and the total fair value of these investments was \$12,572. The District's unrealized loss for this investment is \$7,300 as of December 31, 2021.

Interest Rate Risk. As of December 31, 2021, the Pool's average duration was 1.24 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, 2021, 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 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.

Lakehaven Water and Sewer District
Notes to Financial Statements
Year Ended December 31, 2021

NOTE 3 CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2021 were as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land and Land Rights	\$ 6,363,341	\$ -	\$ 819	\$ 6,362,522
Construction in progress	25,095,605	33,686,389	743,535	58,038,459
Total capital assets not being depreciated	31,458,946	33,686,389	744,354	64,400,981
Capital assets being depreciated:				
Equipment	43,148,057	1,402,340	1,591	44,548,806
Buildings	2,626,048	-	258,503	2,367,545
Infrastructure	297,060,655	4,509,601	604,596	300,965,660
Intangibles	68,311,903	305,669	300,869	68,316,703
Total capital assets being depreciated	411,146,663	6,217,610	1,165,559	416,198,714
Less accumulated depreciation:				
Equipment	20,012,040	3,637,295	1,792,736	21,856,599
Buildings	1,394,385	105,017	52,496	1,446,906
Infrastructure	150,466,253	11,573,734	6,140,581	155,899,406
Intangibles	18,049,214	3,720,315	2,239,851	19,529,678
Total accumulated depreciation	189,921,892	19,036,362	10,225,664	198,732,590
Total capital assets being depreciated, net	221,224,771	(12,818,752)	(9,060,105)	217,466,124
TOTAL CAPITAL ASSETS, NET	<u>\$252,683,717</u>	<u>\$ 20,867,637</u>	<u>\$ (8,315,751)</u>	<u>\$ 281,867,105</u>

The District capitalizes employee wages and benefits in connection with the construction of utility plant assets. In 2021, total wage and benefit costs of \$3.3 million was capitalized.

Total depreciation expense of \$9.6 million is reported on the accompanying statement of revenues, expenses, and changes in fund net position.

NOTE 4 RESTRICTED ASSETS

Restricted cash and cash equivalents primarily represent the amount of funds deposited into King County Investment Pool. See Note 2, Deposits and Investments.

Restricted cash and cash equivalents includes bond funds received in 2021 and utility tax payable to City of Federal Way as required by the contractual terms.

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

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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 \$364,455 in 2021. 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:

	Beginng Balance	Increases	Decreases	Ending Balance
Leased Equipment	\$ 105,069	\$ -	\$ -	\$ 105,069
Accumulated Amortization	(25,627)	(21,077)	-	(46,704)
	<u>\$ 79,442</u>	<u>\$ (21,077)</u>	<u>\$ -</u>	<u>\$ 58,365</u>

As of December 31, 2021, the principal and interest requirements to maturity are as follows:

Year ended 31-Dec	Principal	Interest	Total
2022	\$ 18,368	\$ 2,091	\$ 20,458
2023	19,118	1,280	20,398
2024	15,164	480	15,644
2025	5,716	76	5,791
2026	-	-	-
Total	<u>\$ 58,366</u>	<u>\$ 3,926</u>	<u>\$ 62,292</u>

NOTE 7 LEASES (LESSOR)

The District leases space on its water towers and pump stations to various vendors on which to place their telecommunications equipment. 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

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

During 2021, the District recognized \$204,346 in lease revenues and an associated \$33,108 in interest revenues. As of December 31, 2021, the District had nineteen leases in place with a valuation of \$417,274.

As of December 31, 2021, future lease receivable principal and interest payments are as follows:

Year ended				
31-Dec	Principal	Interest	Total	
2022	\$ 175,478	\$ 14,456	\$ 189,934	
2023	124,115	7,483	131,598	
2024	100,138	2,600	102,738	
2025	4,139	452	4,592	
2026	210	645	855	
Total	<u>\$ 404,081</u>	<u>\$ 25,636</u>	<u>\$ 429,717</u>	

NOTE 8 NONCURRENT DEBTS AND LIABILITIES

Revenue Bonds

The District has issued revenue bonds secured by the pledge of and lien on revenues of the water and wastewater systems, subject to the payment of all operating and maintenance expenses of the water and wastewater systems. Payments from revenues are required to be made in annual amounts sufficient to retire serial or term bonds on or before maturity. The Bond Purchase Agreement requires that cash reserve be based on the highest year of debt service over the life of the outstanding revenue bonds.

