Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Lakewood Water District

For the period January 1, 2023 through December 31, 2023

Published February 24, 2025

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Office of the Washington State Auditor
Pat McCarthy

February 24, 2025

Board of Commissioners
Lakewood Water District
Lakewood, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Lakewood Water District
January 1, 2023 through December 31, 2023

Board of Commissioners
Lakewood Water District
Lakewood, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the Lakewood Water District, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 6, 2025.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

February 6, 2025

INDEPENDENT AUDITOR’S REPORT

Report on the Audit of the Financial Statements

Lakewood Water District
January 1, 2023 through December 31, 2023

Board of Commissioners
Lakewood Water District
Lakewood, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of the Lakewood Water District, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Lakewood Water District, as of December 31, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed in the financial section of our report 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 REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2025 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

February 6, 2025

FINANCIAL SECTION

Lakewood Water District
January 1, 2023 through December 31, 2023

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2023

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2023
Statement of Revenues, Expenses and Changes in Net Position – 2023
Statement of Cash Flows – 2023
Notes to Financial Statements – 2023

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3, – 2023
Schedule of Employer Contributions – PERS 1, PERS 2/3, – 2023

Our discussion and analysis of Lakewood Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2023. Lakewood Water District's overall financial position as of December 31, 2023 remains stable and unchanged from last year. Please read it in conjunction with the District's audited financial statements, which follow this section.

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

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

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

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

Condensed Comparative Statement of Net Position

ASSETS	2023	2022	CHANGE	% CHANGE
Cash and Equivalent	2,813,300	2,589,260	224,040	8.65%
Other Current Assets	4,545,060	3,945,835	599,225	15.19%
Total Current Assets	7,358,360	6,535,095	823,265	12.60%
Restricted Assets	8,658,319	8,595,625	62,694	0.73%
Cell Tower Rent Receivable	5,115,337	-	5,115,337	
Net Pension Assets	1,075,289	1,075,658	(369)	-0.03%
Utility Plant (Net)	139,717,872	135,598,955	4,118,917	3.04%
Total Assets	161,925,177	151,805,334	10,119,843	6.67%
Deferred Outflows of Resources	959,559	1,087,527	(127,968)	-11.77%
LIABILITIES				
Current Liabilities	3,601,116	4,443,593	(842,477)	-18.96%
Long-Term liabilities	55,328,088	57,422,604	(2,094,516)	-3.65%
Total Liabilities	58,929,205	61,866,197	(2,936,992)	-4.75%
Deferred Inflows of Resources	6,370,743	1,163,541	5,207,202	447.53%
Net Investment in Capital Assets	83,421,928	77,402,570	6,019,358	7.78%
Restricted Assets	10,068,348	8,813,862	1,254,486	14.23%
Unrestricted Net Assets	4,094,512	3,646,690	447,822	12.28%
Total Net Position	97,584,788	89,863,122	7,721,666	8.59%

Analysis of the Condensed Comparative Statement of Net Position

Assets – The District's current assets increased by 12.60% from 2022 to 2023. The District saw an increase in its operating cash balances in part due to the increase in rates that occurred in 2023. Operating cash increased by $224,040 from 2022 to 2023. The District also increased the balance of its inventory resulting in part from inventory pricing change.

In 2023, restricted assets had a slight increase of $62,694 resulting from lower capital spending for 2023 as compared to 2022. Additionally, cell tower receivable balance increased to $634,780 from the implementation of the new accounting standard – GASB 87, *Leases*.

Pension Assets - The District saw a decrease in its pension asset for the Washington State Department of Retirement Systems' (DRS) Public Employee Retirement System (PERS) 2/3. The District reports a net pension asset of $1,075,289 in 2023 as compared to $1,075,658 in 2022.

Capital Assets – The Utility Plant accounts increased by $4,118,917 in 2023 from 2022. There were two primary capital spending emphases in 2023 which include the District's Mains Replacement and Rehabilitation (R&R) Program and the Pumping, Water Quality and Source and Supply Projects. The District's R&R Program intends to replace the District's aging infrastructure which include the replacement of old mains. In 2023, the completed or nearly completed projects included water main replacement at Naomilawn, Washington Blvd, Elwood Drive and Front Street.

The 2023 capital budget was $11,475,774 which was a decrease of $2,617,732 compared to the 2022 budget. The 2023 capital budget includes $6,242,250 for the R&R program, $5,233,524 for Water Treatment, Storage and Pumping projects which include pump and motor replacements, the PFAS mitigation projects as well as source and supply and water treatment projects.

For 2024, the District has a capital budget of $14,524,680 which is primarily driven by the start of the treatment facilities that will be completed in 2025 which include two Granulated Active Carbon (GAC) systems for 88th and Pine and Country Place. Additionally, the District budgeted for $2,357,250 for the R&R program for 2024.

Liabilities – Current liabilities decreased by $842,477 from year-end 2022. This resulted from lower accounts payable balances at year-end as well as lower current debt principal payments for 2024.

