

**LAKEHAVEN WATER AND SEWER DISTRICT**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2016**



**LAKEHAVEN WATER AND 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 and Sewer District  
Federal Way, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lakehaven Water and Sewer District (the District) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 27, 2017.

***Internal Control over Financial Reporting***

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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



**CliftonLarsonAllen LLP**

Bellevue, Washington  
December 27, 2017



## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Lakehaven Water and Sewer District (the District) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### ***Auditors' Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lakehaven Water and Sewer District as of December 31, 2016, and the respective 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.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information, contained on pages 5 through 12, and the schedules of proportionate share of the net pension liability and employer contributions, contained on pages 42 through 45, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lakehaven Water and Sewer District's basic financial statements. The departmental statements of net position, revenues, expenses and changes in fund net position and cash flows are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The departmental statements of net position, revenues, expenses and changes in fund net position and cash flows have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Board of Commissioners  
Lakehaven Water and Sewer District

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2017, on our consideration of Lakehaven Water and Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lakehaven Water and Sewer District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Bellevue, Washington  
December 27, 2017

**LAKEHAVEN WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016  
(SEE INDEPENDENT AUDITORS' REPORT)**

**BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS**

The District's financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Fund Net Position, a Statement of Cash Flows, Notes to the Financial Statements and Required Supplementary Information. The financial statements are prepared using the accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments. The intent of the management's discussion and analysis is to provide highlights of the District's financial activities for the year ended December 31, 2016. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

The statement of net position presents total assets and deferred outflows of resources and total liabilities and deferred inflows of resources with the difference between the two totals reported as net position. It provides information about the nature and amounts of investments in resources (assets), consumption of resources that are applicable to future periods (deferred outflows), obligations to District creditors (liabilities) and the acquisition of resources that are applicable to a future reporting period (deferred inflows). It provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

The statement of revenues, expenses, and changes in fund net position presents the results of the business activities over the course of the year. This information can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, financing, and investing activities over the course of the year. It presents information regarding where cash came from and what it was used for.

The notes to the financial statements provide useful information regarding the District's significant accounting policies, significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

**CONDENSED COMPARATIVE STATEMENT OF NET POSITION**

The following condensed statement of net position by division presents the assets and deferred outflow of resources of the District as of December 31, 2016 and 2015 and shows the mix of liabilities and deferred inflow of resources and net position used to acquire these assets and deferred outflow of resources:

**LAKEHAVEN WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016  
(SEE INDEPENDENT AUDITORS' REPORT)**

**CONDENSED COMPARATIVE STATEMENT OF NET POSITION (CONTINUED)**

	As of December 31, 2016			As of December 31, 2015		
	Water	Wastewater	Total	Water	Wastewater	Total
<b>Assets</b>						
Current Assets	\$ 28,091,924	\$ 27,601,254	\$ 55,693,178	\$ 23,683,355	\$ 25,594,843	\$ 49,278,198
Noncurrent Assets	123,961,660	107,603,997	231,565,657	124,700,608	109,643,844	234,344,452
<b>Total Assets</b>	<u>152,053,584</u>	<u>135,205,251</u>	<u>287,258,835</u>	<u>148,383,963</u>	<u>135,238,687</u>	<u>283,622,650</u>
<b>Deferred Outflow of Resources</b>						
Deferred Outflows	699,517	678,191	1,377,708	582,822	509,293	1,092,115
<b>Liabilities</b>						
Current Liabilities	5,586,217	3,699,313	9,285,530	4,778,220	2,997,964	7,776,184
Noncurrent Liabilities:						
Long-Term Debt	20,602,374	1,634,486	22,236,860	23,419,376	2,128,497	25,547,873
Other	4,407,197	4,377,164	8,784,361	3,733,082	3,700,079	7,433,161
<b>Total Liabilities</b>	<u>30,595,788</u>	<u>9,710,963</u>	<u>40,306,751</u>	<u>31,930,678</u>	<u>8,826,540</u>	<u>40,757,218</u>
<b>Deferred Inflow of Resources</b>						
Deferred Inflows	77,083	77,083	154,166	502,203	502,203	1,004,406
<b>Net Position</b>						
Net Investment in Capital Assets	99,892,313	105,553,664	205,445,977	98,132,921	106,703,461	204,836,382
Restricted for Debt Service	1,782,127	102,949	1,885,076	1,935,682	904,819	2,840,501
Unrestricted	20,405,790	20,438,783	40,844,573	16,465,301	18,810,957	35,276,258
	<u>\$ 122,080,230</u>	<u>\$ 126,095,396</u>	<u>\$ 248,175,626</u>	<u>\$ 116,533,904</u>	<u>\$ 126,419,237</u>	<u>\$ 242,953,141</u>

Note: The 2015 condensed financial statements have not been restated.