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 does not have the right to prepay the unpaid balance of the loan in full at any time or make accelerated payments without penalty.

The District shall provide annual financial statements, a statement of authorized, issued and outstanding debt secured by net revenue and debt service coverage ratios as continuing disclosures for bonds. The required debt service coverage ratio is 1.25.

The following table summarize the bond issuances and amounts outstanding as of December 31, 2021:

Type	Contract/Serial	Origination Date	Maturity Date	Interest Rate	Original Debt	Outstanding Balance
Bond	2021 Bond	9/26/2021	10/1/2046	2.21%	71,630,000	\$ 71,630,000
Total Bond						<u>\$ 71,630,000</u>

Direct Borrowings

The District has entered into agreements with the Department of Commerce (formerly 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. The District has pledged

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future water and wastewater net revenue to repay the loans. 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 charge 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 thirty (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 following table summarizes the direct borrowing issuances and amounts outstanding as of December 31, 2021:

Type	Contract	Project	Origination Date	Maturity Date	Interest Rate	Original Debt	Outstanding Balance
Loan	PW-02-691-031	Second supply project	3/28/2002	7/1/2022	0.500%	10,000,000	529,412
Loan	PW-04-691-039	Water filtration at various well sites	4/8/2004	7/1/2024	0.228%	1,700,000	283,520
Loan	PC-12-951-018	Green River Water Treatment Plant Filtration Facility	4/8/2004	6/1/2031	0.500%	10,000,000	5,359,008
Loan	PW-04-691-PRE-130	Redondo outfall replacement	6/30/2004	7/1/2024	0.500%	570,705	91,170
Loan	PW-06-962-021	Redondo outfall replacement	6/5/2006	7/1/2026	0.500%	2,400,000	650,877
Loan	DM 10-952-030	Green River Treatment Plant/Filtration Facility	8/26/2010	10/1/2034	1.500%	3,030,000	1,979,708
Loan	DM 11-952-021	Green River Treatment Plant/Filtration Facility	6/30/2011	10/1/2035	1.500%	2,020,000	1,414,051
Loan	DM 12-952-108	Green River Filtration Facility	6/3/2012	10/1/2035	1.500%	5,982,486	4,214,194
						Total Outstanding	14,521,939

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

	Bond		Direct Borrowing	
	Principal	Interest	Principal	Interest
2022	\$ -	\$ 1,510,302	\$ 1,874,687	\$ 148,689
2023	-	1,494,933	1,345,276	133,773
2024	1,890,000	1,494,933	1,345,275	121,503
2025	1,985,000	1,491,002	1,220,380	109,234
2026	2,085,000	1,483,890	1,220,380	97,589
2027 - 2031	12,100,000	7,250,049	5,451,021	319,780
2032 - 2035	11,865,000	5,079,714	2,064,920	74,008
2036 - 2041	20,935,000	5,660,458	-	-
2042 - 2046	20,770,000	1,995,173	-	-
	<u>\$ 71,630,000</u>	<u>\$ 27,460,454</u>	<u>\$ 14,521,939</u>	<u>\$ 1,004,576</u>