Long-term Liabilities – Longer term liabilities decreased by $2,094,516. This is a result of the District making the semi-annual bond payments for outstanding debt.

Deferred Outflows and Inflow – With implementation of GASB 68, GASB 87 and GASB 96, there is recognition of Deferred outflows $959,559 and Deferred inflows of $6,370,743.

Net Position – Net Position increased by $7,721,666. See Management's discussion on the 2023 income statement.

Condensed Comparative Statement of Revenues, Expenses & Changes Net Position

	2023	2022	CHANGE	% CHANGE
OPERATING REVENUES				
Water Revenues	18,478,949	16,092,472	2,386,477	14.83%
Other Operating Revenues	821,559	579,818	241,741	41.69%
Total Operating Revenues	19,300,509	16,672,290	2,628,218	15.76%
OPERATING EXPENSES				
Operating Expenses	9,219,686	7,709,738	1,509,948	19.58%
Depreciation	3,455,776	3,386,779	68,996	2.04%
Total Operating Expense	12,675,462	11,096,518	1,578,944	14.23%
Net Operating Income	6,625,046	5,575,773	1,049,274	18.82%
Other Revenue/(Expenses)	(1,689,057)	(1,814,951)	125,894	-6.94%
Net Income Before Capital Contributions	4,935,990	3,760,821	1,175,168	31.25%
Capital Contributions	4,306,566	5,760,635	(1,454,069)	-25.24%
Change in Net Position	7,721,666	9,521,456	(1,799,790)	
Total Net Position, January 1	89,863,123	80,341,666		
Prior Period Adjustment	(1,520,890)			
Total Net Position, January 1 (as restated)	88,342,233			
Total Net Position, December 31 (as restated)	97,584,788	89,863,123	7,721,666	8.59%

Comparative Analysis of Changes in Revenue and Expenses

In 2023, the District experienced a net income before Capital Contributions of $4,935,990, an increase of $1,175,168 from 2022. The increase can be primarily attributed to a strong demand for water during the year. In 2023, the District sold 289 million cubic feet as compared to 231 million cubic feet in 2022. This was slightly offset by the increase in the District's operating expenses which grew by

$1,578,944. The total change in Net Position in 2023 was $9,242556 which is lower than 2023's $9,521,456.

Operating revenues increased by $2,628,218. This is a result of increased rates for 2023 both for its retail and wholesale customers as well as an increase in consumption higher than 2022. In 2023, the District continued to realize and recognized wholesale revenues. Wholesale revenues recognized $6,504,594 in 2023.

Operating Expenses increased $1,509,948 or 19.58%. The primary increase was caused by operating and maintenance costs incurred in the normal course of operation for 2023. It was also caused by the recognition of attorney fees associated with PFAS mitigation which accounted for $700,468 of the increase as compared to the prior year. Additionally, the District's depreciation expense increased by $68,996 or 2.04% due to the completion of capital assets budgeted in prior years.

Non-operating revenues/(expenses) in 2023 decreased by $125,894 (decrease in expenses). Interest expense decreased by $92,988 in Fiscal Year 2023. This was also influence by an increase in interest income resulting from high interest rates in 2023. These factors resulted in the decrease of non-operating expenses for 2023.

The District also recognized a prior period adjustment that decreased the beginning net position in the amount of $1,520,890. More information about this recognition can be found on Note 10 of the Financial statements.

Capital Assets – Utility Plant

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

Starting in 2014, the District launched a major 50 year replacement and rehabilitation program (R&R) that will replace over 180 miles of our 261 miles of transmission pipe in our system. This program will represent approximately $3.4 million of our capital program outlays and will be escalated 3% each year. The R&R Program for 2024 is budgeted for $2,357,250. In 2024, the District has a capital budget of $14,524,680 which are driven by the continued work for pumping and engineering projects, the start of the PFAS mitigation and treatment and general facilities and other projects.

Debt Administration – Long Term Debt

	Date of Original Issue	Date of Maturity	Beginning Outstanding Debt 1/1/2023	Amount Issued in 2023	Amount Redeemed in 2023	Ending Outstanding Debt 12/31/2023
Water Revenue Bonds Payable						
Water Revenue Bond - 2014	2014	2033	8,550,000	-	250,000	8,300,000
Water Revenue Bond – 2017	2017	2042	7,140,000	-	-	7,140,000
Water Revenue Bond – 2019A	2019	2048	18,240,000	-	770,000	17,470,000
Water Revenue Bond – 2019B	2019	2048	9,805,000	-	-	9,805,000
Water Revenue Bond – 2021A	2021	2051	8,495,000	-	160,000	8,335,000
Water Revenue Bond – 2021B	2021	2024	590,000	-	480,000	110,000
Total Revenue Bonds Payable			**52,820,000**	**-**	**1,660,000**	**51,160,000**
Public Works Trust Fund Loans Payable						
PWTF #4	2011	2031	378,948	-	42,105	336,842
PWTF #5	2012	2033	408,947	-	40,895	368,052
Total PWTF Loans Payable			**787,895**	**-**	**83,000**	**704,894**
TOTAL			**53,607,895**	**-**	**1,743,000**	**51,864,895**