**LAKEHAVEN WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016  
(SEE INDEPENDENT AUDITORS' REPORT)**

**ANALYSIS OF THE CONDENSED COMPARATIVE STATEMENT OF NET POSITION**

*ASSETS*

Current assets consist of cash and cash equivalents held in the maintenance, construction, and revenue accounts as well as accounts receivable, prepaid expenses, inventory, and accrued interest. Water current assets increased by \$4,408,569 and Wastewater current assets increased by \$2,006,411 for a total increase of \$6,414,980. The increase is largely due to increases in the unrestricted cash and cash equivalents held in the King County Investment Pool, partially offset by decreases in customer accounts receivable and decreases in restricted cash & cash equivalents. 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 decreased primarily due to the timing of payments and restricted cash decreased due to payments on the revenue bonds. Accrued interest receivable on investments did not materially change in 2016.

Noncurrent assets consist of net capital assets, which include land, construction in progress, equipment, buildings, infrastructure, and intangibles. Water noncurrent assets decreased by \$738,948 and Wastewater noncurrent assets decreased by \$2,039,847 for a total decrease of \$2,778,795 in 2016. The Water and Wastewater decrease was primarily due to depreciation expense in excess of capital additions.

Deferred Outflow of Resources consists of pension deferred outflows and unamortized losses on the refunding of revenue bonds. Water pension deferred outflows totaled \$675,218 and Wastewater pension deferred outflows totaled \$675,218 for a total of \$1,350,436 in 2016. Pension deferred outflows increased by \$596,952 in 2016 due to differences in projected and actual earnings on pension plan investments. Water deferred outflow of resources related to unamortized losses on refunding decreased by \$59,408 and Wastewater deferred outflow of resources related to unamortized losses on refunding decreased by \$7,205 due to amortization of the deferred losses.

*LIABILITIES AND NET POSITION*

Current liabilities include accounts payable, deposits, interest payable on debt, retainage and the current portion of long term debt. Water current liabilities increased by \$807,997 and Wastewater current liabilities increased by \$701,349 for a total increase of \$1,509,346 from 2015. Water current liabilities increased primarily due to increases in accounts payable, development deposits, and current portion of long term debt. Wastewater current liabilities increased due to increases in deposits and accounts payable partially offset by a decrease in the current portion of long term debt. Accounts payable increased in 2016 primarily due to timing of payments. Developer and customer deposits increased in 2016 primarily due to increased development activities. The current portion of debt, including interest payable, decreased by \$133,549 during the year. This decrease is primarily due to a decrease in the current portion of long term debt related to revenue bonds.

**LAKEHAVEN WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016  
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**ANALYSIS OF THE CONDENSED COMPARATIVE STATEMENT OF NET POSITION (CONTINUED)**

Noncurrent liabilities include the long term portion of revenue bonds, Public Works Trust Fund, and State Revolving Fund loans. Noncurrent liabilities also include compensated absences, co-op certificates and the pension liability. Water noncurrent liabilities decreased by \$2,142,887 and Wastewater noncurrent liabilities increased by \$183,074 for a total decrease of \$1,959,813 in 2016. Water noncurrent liabilities decreased primarily due to decreases in the long term portion of Public Works Trust Fund and State Revolving Fund loans and revenue bonds partially offset by increases in the net pension liability. Wastewater noncurrent liabilities increased primarily due to increases in the net pension liability partially offset by decreases in the long term portion of Public Works Trust Fund and State Revolving Fund loans and revenue bonds. The long term portion of Public Works Trust Fund loans, State Revolving Fund loans and revenue bonds decreased due to payments on the debt partially offset by draws on the Public Works Trust Fund loans.

Deferred Inflow of Resources consists of Water pension deferred inflows of \$77,083 and Wastewater pension deferred inflows of \$77,083 for a total of \$154,166. Water pension deferred inflows decreased by \$425,120 and Wastewater pension deferred inflows decreased by \$425,120 for a total decrease of \$850,240. The decrease is due to differences in projected and actual earnings on pension plan investments partially offset by differences between expected and actual experience rates.

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 \$248 million is in three categories:

- Net Investment in Capital Assets, represents the book value amount invested in capital assets net of depreciation and the related debt. The primary changes that affected this category were the continued lowering of the District's overall debt through the normal repayment and reduction of the principal partially offset by the net decrease in the District's capital assets.
- The Restricted Net Position consists of debt service reserves of \$1.9 million in support of debt service commitments. Change in this portion of the Net Position reflects changes to the District's overall debt structure and its ability to pay debt when due.
- 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 net income of \$5.4 million. The District is accumulating cash reserves in order to fund future capital and renovation projects.