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The combined changes in short-term and long-term liabilities for the year ended December 31 are as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within One</u> <u>Year</u>
Bonds Payable					
Bonds	\$ -	\$ 71,630,000.00	\$ -	\$ 71,630,000	\$ -
Unamortized Bond Premium	-	13,754,815	-	13,754,815	-
Bonds Payable	\$ -	\$ 85,384,815	\$ -	\$ 85,384,815	\$ -
Other Liabilities					
State Revolving Loans- Direct Borrowings	\$ 16,396,630	\$ -	\$ 1,874,691.00	\$ 14,521,939	\$ 1,874,687
Compensated Absences Liability	1,175,079	-	116,686	1,058,393	105,839
Net Pension Liability	3,681,315	-	2,775,905	905,410	-
Other Postemployment Benefits	6,357,293	414,058	-	6,771,351	110,213
Asset Retirement Obligations	2,129,570	129,691	-	2,259,261	-
Lease Liabilities	79,442	-	21,078	58,365	18,368
Other Long-term Liability	25,000	-	-	25,000	-
Other Liabilities	\$ 29,844,329	\$ 543,749	\$ 4,788,360	\$ 25,599,719	\$ 2,109,108

NOTE 9 PENSIONS

The following table represents the aggregate pension amounts for all plans for the year 2021:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$905,410
Pension assets	\$ 9,154,619
Deferred outflows of resources	\$1,179,249
Deferred inflows of resources	\$9,441,598
Pension expense/expenditures	\$2,148,357

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 annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

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

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Or the DRS ACFR 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 2021 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – June 2021		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.86%	6.00%
July – December 2021		
PERS Plan 1	10.07%	6.00%
Administrative Fee	0.18%	
Total	10.25%	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

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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 2021 were as follows:

ERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2021		
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%
July – December 2021		
PERS Plan 2/3	6.36%	6.36%

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PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	10.25%	6.36%

* For employees participating in JBM, the contribution rate was 15.90%.

The District's actual PERS plan contributions were \$485,909 to PERS Plan 1 and \$783,836 to PERS Plan 2/3 for the year ended December 31, 2021.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2013-2018 Demographic Experience Study and the 2019 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities were rolled forward from June 30, 2020, to June 30, 2021, 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-2010 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 no changes in assumptions since the last valuation. There were changes in methods since the last valuation.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected.

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OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

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, 2021, 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.

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	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$ 1,542,418	\$ 905,410	\$ 349,875
PERS 2/3	\$ (2,607,973)	\$ (9,154,619)	\$ (14,545,785)

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, 2021, the District reported a total pension liability of \$9,154,619 and \$905,410 for its proportionate share of the net pension assets and net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$ 905,410
PERS 2/3	(\$ 9,154,619)

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

	Proportionate Share 6/30/20	Proportionate Share 6/30/21	Change in Proportion
PERS 1	0.072261%	0.074139%	(0.001878%)
PERS 2/3	0.088363%	0.091899%	(0.003536%)

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, 2021, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2020, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2021, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$ (105,057)
PERS 2/3	(2,043,300)
TOTAL	\$(2,148,357)

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Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2021, 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	-	\$ (1,004,703)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	\$212,262	-
TOTAL	\$212,262	\$ (1,004,703)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 444,627	\$ (112,227)
Net difference between projected and actual investment earnings on pension plan investments	-	(7,651,114)
Changes of assumptions	13,378	(650,129)
Changes in proportion and differences between contributions and proportionate share of contributions	156,875	(23,425)
Contributions subsequent to the measurement date	352,108	-
TOTAL	\$ 966,987	\$ (8,436,896)

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All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$444,627	\$(112,227)
Net difference between projected and actual investment earnings on pension plan investments	-	(8,655,817)
Changes of assumptions	13,378	(650,129)
Changes in proportion and differences between contributions and proportionate share of contributions	156,875	(23,425)
Contributions subsequent to the measurement date	564,369	-
TOTAL	\$1,179,249	\$(9,441,598)

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
2022	\$ (266,146)
2023	(243,887)
2024	(230,605)
2025	(264,066)
Thereafter	-
Year ended December 31	PERS 2/3
2022	\$ (2,060,536)
2023	(1,923,071)
2024	(1,840,053)
2025	(1,993,728)
2026	(17,474)
Thereafter	\$ 12,845

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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 2021:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	\$6,771,351
OPEB assets	-
Deferred outflows of resources	\$814,119
Deferred inflows of resources	\$129,646
OPEB expenses/expenditures	\$560,935

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

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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. This 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 \$183 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, 2021, 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.