The Water Revenue Bonds are secured by, and payable solely from the net operating revenues of the District, as defined in the revenue bond covenants. The District is required to establish, maintain, and collect rates and charges for water service (and for all other utility services that may be provided by the System) that will yield net revenues equal to at least 1.25 times the average annual debt service. The District has adopted a more stringent internal policy of maintaining 2.0 ratio of net revenue to bond debt service. In 2015, management produced Financial Policies for the District that were presented to the Board of Commissioners. The Board agreed with Financial Policies and approved using the Financial Policies as a guideline for management on financial directions and decisions at the District.

Other Operational Information

District Operating Statistics	2023	2022
Service Connections	17,244	17,193
Water Used, MGD Average	14.1	12.5
Peak Day Use, MGD	23.5	24.0
Equivalent Resident Units	29,530	29,419

Bi-Monthly Retail Water Rates	*2023*	*2022*
Base Rate (0-800 cubic feet)	*$9.50*	*$8.88*
801-2,000 cubic feet (per ccf)	*$2.01*	*$1.88*
Over 2,000 cubic feet (per ccf)	*$2.74*	*$2.56*

Bi-Monthly R&R Fixed Fee based on meter size	2023	2022
5/8”	$ 33.08	$ 31.21
1”	$ 36.38	$ 34.32
1.5”	$ 46.30	$ 43.68
2”	$ 59.54	$ 56.17
3”	$ 95.93	$ 90.50
4”	$ 363.88	$ 343.28
6”	$ 463.11	$ 436.90
8”	$ 959.32	$ 905.02
10”	$ 1,257.04	$ 1,185.89
12”	$ 1,488.59	$ 1,404.33

LAKEWOOD WATER DISTRICT
Statement of Net Position
December 31, 2023

Assets		2023
<u>Current Assets</u>		
Cash	$	2,813,300
Accounts Receivable		2,045,481
Inventory		583,925
Prepayments		389,640
Cell Tower Receivable		634,780
Other Current and Accrued Assets		891,234
Restricted Assets:		
Revenue Bond Fund		
Cash	$	409,093
Construction and Replacement Fund		
Cash		8,249,226
Total Current Assets	$	16,016,679
<u>Non Current Assets</u>		
Utility Plant in Service	$	176,064,490
Land And Water Rights		5,761,743
Other Utility Plant		132,213
Construction Work in Progress		6,701,494
Subscription Asset		93,805
Less:Accumulated Depreciation		(49,035,872)
Net Utility Plant	$	139,717,872
Cell Tower Rent Receivable	$	5,115,337
Net Pension Asset		1,075,289
Total Non-Current Assets	$	145,908,498
Total Assets	$	161,925,177
Deferred Outflows of Resources		
Deferred Outflows Related to Pensions	$	959,559
Total Deferred Outflows of Resources	$	959,559

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

LAKEWOOD WATER DISTRICT
Statement of Net Position
December 31, 2023

		2023
Liabilities		
Current Liabilities		
Accounts Payable	$	1,072,606
Customer Deposits		81,963
Compensated Absences		319,798
Subscription Liability		58,289
Other Current and Accrued Liabilities		237,061
Payables from Restricted Assets:		
Revenue Bond Outstanding	$	1,560,000
Public Work Trust Fund Loans		83,000
Interest Payable		188,399
Total Current Liabilities	$	3,601,116
NonCurrent and Other Liabilities		
Revenue Bond Outstanding	$	49,600,000
Public Work Trust Fund Loans		621,892
Debt Premium		4,368,514
Compensated Absences		273,216
Net Pension Liability		464,467
Total NonCurrent Liabilities	$	55,328,088
Total Liabilities	$	58,929,205
Deferred Inflows of Resources		
Deferred Inflows Related to Leases	$	5,750,117
Deferred Inflows Related to Pensions		620,626
Total Deferred Inflows of Resources	$	6,370,743
Net Position		
Net Investment in Capital Assets		83,421,928
Restricted for:		
Capital Purposes		8,658,319
Net Pension Asset		1,410,029
Unrestricted		4,094,512
Total Net Position	$	97,584,788

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

LAKEWOOD WATER DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
Year Ending December 31, 2023

		2023
OPERATING REVENUES		
Customer Sales and Service Fees	$	18,478,949
Water Tanks Rents		821,559
Total Operating Revenues	$	19,300,509
OPERATING EXPENSES		
Operations		6,349,066
Maintenance		2,284,966
Depreciation		3,455,776
Taxes Other than Income Taxes		585,655
Total Operating Expenses	$	12,675,462
Net Operating Income	$	6,625,046
NON-OPERATING REVENUES (EXPENSES)		
Interest Expense	$	(1,948,636)
Other expense		(2,043)
Gains (Losses) on Capital Assets Disposition		(304,353)
Interest Income		514,414
Other Income		51,561
Total Non-Operating Revenues (Expenses)	$	(1,689,057)
Net Income Before Contributions	$	4,935,990
Capital Contributions		4,306,566
Changes in Net Position	$	9,242,556
Total Net Position, January 1 (as previously reported)	$	89,863,123
Prior Period Adjustment	$	(1,520,890)
Total Net Position, January 1 (as restated)	$	88,342,233
Total Net Position, December 31	$	97,584,788

The accompanying notes are integral part of this Financial Statement.