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

The following statement of revenues, expenses, and changes in fund net position by division for the years ended December 31, 2016 and 2015 presents the annual surplus or deficiency of revenues over expenses (the change in net position):

**LAKEHAVEN WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016  
(SEE INDEPENDENT AUDITORS' REPORT)**

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

	As of December 31, 2016			As of December 31, 2015		
	Water	Wastewater	Total	Water	Wastewater	Total
<b>Revenues</b>						
Operating Revenues	\$ 15,655,935	\$ 16,338,891	\$ 31,994,826	\$ 17,202,273	\$ 16,058,219	\$ 33,260,492
Investment Income	167,902	180,088	347,990	90,822	108,031	198,853
Gain on Sale of Capital Assets	15,944	26,414	42,358	-	5,733	5,733
Other Income	541,485	10,766	552,251	232,275	52,723	284,998
Total Revenues	<u>16,381,266</u>	<u>16,556,159</u>	<u>32,937,425</u>	<u>17,525,370</u>	<u>16,224,706</u>	<u>33,750,076</u>
<b>Expenses</b>						
Operating & Maintenance	6,917,734	11,828,401	18,746,135	6,045,226	9,043,046	15,088,272
Administrative & General	2,235,687	2,296,533	4,532,220	2,021,814	1,997,601	4,019,415
Depreciation & Amortization	3,939,376	4,027,214	7,966,590	3,717,720	4,068,256	7,785,976
Taxes	939,453	531,066	1,470,519	848,200	326,746	1,174,946
Loss on Sale of Capital Assets	-	-	-	3,727	-	3,727
Casualty Loss	-	1,232,639	1,232,639	-	-	-
Public Works & SRF Interest	213,054	11,879	224,933	166,237	30,453	196,690
Revenue Bond Interest	116,927	18,451	135,378	63,582	13,515	77,097
Total Expenses	<u>14,362,231</u>	<u>19,946,183</u>	<u>34,308,414</u>	<u>12,866,506</u>	<u>15,479,617</u>	<u>28,346,123</u>
Change in Net Position before						
Capital Contributions	2,019,035	(3,390,024)	(1,370,989)	4,658,864	745,089	5,403,953
Capital Contributions	3,649,664	3,188,556	6,838,220	2,629,125	2,492,736	5,121,861
Change in Net Position	<u>5,668,699</u>	<u>(201,468)</u>	<u>5,467,231</u>	<u>7,287,989</u>	<u>3,237,825</u>	<u>10,525,814</u>
Total Net Position, January 1	116,533,904	126,419,237	242,953,141	112,792,675	126,728,172	239,520,847
Prior Period Adjustment	(122,373)	(122,373)	(244,746)	-	-	-
Change in Accounting Principle						
GASB 68	-	-	-	(3,546,760)	(3,546,760)	(7,093,520)
Total Net Position, December 31	<u>\$ 122,080,230</u>	<u>\$ 126,095,396</u>	<u>\$ 248,175,626</u>	<u>\$ 116,533,904</u>	<u>\$ 126,419,237</u>	<u>\$ 242,953,141</u>

**LAKEHAVEN WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016  
(SEE INDEPENDENT AUDITORS' REPORT)**

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

*REVENUES*

Water operating revenues decreased by \$1,546,388 in 2016, primarily due to a non-recurring one-time sale of water to the City of Tacoma in 2015 partially offset by a rate increase enacted in 2016. Wastewater operating revenues increased by \$280,672 in 2016, primarily due to increase in usage partially and a rate increase enacted during the year. The average rate increase of 1.8% was enacted on July 1, 2016. Total operating revenues decreased by \$1,265,666 in 2016.

Water investment income increased by \$77,080 and Wastewater investment income increased by \$72,057 for a total increase of \$149,137 in 2016. The increase was due to a higher average balance invested in the King County Investment Pool. The average balance being invested varies from year to year and can result in differences in the interest collected by the District.

*EXPENSES*

Water operations and maintenance costs increased in 2016 by \$872,508 and Wastewater operations and maintenance costs increased in 2016 by \$2,785,355 for a total annual increase of \$3,657,863. The Water increase was primarily driven by an increase in employee headcount in 2016 as well as increased filtration costs related to the Second Supply Partnership (Note 9) and an increase in the District's labor and benefit costs. The Wastewater increase was primarily driven by an increase in chemical costs at the Redondo Wastewater treatment plant. The UV system at the treatment plant was destroyed by a flood and the District used additional chemicals in place of the UV system in 2016.

Water administrative and general expenses increased in 2016 by \$213,873 and Wastewater administrative and general expenses increased in 2016 by \$298,932 for a net annual increase of \$512,805. The net increase was driven mostly by increased labor and benefits costs in 2016.

Wastewater experienced a casualty loss of \$1,232,639 in 2016. This was the result of a flood at the Redondo Wastewater treatment plant which caused the UV system to be destroyed. The casualty loss was reduced by insurance proceeds of \$236,236.

Water interest expense increased by \$100,162 and Wastewater interest expense decreased by \$13,637 for a total increase of \$86,525 compared to 2015. This increase was primarily due to a \$151,762 decrease of capitalized interest in 2016 partially offset by a decrease in average bonds outstanding during the year.

*CAPITAL CONTRIBUTIONS*

The District experienced a \$1,716,359 increase in capital contributions in 2016 of which \$1,020,539 related to Water and \$695,820 related to Wastewater. This increase is primarily due to increased development activity in the District in 2016.