Lakehaven Water and Sewer District
Notes to Financial Statements
Year Ended December 31, 2021

Assumptions and Other Inputs

The total OPEB liability in the June 30, 2021, 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 2.21% discount rate for the beginning total OPEB liability, measured as of June 30, 2020, and 2.16% for the ending total OPEB liability, measured as of June 30, 2021.
- 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 6.10% for pre-65 claims and contributions and decreases to 5.40%, 5.20%, 5.10%, 5.10% for the years ending June 30, 2022, 2023, 2024, and 2025, respectively. The rate for each year between June 30, 2025 through 2034 is 5.10%. 5.20% for each of next 10 years ending June 30, 2044, 5.30% for each year of next 10 years ending June 30, 2054, 5.10% for each year of next 10 years ending June 30, 2064, 5.0% for each year of next 10 years ending June 30, 2075, 4.30% each year thereafter.
- Health cost trend rate initially at 5.70% for post-65 claims and increases to 8.90% for years ending June 30, 2022 and 2023. The rate decreases to 5.10% for each of the years ending June 30, 2024 and 2044. The rate for each year between June 30, 2045 through 2054 is 5.20%, 5.10% for each year of next 10 years ending June 30, 2064. 4.90% for each year of next 10 years ending June 30, 2074, and 4.30% per year thereafter.
- Dental costs trend at 2.00% for the year ending June 30, 2021, 2.50% for the year ending June 30, 2022, 3.50% for the year ending June 30, 2023, 4.00% for the year ending June 30, 2024, 4.00% for the year ending June 30, 2025, 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, Pub G.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 65% 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	\$5,502,660	\$6,771,351	\$8,456,942

Lakehaven Water and Sewer District
Notes to Financial Statements
Year Ended December 31, 2021

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 (1.16%) or 1-percentage point higher (3.16%) that the current rate.

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
Total OPEB Liability	\$8,165,887	\$6,771,351	\$5,676,953

Changes in the Total OPEB Liability

<i>OPEB- All Plans</i>	
<i>Total OPEB Liability Beginning Balance</i>	\$ 6,357,293
<i>Service cost</i>	316,831
<i>Interest</i>	146,287
<i>Changes of benefit terms</i>	-
<i>*Differences between expected and actual experience</i>	-
<i>*Changes of assumptions</i>	61,154
<i>Benefit payments</i>	(110,213)
<i>Other changes</i>	-
<i>Total OPEB Liability Ending Balance</i>	\$ 6,771,351

The net OPEB liability of \$6,771,351 was determined by the actuarial valuation as of June 30, 2020, with the results rolled forward to December 31, 2021. The actuarial valuation and actuarial measurement dates was June 30, 2021. Discount rates decreased from 2.21% to 2.16% 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 \$316,830 and \$146,287, respectively. The net effect of assumptions changes increased the OPEB liability by \$61,154. Benefit payments of \$110,213 were subsidies expected to be paid throughout the year.

The District recognized OPEB expense of \$560,935 in 2021.

At December 31, 2021, 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	\$ 108,052	\$ -
Changes of assumptions	645,942	129,646
Contributions made subsequent to the measurement date	60,125	N/A
TOTAL	\$ 814,119	\$ 129,646

Lakehaven Water and Sewer District
Notes to Financial Statements
Year Ended December 31, 2021

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
2022	\$ 97,818
2023	97,818
2024	97,818
2025	97,818
2026	126,272
Thereafter	\$ 106,804

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 192 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.

Lakehaven Water and Sewer District
Notes to Financial Statements
Year Ended December 31, 2021

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 2021.

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 2021.

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, and Lakehaven Water & Sewer District (7) votes.

Lakehaven Water and Sewer District
Notes to Financial Statements
Year Ended December 31, 2021

The District has spent \$76,374,184 and \$75,561,225 towards this project for the years ended 2021 and 2020, respectively. Further information can be obtained from the District office.

NOTE 13 CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

As of December 31, 2021, the District is obligated under various construction contracts totaling \$35,500,217, of which \$8,628,805 remains outstanding.