LAKEWOOD WATER DISTRICT
Statement of Cash Flows
Year Ended December 31, 2023

	2023
Cash Flows From Operating Activities	
Cash Received From Customers	$ 20,971,936
Cash Paid to Suppliers	(6,227,702)
Cash Paid to Employees	(5,435,122)
Net Cash Provided by Operating Activities	$ 9,309,112
Cash Flows From Noncapital Related Financing Activities	
Transfer of Funds	$ -
Cash Flows From Capital and Related Financing Activities	
Acquisition and Construction of Capital Assets	(9,320,164)
Payment of Bond Principal	(1,660,000)
Payment of Public Work Trust Fund	(83,000)
Interest Paid	(2,173,447)
Cash Contributions in Aid of Construction	3,704,985
Net Cash (Used) by Capital and Related Financing Activities	$ (9,531,626)
Cash Flows From Investing Activities	
Interest Received on Investments	509,248
Net Cash Provided by Investing Activities	$ 509,248
Net Increase (Decrease) in Cash and Cash Equivalents	
Net Cash Activities from Above	286,734
Cash & Cash Equivalents - January 1, 2023	$ 11,184,884
Cash & Cash Equivalents - December 31, 2023	$ 11,471,619

The accompanying notes are integral part of this Financial Statement.

LAKEWOOD WATER DISTRICT
Statement of Cash Flows
Year Ended December 31, 2023

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

Operating income		6,625,046
Other miscellaneous income/expense		
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and Amortization expense		3,455,775
Changes in assets and liabilities:		
Increase in Investments		
(Increase) decrease in accounts receivable		185,157
(Increase) decrease in inventory		(109,532)
(Increase) decrease in prepayment		21,690
Increase in deferred expenses		
Increase in cell tower receivables		634,780
(Increase) decrease in other assets		(61,759)
Decrease in deferred assets		
(Decrease) increase in accounts payable		(268,029)
(Decrease) increase in customer deposits		(9,566)
(Decrease) increase in accrued current liabilities		(561,509)
(Decrease) increase in compensated absences		(32,001)
Changes related to pension amounts		(570,941)
Total Adjustments	$	2,684,065
Net Cash Flow from Operating Activities	$	9,309,112

The accompanying notes are integral part of this Financial Statement.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity

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

b. Basis of Accounting and Presentation

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

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

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

c. Recently Adopted Accounting Standards and Adjustments

The District adopted the following new accounting standards during 2023

- GASB Statement No. 87, *Leases* – This statement is to better meet the information needs of financial users by improving accounting and financial reporting for leases by governments. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities

- 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 (governments). 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 for a SBITA; and (4) requires note disclosures regarding a SBITA.

d. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers cash and highly liquid investments with maturity of three months or less as cash equivalents. Cash and Cash Equivalents as of December 31, 2023 are comprised of:

Current Asset - Cash	$2,813,300
Bond Reserve - Cash	$ 409,093
Construction & Replacement – Cash	$ 8,249,226
Total	$11,471,619

e. Utility Plant and Depreciation

See Note 5.

f. Restricted Funds

In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including debt service, rehabilitation and replacement activities and also capital and construction activities. The District's statement of net position reports $8,658,319 of restricted cash, of which $8,658,319 is restricted by enabling legislation.

Restricted funds on December 31, 2023 were as follows:

Rehabilitation & Replacement:	$ 1,294,260
Capital & Construction:	6,870,273
Debt Service:	409,093
Joint Facilities	84,693
Total	$ 8,658,319

f. Receivables

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

g. Inventories

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

h. Investments

See Note 2.

i. Compensated Absences

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

The District recognizes vacation benefits only when earned. This practice conforms to generally accepted accounting principles. On December 31, 2023 the recorded liability for vacation pay was $319,798. Sick leave may accumulate up to 720 hours. Additionally, sick leave in excess of 720 hours are cashed out to the employee at the rate of two hours of sick leave for one hour of compensation (2:1) at the employee's regular base rate of pay. On December 31, 2023, the recorded liability for sick pay was $273,216. Accumulated sick leave is payable only at retirement eligibility (up to 480 hours at 100% and 240 hours at 50%).

j. Pensions

For purposes of measuring the net pension liability, net pension asset, 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.

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset and the related deferred outflows and deferred inflows.