*PRIOR PERIOD ADJUSTMENT*

Beginning net position and deferred outflow pension were decreased by \$244,746 to correct these balances for a prior period adjustment. See Note 13 for more information.

**LAKEHAVEN WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016  
(SEE INDEPENDENT AUDITORS' REPORT)**

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

*NET POSITION*

In 2016 Water experienced an increase in net position of \$5,546,326 and Wastewater experienced a decrease in net position of \$323,842 for a total increase in net position of \$5,222,484.

**ANALYSIS OF OVERALL FINANCIAL CONDITION**

While the District experienced negative net operating income; the District had an increase in net position compared to 2015, and sustained positive cash flows which resulted in an improvement of the District's financial condition in 2016.

**CAPITAL ASSETS**

Capital assets consist of land, construction in progress, equipment, buildings, infrastructure, and intangibles. Net capital assets decreased by \$2,778,795 in 2016 of which Water decreased by \$738,948 and Wastewater decreased by \$2,039,847. The decrease was primarily due depreciation and amortization of \$7,966,590 and the casualty loss disposal of the Redondo UV system partially offset by net acquisitions of depreciable assets and construction in progress.

Principal projects included in the 2016 capital spending were Lakota treatment upgrades totaling \$2,549,533, Phase V upgrades of \$675,805, water main replacements of \$529,882, service connections of \$433,915, Second Supply costs of \$324,913, Oasis Phase I costs of \$299,615 and meter installations of \$284,810. Donated systems (infrastructure donated by developers) in the amount of \$1,579,746 are included in the 2016 capital asset additions. Over the next ten years it is anticipated that capital spending will be in the range of \$160 million with approximately 46% of that going to water projects. The areas of major emphasis in the capital budget include upgrades to water treatment & filtration, existing infrastructure, pump stations and additional water sources. See Note 4 for more information.

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

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Land	\$ 1,064,117	\$ 5,376,745	\$ 6,440,862
Construction in Progress	2,446,631	9,428,994	11,875,625
Equipment	13,114,042	15,247,105	28,361,147
Buildings	1,545,686	1,044,796	2,590,482
Infrastructure	108,449,276	160,125,544	268,574,820
Intangibles	67,989,378	2,340,571	70,329,949
Accumulated Depreciation	<u>(70,647,470)</u>	<u>(85,959,758)</u>	<u>(156,607,228)</u>
Total Capital Assets, Net	<u>\$123,961,660</u>	<u>\$107,603,997</u>	<u>\$231,565,657</u>

**LAKEHAVEN WATER AND SEWER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016  
(SEE INDEPENDENT AUDITORS' REPORT)**

**CAPITAL ASSETS (CONTINUED)**

Capital assets by division for the year ended December 31, 2015 was as follows:

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Land	\$ 1,064,117	\$ 5,376,745	\$ 6,440,862
Construction in Progress	24,950,658	10,350,389	35,301,047
Equipment	13,060,114	17,875,917	30,936,031
Buildings	1,545,686	1,044,796	2,590,482
Infrastructure	104,536,432	156,430,844	260,967,276
Intangibles	46,308,667	2,340,571	48,649,238
Accumulated Depreciation	<u>(66,765,066)</u>	<u>(83,775,418)</u>	<u>(150,540,484)</u>
Total Capital Assets, Net	<u>\$124,700,608</u>	<u>\$109,643,844</u>	<u>\$234,344,452</u>

**LONG-TERM DEBT**

In 2016, Water long-term debt decreased by \$2,817,002 and Wastewater long-term debt decreased by \$494,011 for a total decrease of \$3,311,013. The Water decrease was driven by principal payments on the revenue bonds, Public Works Trust Fund loans, and State Revolving Fund loans, partially offset by draws on the State Revolving Fund loans. The Wastewater decrease was driven by principal payments on the revenue bonds and Public Works Trust Fund loans. Total District principal payments totaled \$4,378,114 in 2016.

At December 31, 2016, the District had total Public Works Trust Fund & State Revolving Fund loans outstanding of \$24,193,051 and total revenue bonds outstanding of \$1,945,000. See Note 6 for more information.

**ADDITIONAL COMMENTS**

The District has planned Water rate increases of approximately 1.8% year for 2017, 2018, 2019, and 2020. The District has planned Wastewater rate increases of approximately 2.8% for 2017, 2018, 2019, and 2020.

The District anticipates meeting their operating and capital expenditures through operating cash flows and cash on hand and does not anticipate issuing any debt in the next four years.