NOTE 14 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, 2021, the District reported an asset retirement obligation (the ARO) of \$2.3 million and related deferred outflows of resources of \$2.2 million.

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 15 SUBSEQUENT EVENTS

On January 13, 2022, the District implemented Water rate increases of approximately 4.5% for years 2022 through 2025. For Waste Water, the District implemented rate increases of approximately 10.5% for years 2022 through 2025. The City of Federal Way's imposed 7.75% utility tax and the City of Edgewood's imposed 6% utility tax are included in the planned rate increases.

NOTE 16 COVID-19 PANDEMIC

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of COVID 19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions. The District proactively implemented safety measures, with most staff working remotely in 2021. Management continues to monitor the situation for any operational or financial effects and is ready to respond appropriately as needed. To date, the District has not experienced any direct financial impacts due to the pandemic. The length of time these measures will continue to be in place, and the full extent of the direct or indirect financial impact on the District is unknown at this moment.

REQUIRED SUPPLEMENTARY INFORMATION

Lakehaven Water and Sewer District
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30
Last 10 Fiscal Years*

		2021	2020	2019	2018	2017	2016	2015	2014	2013
Employer's proportion of the net pension liability (asset)	%	0.074139%	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	\$	2,617,507	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	\$	11,114,803	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	%	23.55%	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	%	88.74%	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
As of June 30
Last 10 Fiscal Years*

		2021	2020	2019	2018	2017	2016	2015	2014	2013
Employer's proportion of the net pension liability (asset)	%	0.091899%	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	\$	1,175,336	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	\$	10,983,103	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	%	10.70%	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	%	120.29%	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
PERS1
For the year ended December 31
Last 10 Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Statutorily or contractually required contributions	\$ 485,909	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	\$ (485,909)	(547,380)	(525,839)	(506,907)	(442,993)	(413,916)	(353,367)	(318,625)	(232,460)	
Contribution deficiency (excess)	\$	-	-	-	-	-	-	-	-	
Covered payroll	\$ 11,114,803	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	% 4.37%	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
PERS2/3
For the year ended December 31
Last 10 Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015	20X4	20X3	20X2
Statutorily or contractually required contributions	\$ 783,836	\$ 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	\$ (783,836)	(859,512)	(772,773)	(705,267)	(582,100)	(508,798)	(425,476)	(371,781)	(323,470)	
Contribution deficiency (excess)	\$ 0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Covered payroll	\$ 10,983,103	\$ 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	% 7.14%	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, 2021
Last 10 Fiscal Years*

	<u>2021</u>	<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>
Total OPEB Liability, beginning	\$ 6,357,293	\$ 5,381,587	\$ 4,721,642							
Service Cost	316,830	238,874	205,875							
Interest on total OPEB Liability	146,287	195,048	189,079							
Changes of benefit terms	-	-	-							
Difference between expected and actual experience	-	143,478	-							
Changes of assumptions	61,154	494,504	349,309							
Benefit payments	(110,213)	(96,198)	(84,318)							
Total OPEB Liability, ending	<u>\$ 6,771,351</u>	<u>\$ 6,357,293</u>	<u>\$ 5,381,587</u>							
Covered employee payroll	\$ 11,129,911	\$ 10,617,238	\$ 9,993,945							
Total OPEB liability as a % of covered payroll	60.84%	59.88%	53.85%							

Notes to Schedule:

No assets are associated with 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 District
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

CFDA #	COVID-19 Expenditures	Federal Agency Name (Optional)	Federal Program Name (Optional)	Pass-Through Agency Name	Other Award I.D. Number	R&D	Total	Passed-through to Subrecipients
97.036	2423.65	FEMA	<i>Public Assistance Grants</i>	Washington State Military Department	4481		\$ 2,424	\$ -
							<u>\$ 2,424</u>	<u>\$ -</u>

Notes to the Schedule of Expenditures of Federal Awards

Note 1 – Basis of Accounting

This Schedule is prepared on the same basis of accounting as the District's financial statements. 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.