See Note 7 – Pension Plans for details

NOTE 2 - DEPOSITS AND INVESTMENTS

The District's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). For 2023, the District has a 2 member investment committee to provide oversight for investments. The District does not have a specific policy that addresses a specific type of custodial risk that the District is exposed to for investments and deposits.

As of December 31, 2023, Lakewood Water District funds were held primarily in checking and savings accounts. Additionally, funds are held with the Washington State Local Government Investment Pool which had a balance of $10,618,957 on December 31, 2023.

The District is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

NOTE 3 – ACCOUNTING FOR LEASES

The District leases some of its tank sites to cell tower and TV cable companies to house their equipment. In accordance with GASB 87 – *Leases,* the District records lease receivables and deferred inflows of resources on the present value of payments to be received during the lease term (including extension options). The District has 18 effective contracts in 2023 for these agreements. These agreements have lease terms (plus potential extensions) that extend all the way to calendar year 2043.The District uses the Internal Revenue System (IRS) mid-term applicable federal rates (AFR) for December 2023 at 4.82%.

As of December 31, 2023, future lease receivable principal and interest payments are as follows:

Year-Ended December 31	Principal	Interest	Total
2024	634,780	30,596	665,377
2025	609,118	60,134	669,253
2026	544,989	82,665	627,653
2027	545,913	113,109	659,022
2028	445,394	118,198	563,593
2029-2033	1,628,177	721,076	2,349,253
2034-2038	822,574	674,235	1,496,809
2039-2043	519,171	693,885	1,213,056
Total	5,750,117	2,493,898	8,244,015

The District monitors any changes to any of the agreements including amendments to account for lease modifications or terminations that would require remeasurement of lease receivables and deferred inflows of resources.

NOTE 4 – SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

The District has entered into a subscription based-information technology arrangement (SBITAs) for its GIS utility enterprise software. This SBITA arrangement has a subscription term of 3 years ending in 2025.

As of December 31, 2023, SBITA assets and related accumulated amortization totaled:

	Beginning Balance	Increases	Decreases	Ending Balance
Subscription Assets	93,805.20	-	-	93,805.20
Accumulated Depreciation	(31,268.40)	-	-	(31,268.40)
Net Subscription Asset	62,536.80	-	-	62,536.80

Year Ending December 31	Principal	Interest	Total
2024	29,830.57	1,437.83	31,268.40
2025	28,458.85	2,809.55	31,268.40
Total	58,289.42	4,247.38	62,536.80

NOTE 5 - UTILITY PLANT AND DEPRECIATION

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

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

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

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

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

Assets	Years
Transmission Mains	100
Tanks	60
Water Treatment Equipment	5
Meters	20
Buildings	25

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

The following is a summary of the capital assets as of December 31, 2023:

	BEGINNING BALANCE	INCREASE	DECREASE	ENDING BALANCE
Utility Plant Not Being Depreciated				
Land and Water rights	$5,761,743	$ -	-	$5,761,743
Other Utility Plant	132,213	-	-	132,213
CWIP	18,410,184	$ 9,350,336	$21,059,026	$ 6,701,494
Total Utility Plant Not Being Depreciated	$24,304,140	$ 9,350,336	$21,059,026	$12,595,450
Utility Plant Being Depreciated				
Plant	$146,681,180	$18,484,544	$783,829	164,381,895
Equipment	10,736,481	1,012,475	66,362	11,682,594
Total Utility Plant Being Depreciated	$157,417,661	19,497,019	$850,190	$ 176,064,489
Total Accumulated Depreciation	$46,122,846	$3,424,507	$542,749	$ 49,004,604
Total Utility Plant Depreciated, Net	$111,294,815	$16,072,512	307,441	$ 127,059,885
Total Utility Plant, Net	$135,598,955	$ 25,422,848	21,366,467	$139,655,335
Subscription Assets, Net (see Note 4)	93,805		31,268	62,536
Total Capital Assets, Net	135,692,760	25,422,848	21,397,735	139,717,871

NOTE 6 - LONG-TERM DEBT.

The District issued $7,145,000 of revenue bonds on April 3, 2006 for the purpose of carrying out part of the Comprehensive Plan, including, but not limited to, financing the purchase of water rights, a tank replacement, a transmission main, and other system improvements. In fiscal year 2016, the District refunded a substantial portion of the bonds ($4,080,000 in principal balance) to attain financial and economic savings. As a result, a portion of the 2006 Revenue Bonds are considered defeased and the liability for those bonds has been removed from the Statement of Net Position. Furthermore, in Fiscal Year 2019, the District issued two sets of bonds which resulted in the defeasance of the remaining portion of the bond that was not refunded. The District's refunded debt, in the amount of $4,133,479, has an interest rate of 1.8 percent. This resulted in a reduction of total debt service payments over 10 years by $466,149 and an economic gain (difference between the present values of the debt services on the old and new debt) of $416,730.
On August 2021, the District refunded these 2016 refunded bonds in the amount of $1,065,000 with an interest rate of 1.32 percent. This resulted in a reduction of total debt service payments over 3 years by $654 and an economic gain (difference between the present values of the debt services on the old and new debt) of $8,905.81. As of December 31, 2023, the 2021B refunded bond balance is $110,000.