**LAKEHAVEN WATER AND SEWER DISTRICT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 49,719,053
Accrued Interest Receivable	39,442
Accounts Receivable - Customers	3,347,718
Accounts Receivable - Other	59,873
Restricted Assets:	
- Cash and Cash Equivalents	1,892,639
- Accrued Interest Receivable	1,522
Inventory	240,015
Prepaid Expenses	392,916
Total Current Assets	55,693,178

Noncurrent Assets

Capital Assets Not Being Depreciated:

- Land	6,440,862
- Construction in Progress	11,875,625

Capital Assets Being Depreciated

- Equipment	28,361,147
- Buildings	2,590,482
- Infrastructure	268,574,820
- Intangibles	70,329,949

Less Accumulated Depreciation

and Amortization (156,607,228)

Total Capital Assets Being Depreciated 213,249,170

Total Capital Assets 231,565,657

Total Noncurrent Assets 231,565,657

Total Assets 287,258,835

DEFERRED OUTFLOW OF RESOURCES

Deferred Outflow - Pension	1,350,436
Deferred Loss on Refunding	27,272
Total Deferred Outflow of Resources	1,377,708

See accompanying Notes to Financial Statements.

**LAKEHAVEN WATER AND SEWER DISTRICT  
STATEMENT OF NET POSITION (CONTINUED)  
DECEMBER 31, 2016**

LIABILITIES

Current Liabilities

Accounts Payable	\$ 3,148,929
Deposits, Customers & Developers	2,118,252
Retainage Due Contractors	29,797
Public Works Trust Fund & State Revolving Fund Loans (Current Portion)	1,956,191
Interest Payable - PETF & SRF Loans	77,595
Payable from Restricted Assets:	
Revenue Bonds Outstanding Net of Unamortized Bond Premium (Current Portion)	1,947,203
Bond Interest Payable	7,563
Total Current Liabilities	9,285,530

Noncurrent Liabilities

Public Works Trust Fund & State Revolving Fund Loans (Less Current Portion)	22,236,860
Compensated Absences	767,887
Co-Op Certificated	25,000
Net Pension Liability	7,991,474
Total Noncurrent Liabilities	31,021,221
Total Liabilities	40,306,751

DEFERRED INFLOW OF RESOURCES

Deferred Inflow - Pension	154,166
Total Deferred Inflow of Resources	154,166

NET POSITION

Net Investment in Capital Assets	205,445,977
Restricted for Debt Service and Impaired Investments	1,885,076
Unrestricted	40,844,573
Total Net Position	\$ 248,175,626

See accompanying Notes to Financial Statements.

**LAKEHAVEN WATER AND SEWER DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITON  
YEAR ENDED DECEMBER 31, 2016**

<u>Operating Revenues</u>	
Customer Sales & Service Fees	\$ 30,567,408
Permits, Inspections & Delinquency Fees	392,634
Developer Revenues & Administrative Charges	848,845
Street Lighting Revenues	185,939
Total Operating Revenues	<u>31,994,826</u>
<u>Operating Expenses</u>	
Maintenance & Operations	18,746,135
Administrative & General	4,532,220
Depreciation & Amortization	7,966,590
Taxes, Other Than Income Tax	1,470,519
Total Operating Expenses	<u>32,715,464</u>
Net Operating Income (Loss)	<u>(720,638)</u>
Nonoperating Revenues (Expenses)	
Interest Expense	(360,311)
Investment Income	347,990
Gain (Loss) on Sale of Capital Assets	42,358
Casualty Loss	(1,232,639)
Other Income	552,251
Total Nonoperating Revenues (Expenses)	<u>(650,351)</u>
Income (Loss) Before Contributions	<u>(1,370,989)</u>
Capital Contributions	<u>6,838,220</u>
Change in Net Position	5,467,231
Total Net Position, January 1	242,953,141
Prior Period Adjustment	(244,746)
Total Net Position, December 31	<u>\$ 248,175,626</u>

See accompanying Notes to Financial Statements.

**LAKEHAVEN WATER AND SEWER DISTRICT  
STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2016**

<u>Cash Flows From Operating Activities</u>	
Cash Received From Customers	\$ 32,718,360
Cash Paid to Suppliers	(12,833,505)
Cash Paid to Employees	(11,616,110)
Net Cash Provided by Operating Activities	<u>8,268,745</u>
<u>Cash Flows From Capital &amp; Related Financing Activities</u>	
Acquisition & Construction of Capital Assets	(3,727,319)
Proceeds from State Revolving Fund Loans	1,022,486
Payment of Bond Principal & Other Financing	(4,378,115)
Interest Paid	(382,631)
Proceeds from Sale of Capital Assets	42,358
Insurance Proceeds on Casualty Loss	236,236
Cash Contribution in Aid of Construction	5,215,565
Net Cash (Used) by Capital & Related Financing Activities	<u>(1,971,420)</u>
<u>Cash Flows From Investing Activities</u>	
Interest Received on Investments	<u>330,645</u>
Net Cash Provided by Investing Activities	<u>330,645</u>
<u>Net Increase in Cash &amp; Cash Equivalents</u>	
Cash & Cash Equivalents - January 1	44,983,722
Cash & Cash Equivalents - December 31	<u>\$ 51,611,692</u>
<u>Noncash Investing, Capital and Financing Activities</u>	
Contributions of Capital Assets from Developers	\$ 1,579,746

See accompanying Notes to Financial Statements.