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the District's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2 – Federal De Minimis Indirect Cost Rate

The District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the District's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

SUPPLEMENTARY INFORMATION

Lakehaven Water and Sewer District
Departmental Statement of Net Position by Division
December 31, 2021

	Water	Waste Water	Total
<u>ASSETS</u>			
<u>Current Assets</u>			
Cash and Cash Equivalents	\$ 34,663,486	\$ 27,112,151	\$ 61,775,637
Accrued Interest Receivable	14,336	11,247	25,583
Accounts Receivables - Customers	2,269,983	2,994,742	5,264,725
Accounts Receivables - Other	78,076	3,107	81,183
Lease Receivable	175,478	-	175,478
Inventory	508,180	-	508,180
Prepaid Expenses	219,252	298,301	517,553
Restricted Assets:			
Cash and Cash Equivalents	23,302,611	33,415,710	56,718,321
Accrued Interest	10,670	15,402	26,072
Total Current Assets	61,242,072	63,850,660	125,092,732
<u>Noncurrent Assets</u>			
Net Pension Assets	4,485,763	4,668,856	9,154,619
Lease Receivable	241,796	-	241,796
Capital Assets Not Being Depreciated			
Land	985,776	5,376,746	6,362,522
Construction in Progress	21,202,159	36,836,300	58,038,459
Capital Assets Being Depreciated			
Equipment	15,337,109	29,211,697	44,548,806
Buildings	1,304,965	1,062,580	2,367,545
Infrastructure	123,434,525	177,531,135	300,965,660
Intangibles	67,259,604	1,057,099	68,316,703
Less Accumulated Depreciation	(90,747,807)	(107,923,481)	(198,671,288)
Total Capital Assets Being Depreciated	116,588,396	100,939,030	217,527,426
Total Capital Assets	138,776,331	143,152,076	281,928,407
Total Non-Current Assets	143,503,890	147,820,932	291,324,822
TOTAL ASSETS	204,745,962	211,671,592	416,417,554
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred Outflows Related to Asset Retirement Obligations	2,208,657	-	2,208,657
Deferred Outflows Relate to OPEB	424,397	389,722	814,119
Deferred Outflows Related to Pensions	577,832	601,417	1,179,249
Total Deferred Outflows of Resources	3,210,886	991,139	4,202,025
Total Assets and Deferred Outflows of Resources	\$ 207,956,848	\$ 212,662,731	\$ 420,619,579

Lakehaven Water and Sewer District
Departmental Statement of Net Position by Division
December 31, 2021

	Water	Waste Water	Total
<u>LIABILITIES</u>			
<u>Current Liabilities</u>			
Accounts Payable	3,723,723	4,470,207	8,193,930
Deposits, Customers and Developers	463,448	1,309,186	1,772,634
Retainage Due Contractors	142,281	124,102	266,383
Current Portion of Leases	9,184	9,184	18,368
Current Portion of Loans	1,714,122	160,565	1,874,687
Current Portion of Other Postemployment Benefits	57,311	52,902	110,213
Current Portion of Compensated Absences	55,989	49,850	105,839
Interest Payable	180,811	248,655	429,466
Total Current Liabilities	6,346,869	6,424,651	12,771,521
<u>Noncurrent Liabilities</u>			
Revenue Bonds and Premium	30,135,817	55,248,998	85,384,815
Loans (Less Current Portion)	12,065,770	581,482	12,647,252
Compensated Absences	503,901	448,652.70	952,554
Net Pension Liability	443,651	461,759	905,410
Accrued Other Postemployment Benefits Liability	3,356,937	3,304,201	6,661,138
Long-Term Lease Liability	19,998	19,998	39,997
Asset Retirement Obligation	2,259,261	-	2,259,261
Other Non-Current Liabilities	25,000	-	25,000
Total Noncurrent Liabilities	48,810,335	60,065,091	108,875,426
Total Liabilities	55,157,204	66,489,742	121,646,947
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Deferred Inflows Related to Leases	417,274	-	417,274
Deferred Inflows Related to Pensions	4,626,383	4,815,215	9,441,598
Deferred Inflows Related to OPEB	63,874	65,772	129,646
Total Deferred Inflows of Resources	5,107,531	4,880,987	9,988,518
Total Liabilities and Deferred Inflows of Resources	60,264,735	71,370,729	131,635,465
<u>NET POSITION</u>			
Invested in Capital Assets, Net of Related Debt	91,947,466	84,405,585	176,353,051
Debt Service	23,313,281	33,431,112	56,744,393
Pension	825,508	859,202	1,684,710
Unrestricted Net Assets	31,605,857	22,596,103	54,201,960
Total Net Position	\$ 147,692,112	\$ 141,292,002	\$ 288,984,114