The District issued $9,900,000 of revenue bonds on March 31, 2014 for the purpose of carrying out part of the Comprehensive Plan, including, but not limited to, financing the water main replacement program, AMI water meter purchases, and other system improvements. The bonds bear interest rates from 2.00 to 5.00 percent and will be redeemed over the next twenty years from water revenue sales. Principal was deferred for the first two years of the bonds. The balance as of December 31, 2023 of these revenue bonds outstanding was $8,300,000.

The District issued $7,140,000 of revenue bonds on July 27, 2017 for the purpose of carrying out part of the Comprehensive Plan, including, but not limited to, financing the water main replacement program and other system improvements. The bonds bear interest rates from 3.38 to 4.00 percent and will be redeemed over the next twenty years from water revenue sales. Principal payments are deferred until 2034. The balance as of December 31, 2023 of these revenue bonds outstanding was $7,140,000.

The District issued an $18,895,000 Water Revenue Private Activity AMT Bonds on July 9, 2019 for the purpose of carrying out the District Wholesale Transmission Main Extension Project that would deliver wholesale water to the District's partners in 2020. The bonds bear interest rates from 4.00 to 5.00 percent and will be redeemed over the next twenty-five years from water revenue sales – specifically, the wholesale water revenues. Principal payments were deferred until 2021. The balance as of December 31, 2023 of these revenue bonds outstanding was $17,470,000.

Additionally, the District issued a second set of bonds in the amount of $9,805,000 Water Revenue Bonds on July 9, 2019 for the purpose of carrying out part of the Comprehensive Plan, including, but not limited to, financing the water main replacement program and other system improvements. The bonds were also issued pursuant to Resolution No. B-1452. The bonds bear interest rates from 3.00 to 4.00 percent and will be redeemed over the next thirty years from water revenue sales. Principal payments are deferred until 2044. The balance as of December 31, 2023 of these revenue bonds outstanding was $9,805,000.

The District issued two sets of bonds in August 12, 2021. The first set of bonds (2021A) in the amount of $8,655,000 was issued for the purpose of paying part of the costs of acquiring and constructing improvements and betterments to the District's water system described in its comprehensive plan as well as pay the costs of the issuance and sale of the bonds. The bonds were issued pursuant to Resolution No. B-1469. The bonds bear interest rates from 2.00 to 3.00 percent and will be redeemed over the next thirty years from water revenue sales. The balance as of December 31, 2023 of these revenue bonds outstanding was $8,335,000.

The second set of bonds (2021B) issued on August 12, 2021 for the purpose of paying the cost of refunding the District's outstanding Water Revenue Refunding Bond, 2016. The 2016 Refunded Bonds have been satisfied and have a zero balance as of December 31, 2021. The 2021B have an outstanding balance of $110,000 (as mentioned above under the 2006 and 2016 refunded bonds).

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

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

The balance as of December 31, 2023 of the combined Public Works Trust Fund loans was $704,894.

The annual requirements to amortize all bonded debt and Public Work Trust Fund loans outstanding as of December 31, 2023, including interest, are as follows:

Years Ended December 31, 2023:

	Principal	Interest	Total
2024	1,643,000	2,118,660	3,761,660
2025	1,698,000	2,060,717	3,758,717
2026	1,513,000	1,998,110	3,511,110
2027	1,578,000	1,932,652	3,510,652
2028	1,638,000	1,863,845	3,501,845
2029-2033	9,244,895	8,170,441	17,415,336
2034-2038	8,950,000	6,239,063	15,189,063
2039-2043	10,940,000	4,253,525	15,193,525
2044-2048	13,450,000	1,737,500	15,187,500
2049-2053	1,210,000	98,200	1,308,200
Total	51,864,895	30,472,713	82,337,607

During the year ending December 31, 2023, the following changes occurred in long-term liabilities.

	Beginning Outstanding Debt 1/1/2023	**Amount Issued in 2023**	**Amount Redeemed in 2023**	**Ending Outstanding Debt 12/31/2023**	**Amount Due in 2024**
Revenue Bonds Payable					
Revenue Bond-2014	8,550,000	0	250,000	8,300,000	550,000
Revenue Bond-2017	7,140,000	0	0	7,140,000	0
Revenue Bond–2019A	18,240,000	0	770,000	17,470,000	390,000
Revenue Bond-2019B	9,805,000	0	0	9,805,000	0
Revenue Bond-2021A	8,495,000	0	160,000	8,335,000	510,000
Revenue Bond-2021B	590,000	0	480,000	110,000	110,000
Total Revenue Bonds	**52,820,000**	-	**1,660,000**	**51,160,000**	**1,560,000**

Public Works Trust Fund Loans Payable	Beginning Outstanding Debt 1/1/2023	Amount Issued in 2023	Amount Redeemed in 2023	Ending Outstanding Debt 12/31/2023	Amount Due in 2024
Public Works Trust #4	378,948	0	42,105	336,842	42,105
Public Works Trust #5	408,947	0	40,895	368,052	40,895
Total PWTF Loans	**787,895**	**0**	**83,000**	**704,894**	**83,000**

The District as of December 31, 2023 has $409,093 for bond payment reserves. These represent sinking funds and reserve requirements as contained in the various indentures.