**LAKEHAVEN WATER AND SEWER DISTRICT  
STATEMENT OF CASH FLOWS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2016**

<u>Reconciliation of Net Operating Income (Loss)</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Net Operating Income (Loss)	\$ (720,638)
 <u>Adjustments to Reconcile Operating Income (Loss)</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Depreciation & Amortization	7,966,590
Other Income	552,251
 <u>Changes in Assets, Deferred Outflow of Resources,</u>	
<u>Liabilities &amp; Deferred Inflow of Resources</u>	
(Increase) Decrease in Accounts Receivable	171,283
(Increase) in Inventory	(30,478)
Decrease in Prepaid Expenses	132,439
Increase in Accounts Payable	293,290
Increase in Compensated Absences	22,946
(Increase) in Deferred Outflows Related to Pensions	(596,952)
(Decrease) in Deferred Inflows Related to Pensions	(850,240)
Increase in Net Pension Liability	1,328,254
Total Adjustments	<u>8,989,383</u>
Total Cash Provided by Operating Activities	<u>\$ 8,268,745</u>

See accompanying Notes to Financial Statements.

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**a. Reporting Entity**

Lakehaven Water & Sewer District is a municipal corporation governed by an elected, five member board. The District's primary activity is to provide water and waste water services to residential and commercial customers within the District's boundaries. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

**b. Basis of Accounting and Presentation**

The District uses a single enterprise proprietary fund presentation using the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. The proprietary fund is comprised of two programs: water and waste water. Unbilled utility service receivables are recorded at year-end.

The District distinguishes between operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water and wastewater sales and other related services. Operating expenses pertain to the furnishing of those services which include the cost of sales and services, administration expenses and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**c. Cash and Cash Equivalents**

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**d. Receivables**

Receivables consist primarily of amounts due from water and sewer customers. All receivables are recorded when earned. No allowance for uncollectible accounts is provided since the District has power to record liens for its receivables and, generally, does not experience significant uncollectible amounts.

**e. Inventories**

Inventories are valued at average cost.

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**f. Investments**

Investments are recorded at fair value. See Note 2.

**g. Compensated Absences**

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Employees may accumulate and be paid upon retirement or other separation from employment a maximum of 320 hours of vacation/sick leave time. The District accrues accumulated vacation/sick leave benefits and severance pay benefits as earned.

**h. Capital Assets**

Utility plant in service is recorded at cost. The District uses a capitalization threshold of \$5,000. Provision for depreciation is computed on the straight-line method with the following useful lives: Equipment, 3 – 25 years; Buildings, 50 years; Infrastructure, 10 – 50 years; Intangibles, 10 – 50 years. Upon retirement of an asset, the cost of the asset and the related accumulated depreciation are removed from the property accounts and the gain or loss is reflected in the statement of revenues, expenses, and changes in fund net position.

Repairs and maintenance are expensed as incurred, while major renewals, replacements, and betterments are capitalized.

Assets acquired through contributions are recorded as capital contributions and added to the appropriate property, plant, and equipment accounts.

Preliminary planning and design costs incurred for proposed projects are held pending construction of the facility. Costs relating to projects which are ultimately constructed are transferred to capitalized utility plant. Costs relating to those projects abandoned are charged to expense when it is determined that they will not be completed. See Note 3.

**i. Restricted Assets**

These accounts contain resources for debt service and impaired investments. The current portion of related liabilities is shown as Payables from Current Restricted Assets. Specific debt service reserve requirements are described in Note 6, Long-Term Debt.

The restricted assets are composed of the following:

Current Restricted Assets	Cash and Cash Equivalents	Interest Receivable	Total
Bond Reserve	\$ 1,892,638	\$ 1,522	\$ 1,894,160
Impaired Investment	37,564	-	37,564
Total Restricted Assets	\$ 1,930,202	\$ 1,522	\$ 1,931,724

These accounts contain resources for construction and debt service.

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**j. Unamortized Debt Discount/Premium**

Bond discounts/premiums relating to the sale of bonds are deferred and amortized over the lives of the various bond issues using the interest method. Amortization of discounts/premiums is included in interest expense.

**k. 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.

**l. Medical Insurance**

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

**m. 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.

**n. Net Position**

Net position is classified in the following three components:

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

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

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

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

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**o. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**p. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**q. Deferred Outflows/Inflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources consist of losses on refunding of debt, contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. The deferred loss on refunding of debt results from a difference in the carrying value of refunded debt and its reacquisition price. Losses on refunding of debt are amortized by the interest method over the life of the refunded or refunding debt, whichever is shorter. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the following year. Deferred outflows of resources for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred outflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

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

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 2 DEPOSITS AND INVESTMENTS**

The District's cash and investment balances at December 31, 2016 are listed below:

Bank Deposits	\$ 25,850
Investment in King County Investment Pool	<u>51,585,842</u>
Total Cash & Investments	<u>\$ 51,611,692</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).