Lakehaven Water and Sewer District
Departmental Statement of Revenues, Expenses, and Changes in
Fund Net Position by Division
Year Ended December 31, 2021

	Water	Waste Water	Total
OPERATING REVENUES			
Customer Sales and Service Fees	\$ 17,750,508	\$ 21,768,538	\$ 39,519,046
Permits, Inspections & Delinquency Fees	13,482	62,660	76,142
Developer Revenues & Administrative Charges	638,866	370,501	1,009,367
Street Lighting Revenues	90,576	-	90,576
Total Operating Revenue	18,493,432	22,201,699	40,695,131
OPERATING EXPENSES			
Maintenance and Operations	6,800,059	10,744,664	17,544,723
Administrative and General	1,947,125	2,097,124	4,044,249
Depreciation and Amortization	4,662,648	4,986,900	9,649,548
Taxes, Other than Income Tax	1,709,600	1,778,592	3,488,192
Total Operating Expenses	15,119,432	19,607,280	34,726,712
NET OPERATING INCOME (LOSS)	3,374,000	2,594,419	5,968,419
NON-OPERATING REVENUES (EXPENSES)			
Interest (Expense)	(288,509)	(250,911)	(539,420)
Investment (Expense)	(128,879)	(115,976)	(244,855)
Grants	-	2,424	2,424
Other Income (Expense)	1,122,883	(3,670)	1,119,213
Total Non-Operating Revenues (Expenses)	516,795	(368,133)	148,662
Income before Contributions, Transfers, Extraordinary and Special Items	3,890,795	2,226,286	6,117,081
CAPITAL CONTRIBUTIONS	1,990,636	3,389,635	5,380,271
CHANGE IN NET POSITION	5,881,431	5,615,921	11,497,352
BEGINNING TOTAL NET POSITION	141,810,681	135,676,081	277,486,762
ENDING TOTAL NET POSITION	\$ 147,692,112	\$ 141,292,002	\$ 288,984,114

Lakehaven Water and Sewer District
Departmental Statement of Cash Flows by Division
Year Ended December 31, 2021

	Water	Waste Water	Total
<u>Cash Flows from Operating Activities</u>			
Cash Received from Customers	\$ 19,265,735	\$ 21,674,655	\$ 40,940,390
Cash Paid to Suppliers	(6,451,896)	(10,177,188)	(16,629,084)
Cash Paid to Employees	(6,130,948)	(6,224,353)	(12,355,301)
Net Cash Provided by Operating Activities	6,682,891	5,273,114	11,956,005
<u>Cash Flows Provided by Noncapital Financing Activities:</u>			
Noncapital Grants	-	2,424	2,424
Net Cash Provided by Noncapital Financing Activities	-	2,424	2,424
<u>Cash Flows from Capital and Related Financing Activities</u>			
Acquisition & Construction of Capital Assets	(11,269,306)	(19,761,930)	(31,031,236)
Acquisition of Lease Assets	(10,538)	(10,538)	(21,076)
Asset Retirement Obligations	129,691	-	129,691
Proceeds from Bonds	30,135,817	55,248,998	85,384,815
Payment of Bond Principal & Other Financing	(1,714,126)	(160,565)	(1,874,691)
Interest Paid	(159,093)	(4,513)	(163,606)
Loss on Disposal of Capital Assets	(188,700)	-	(188,700)
Cash Contributions in Aid of Construction	552,691	582,357	1,135,048
Net Cash Provided (Used) by Capital and Related Financing Activities	17,476,436	35,893,809	53,370,245
<u>Cash Flows From Investing Activities</u>			
Interest Received on Investments	(126,266)	(128,700)	(254,966)
Net Cash Provided by Investing Activities	(126,266)	(128,700)	(254,966)
<u>Net Increase in Cash & Cash Equivalents</u>	24,033,061	41,040,647	65,073,708
Cash & Cash Equivalents - Beginning	33,933,036	19,487,215	53,420,251
Cash & Cash Equivalents - Ending	<u>\$ 57,966,097</u>	<u>\$ 60,527,861</u>	<u>\$ 118,493,958</u>
<u>Noncash Investing, Capital and Financing Activities</u>			
Contributions of Capital Assets from Developers	<u>\$ 1,419,027</u>	<u>\$ 2,807,780</u>	<u>\$ 4,226,807</u>