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

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

NOTE 7 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2023:

Aggregate Pension Amounts – All Plans	
Pension liabilities	(464,467)
Pension assets	1,075,289
Deferred outflows of resources	959,559
Deferred inflows of resources	(620,626)
Pension expense/expenditures	(184,765)

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan.

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 2023 were as follows:

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee***
January – June 2023		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total	**10.39%**	**6.00%**
July – August 2023		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	2.85%	
Administrative Fee	0.18%	
Total	**9.39%**	**6.00%**
September – December 2023		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	2.97%	
Administrative Fee	0.20%	
Total	**9.53%**	**6.00%**

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

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2***
January – June 2023		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**10.39%**	**6.36%**
July – August 2023		
PERS Plan 2/3	6.36%	6.36%

PERS Plan 1 UAAL	2.85%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**9.39%**	**6.36%**
September – December 2023		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	2.97%	
Administrative Fee	0.20%	
Employee PERS Plan 3		Varies
Total	**9.53%**	**6.36%**

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

The District's actual PERS plan contributions were $135,578 to PERS Plan 1 and $250,598 to PERS Plan 2/3 for the year ended December 31, 2023.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2023 with a valuation date of June 30, 2022. 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 *2021 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2022 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2023. Plan liabilities were rolled forward from June 30, 2022, to June 30, 2023, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases**: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.00%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. 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 of 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 their lifetime.

Methods did not change from the prior contribution rate setting June 30, 2021 Actuarial Valuation Report (AVR).

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.0%. 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 7.0% 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 7.0 percent was determined using a building-block-method. In selecting this assumption, the 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

The table below summarizes the 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, 2023. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.5 %
Tangible Assets	7%	4.7%
Real Estate	18%	5.4%
Global Equity	32%	5.9%
Private Equity	23%	8.9%
	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 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 percent) or 1-percentage point higher (8 percent) than the current rate.

Net Pension Liability / (Asset)	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
PERS 1	648,896	464,467	303,505
PERS 2/3	1,169,506	(1,075,289)	(2,919,531)

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, 2023, the District's reported its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	464,467
PERS 2/3	(1,075,289)

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

	Proportionate Share 6/30/22	Proportionate Share 6/30/23	Change in Proportion
PERS 1	0.022297%	0.020347%	(0.001950%)
PERS 2/3	0.029003%	0.026235%	(0.002768%)

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2023 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.

Pension Expense

For the year ended December 31, 2023, the District recognized pension expense as follows:

	Pension Expense
PERS 1	(68,209)
PERS 2/3	(116,556)
TOTAL	(184,765)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2023, 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	-	(52,394)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	56,588	-
TOTAL	56,588	(52,394)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	219,035	(12,014)
Net difference between projected and actual investment earnings on pension plan investments	-	(405,234)
Changes of assumptions	451,444	(98,397)
Changes in proportion and differences between contributions and proportionate share of contributions	112,382	(52,587)
Contributions subsequent to the measurement date	120,111	-
TOTAL	902,972	(568,232)

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, 2023. 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
2024	(35,647)
2025	(44,830)
2026	27,641
2027	441
2028	-
Thereafter	-

Year ended December 31:	PERS 2/3
2024	(168,132)
2025	(227,009)
2026	339,969
2027	126,866
2028	126,105
Thereafter	16,830

NOTE 8 - RISK MANAGEMENT

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

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

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

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

NOTE 9 – ASSET RETIREMENT OBLIGATIONS (ARO)

As of December 31, 2023, the District owns, operates and maintains 32 wells. Under state law, wells are required to decommission upon their abandonment. The District's wells are maintained in good condition through preventative maintenance and rehabilitation. The District does not expect the decommissioning and abandonment of any wells in the foreseeable future. The District does not have any asset retirement obligations identified and recognized.

NOTE 10 – PRIOR PERIOD ADJUSTMENT – PFAS COST

In 2017, the District started to incur costs associated with the discovery and mitigation of Per- and Polyfluorinated Substances (PFAS) in specific wells and parts of the District. In 2017, PFAS were classified as contaminants that were still under investigation for its health effects on the human body. The Environmental Protection Agency (EPA) had yet to set a rule on the maximum contaminant levels (MCLs) for specific PFAS – perfluorooctanoic acid (PFOA) and perfluorooctanesulfonic acid (PFOS). As such, the District incurred expenses to monitor PFAS and build a response plan for future costs that will be incurred in the treatment of these contaminants.