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

As of December 31, 2016, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$ 51,585,842	1.10 Years

**Impaired Investments**

As of December 31, 2016, all impaired commercial paper investments had completed enforcement events. The King County Impaired Investment Pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The Impaired Pool also held the residual investments one commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash-out option. The District's share of the impaired investment pool principal was \$60,499 and the District's fair value of the investments is \$37,590 as of December 31, 2016.

**Interest Rate Risk**

As of December 31, 2016, the Pool's average duration was 1.10 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

**Credit Risk**

As of December 31, 2016, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. treasury securities, U.S. agency securities and mortgage-backed securities, bank corporate note (rated at least "A" 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  
DECEMBER 31, 2016**

**NOTE 3 CAPITAL ASSETS**

Major classes of capital asset and capital asset activity were as follows at December 31, 2016:

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
Capital Assets, Not Being Depreciated:				
Land and Land Rights	\$ 6,440,862	\$ -	\$ -	\$ 6,440,862
Construction in Progress	35,301,047	6,392,019	(29,817,441)	11,875,625
Depreciated	<u>41,741,909</u>	<u>6,392,019</u>	<u>(29,817,441)</u>	<u>18,316,487</u>
Capital Assets, Being Depreciated:				
Equipment	30,936,031	793,837	(3,368,721)	28,361,147
Buildings	2,590,482	-	-	2,590,482
Infrastructure	260,967,276	7,607,544	-	268,574,820
Intangibles	48,649,238	21,680,711	-	70,329,949
Depreciated	<u>343,143,027</u>	<u>30,082,092</u>	<u>(3,368,721)</u>	<u>369,856,398</u>
Less Accumulated Depreciation For:				
Equipment	14,356,932	1,273,640	(1,899,846)	13,730,726
Buildings	1,131,221	51,810	-	1,183,031
Infrastructure	122,007,775	5,249,090	-	127,256,865
Intangibles	13,044,556	1,392,050	-	14,436,606
Total Accumulated Depreciation	<u>150,540,484</u>	<u>7,966,590</u>	<u>(1,899,846)</u>	<u>156,607,228</u>
Depreciated, Net	<u>192,602,543</u>	<u>22,115,502</u>	<u>(1,468,875)</u>	<u>213,249,170</u>
Total Capital Assets, Net	<u>\$234,344,452</u>	<u>\$ 28,507,521</u>	<u>\$(31,286,316)</u>	<u>\$231,565,657</u>

The District capitalizes employee wages and benefit costs in connection with the construction of utility plant assets. In 2016, the total wage and benefit expense was \$11,484,063 of which \$1,433,359 was capitalized.

The District's total interest cost was \$360,311 in 2016, of which no amounts were capitalized as construction period interest.

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 CONSTRUCTION IN PROGRESS**

Construction in progress represents expenses to date on projects whose authorizations total \$44,772,276. Of the committed balance of \$32,896,651, the District does not anticipate raising any funds from future financing.

	<u>Project Authorization</u>	<u>Expended to 12/31/16</u>	<u>Committed</u>	<u>Anticipated Future Financing</u>
Oasis	\$ 4,806,954	\$ 378,889	\$ 4,428,065	\$ -
Admin Facility Upgrades	6,730,316	69,434	6,660,882	-
PS Upgrades	7,476,868	1,831,557	5,645,311	-
Road Program	3,954,077	1,724,924	2,229,153	-
SM Collection	2,597,530	1,601,035	996,495	-
Vehicle Replacement	56,711	46,920	9,791	-
Water Upgrades	1,140,105	225,465	914,640	-
WM Distribution	1,202,906	112,649	1,090,257	-
Lakota	12,679,275	4,819,297	7,859,978	-
Redondo	4,127,534	1,065,455	3,062,079	-
	<u>\$44,772,276</u>	<u>\$11,875,625</u>	<u>\$32,896,651</u>	<u>\$ -</u>

**NOTE 5 OPERATING LEASES**

In September 2013, the District entered into a noncancelable operating lease agreement with Ricoh USA, Inc. for one copy machine. The lease payments began in 2013 and the terms are for 60 months with payments of \$155 made quarterly. The contract also calls for a one-time payment totaling \$640 for a service contract on the machine.

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

In June 2014, the District entered into a noncancelable operating lease agreement with Ricoh USA, Inc. for one copy machine. The lease payments began in 2014 and the terms are for 60 months with payments of \$1,740 made quarterly. The contract also calls for a one-time payment totaling \$10,000 for a service contract on the machine.

In January 2015, the District entered into a noncancelable operating lease agreement with Ricoh USA, Inc. for four copy machines. The lease payments began in 2015 and the terms are for 60 months with payments of \$1,869 made quarterly. The contract also calls for one-time payments totaling \$12,050 for service contracts on the machines.