Lakehaven Water and Sewer District
Departmental Statement of Cash Flows by Division
Year Ended December 31, 2021

	<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)	\$ 3,374,000	\$ 2,594,419	\$ 5,968,419
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by</u>			
<u>Operating Activities</u>			
Depreciation & Amortization	4,662,648	4,986,900	9,649,548
Other Income	1,122,883	(3,670)	1,119,213
<u>Changes in Assets, Deferred Outflow of Resources Liabilities</u>			
<u>& Deferred Inflow of Resources</u>			
(Increase) in Accounts Receivable	(350,580)	(523,374)	(873,954)
Decrease in Inventory	283,356	-	283,356
(Increase) in Prepaid Expenses	(38,152)	(50,128)	(88,280)
(Increase) in Net Pension Assets	(4,485,763)	(4,668,856)	(9,154,619)
(Decrease) in Accounts Payable	(512,938)	(205,633)	(718,571)
(Decrease) in Compensated Absences	(4,386)	(112,300)	(116,686)
Decrease in Deferred Outflow of Resources - Pension	5,895	37,068	42,963
Increase in Deferred Inflow of Resources - Pension	3,893,673	4,312,790	8,206,463
(Decrease) in Net Pension Liabilities	(1,470,633)	(1,305,272)	(2,775,905)
Increase in Other Postemployment Benefits Liability	202,888	211,170	414,058
Total Adjustments	<u>3,308,891</u>	<u>2,678,695</u>	<u>5,987,586</u>
Total Cash Provided by Operating Activities	<u>\$ 6,682,891</u>	<u>\$ 5,273,114</u>	<u>\$ 11,956,005</u>

LAKEHAVEN WATER AND SEWER DISTRICT
KING COUNTY, WASHINGTON

ANNUAL FINANCIAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2021

WATER AND SEWER REVENUE BONDS, 2021
CUSPID NUMBERS 511528(AB9, AC4, AD5, AE3, AF1, AG8, AH6, AI4,
AJ0, AK7, AL5, AM3, AN1, AP6, AQ4, AR2, AS0, AT8, AU5)

Lakehaven Water and Sewer District (District) furnishes this annual financial information with respect to the above referenced bonds (Bonds). The District previously entered into continuing disclosure undertakings with respect to the Bonds that requires the District to provide the following annual financial information.

Authorized, issued and outstanding bonded debt:

	Amount
Authorized \$	85,000,000
Issued \$	71,630,000
Outstanding \$	71,630,000

Debt service coverage ratio:

Revenue	
\$	40,695,131 Operating
	876,782 Non-Operating
	264,768 Unrealized (Gains)/Losses
	5,380,271 Capital Contributions
	<hr/> 47,216,952

Expenses	
	34,726,712 Operating
	(9,649,548) Depreciation
	<hr/> 25,077,164

Net Revenue	<hr/> <hr/> \$ 22,139,788
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Debt Service	-
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Debt Service Ratio	N/A
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All Debt Service \$	2,038,297
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Overall Debt Service Ratio	10.86
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