A component of the District's PFAS spending was the incurrence of legal fees to build a framework on the financial responsibility for water contamination and treatment. This included building a case against the Joint-Base of Lewis-McChord which the District believes is responsible for the contaminants in its aquifers as well as the manufacturers of these contaminants which include 3M and Dupont.

As of December 31, 2023, the District believes that the framework for the cases against these companies has been completed but do not qualify as capital assets under governmental financial standards. Therefore, these costs should directly affect the District's net position. The total cost for this project is $2,221,358 with $1,520,890 affecting prior periods and $700,468 affecting the current fiscal year. The costs in the current fiscal year have been recognized as operating expenses under operations.

REQUIRED SUPPLEMENTARY INFORMATION - PERS 1 (UAAL)

LAKEWOOD WATER DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System Plan 1 (PERS 1)
As of June 30, 2023
Last 10 Fiscal Years*

		2023	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	%	0.020347%	0.022297%	0.019884%	0.019939%	0.020257%	0.021063%	0.017144%	0.019843%	0.018984%
Employer's proportionate share of the net pension liability	$	464,467	620,830	242,830	703,954	778,954	940,681	813,496	1,065,663	993,040
State's proportionate share of the net pension liability (asset) associated with the employer	$									
TOTAL	$	464,467	620,830	242,830	703,954	778,954	940,681	813,496	1,065,663	993,040
Covered payroll	$	3,626,787	3,299,411	3,346,103	3,035,837	2,840,531	2,606,770	2,364,713	2,203,212	2,191,514
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	12.81%	18.82%	7.26%	23.19%	27.42%	36.09%	34.40%	48.37%	45.31%
Plan fiduciary net position as a percentage of the total pension liability	%	80.16%	76.56%	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%

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

LAKEWOOD WATER DISTRICT
Schedule of Proportionate Share of the Net Pension Liability
Public Employees' Retirement System Plan 2 & 3 (PERS 2/3)
As of June 30, 2023
Last 10 Fiscal Years*

		2023	2022	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	%	0.026235%	0.029003%	0.025531%	0.026100%	0.026137%	0.026941%	0.022052%	0.025397%	0.024526%
Employer's proportionate share of the net pension liability (asset)	$	(1,075,289)	(1,075,658)	(2,543,298)	333,804	253,879	459,994	766,202	1,278,719	876,328
State's proportionate share of the net pension liability (asset) associated with the employer	$									
TOTAL	$	(1,075,289)	(1,075,658)	(2,543,298)	333,804	253,879	459,994	766,202	1,278,719	876,328
Covered payroll	$	3,626,787	3,299,411	3,346,103	3,035,837	2,840,531	2,606,770	2,364,713	2,203,212	2,191,514
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	-29.65%	-32.60%	-76.01%	11.00%	8.94%	17.65%	32.40%	58.04%	39.99%
Plan fiduciary net position as a percentage of the total pension liability	%	107.02%	106.73%	120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%

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

REQUIRED SUPPLEMENTARY INFORMATION - PERS 1 (UAAL)

LAKEWOOD WATER DISTRICT
Schedule of Employer Contributions
Public Employees' Retirement System Plan 1 (PERS 1)
For the year ended December 31, 2023
Last 10 Fiscal Years*

		2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$	135,578	119,549	144,001	154,368	145,686	139,402	119,690	108,794	97,035
Contributions in relation to the statutorily or contractually required contributions	$	(135,578)	(119,549)	(144,001)	(154,368)	(145,686)	(139,402)	(119,690)	(108,794)	(97,035)
Contribution deficiency (excess)	$	0	0	0	0	0	0	0	0	0
Covered payroll	$	3,940,213	3,189,344	3,358,296	3,216,944	2,947,489	2,753,212	2,441,725	2,280,785	2,217,223
Contributions as a percentage of covered payroll	%	3.44%	3.75%	4.29%	4.80%	4.94%	5.06%	4.90%	4.77%	4.38%

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

REQUIRED SUPPLEMENTARY INFORMATION - PERS 2/3

LAKEWOOD WATER DISTRICT
Schedule of Employer Contributions
Public Employees' Retirement System Plan 2/3 (PERS 2/3)
For the year ended December 31, 2023
Last 10 Fiscal Years*

		2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$	250,598	202,843	239,689	254,782	227,619	206,490	167,724	142,092	124,533
Contributions in relation to the statutorily or contractually required contributions	$	(250,598)	(202,843)	(239,689)	(254,782)	(227,619)	(206,490)	(167,724)	(142,092)	(124,533)
Contribution deficiency (excess)	$	0	0	0	0	0	0	0	0	0
Covered payroll	$	3,940,213	3,189,344	3,358,296	3,216,944	2,947,489	2,753,212	2,441,725	2,280,785	2,217,223
Contributions as a percentage of covered payroll	%	6.36%	6.36%	7.14%	7.92%	7.72%	7.50%	6.87%	6.23%	5.62%

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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