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 5 OPERATING LEASES (CONTINUED)**

In December 2015, the District entered into a noncancelable operating lease agreement with Ricoh USA, Inc. for three copy machines. The lease payments began in 2016 and the terms are for 60 months with payments of \$2,142 made quarterly. The contract also calls for one-time payments totaling \$7,456 for service contracts on the machines.

In April 2016, the District entered into a noncancelable operating lease agreement with Ricoh USA, Inc. for one copy machine. The lease payments began in 2016 and the terms are for 60 months with payments of \$694 made quarterly. The contract also calls for quarterly payments totaling \$315 for a service contract on the machine.

At December 31, 2016 the future minimum lease payments under these leases are as follows:

Year Ended December 31,	Amount
2017	\$ 36,148
2018	35,993
2019	23,939
2020	10,459
2021	1,009
Thereafter	-
Total Future Minimum Lease Payments	\$ 107,548

**NOTE 6 LONG-TERM DEBT AND LIABILITIES**

**Revenue Bonds**

At December 31, 2016 revenue bonds consist of the following:

	Long-Term	Short-Term	Total
2013 water and sewer revenue refunding bonds, rates 0.40% to 3.00%, due through 2017. Original Debt: \$6,350,000	\$ -	\$ 1,945,000	\$ 1,945,000
Bond Premium	-	2,203	2,203
Totals	\$ -	\$ 1,947,203	\$ 1,947,203

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 6 LONG-TERM DEBT AND LIABILITIES (CONTINUED)**

**Revenue Bonds (Continued)**

The annual requirements to amortize all revenue bond debt outstanding as of December 31, 2016, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	<u>\$ 1,945,000</u>	<u>\$ 45,400</u>	<u>\$ 1,990,400</u>

**Debt Service Requirements**

Debt service income requirements for the year 2016 were:

Total Available for Debt Service - (Non-Assessment)	\$ 12,518,690
Non Assessment Debt Service	\$ 2,470,254
Coverage Factor - (Non-Assessment)	5.07
Coverage Requirement - (Non-Assessment)	1.25

**Public Works Trust Fund & State Revolving Fund Loans**

The District has entered into agreements with the Department of Community, Trade and Economic Development of the State of Washington to receive the following Public Works Trust Fund & State Revolving Fund loans:

<u>Loan Description</u>	<u>Principal</u>
2000 loan - payable at \$83,392 annually through the year 2020, plus interest at 1% per annum. Original debt: \$1,575,700 for Wastewater Treatment Plant Upgrades.	\$ 333,569
2002 loan - payable at \$529,412 annually through the year 2022, plus interest at ½% per annum. Original debt: \$10,000,000 for Second Supply Project.	3,176,471
2004 loan - payable at \$94,507 annually through the year 2024, plus interest at ½% per annum. Original debt: \$1,700,000 for Water Filtration at various well sites.	756,053
2004 loan - payable at \$30,390 annually through the year 2024, plus interest at ½% per annum. Original debt: \$600,000 for Redondo Outfall Replacement.	243,120

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 6 LONG-TERM DEBT AND LIABILITIES (CONTINUED)**

**Public Works Trust Fund & State Revolving Fund Loans (Continued)**

<u>Loan Description</u>	<u>Principal</u>
2005 loan - payable at \$130,175 annually through the year 2026, plus interest at ½% per annum. Original debt: \$2,400,000 for Redondo Outfall Replacement.	\$ 1,301,754
2012 loan - payable at \$535,901 annually through the year 2031, plus interest at ½% per annum. Original debt: \$10,000,000 for Green River Water Treatment Plant.	8,038,511
2014 loan - payable at \$152,289 annually through the year 2034, plus interest at 1½% per annum. Original debt: \$3,030,000 for Green River Water Treatment Plant.	2,741,210
2014 loan - payable at \$299,124 annually through the year 2035, plus interest at 1½% per annum. Payments begin in 2017. Original debt: \$5,982,486 for Green River Filtration Facility.	5,683,363
2014 loan - payable at \$101,000 annually through the year 2035, plus interest at 1½% per annum. Payments begin in 2016. Original debt: \$2,020,000 for Green River Water Treatment Plant.	1,919,000
	<u>\$ 24,193,051</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,956,191	\$ 226,069	\$ 2,182,260
2018	1,956,191	210,347	2,166,538
2019	1,956,191	194,625	2,150,816
2020	1,956,191	178,903	2,135,094
2021	1,872,798	163,181	2,035,979
2022 - 2026	6,996,551	609,088	7,605,639
2027 - 2031	5,441,573	318,788	5,760,361
2032 - 2036	2,057,365	73,725	2,131,090
	<u>\$ 24,193,051</u>	<u>\$ 1,974,726</u>	<u>\$ 26,167,777</u>

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 6 LONG-TERM DEBT AND LIABILITIES (CONTINUED)**

**Changes in Long-Term Debt**

During the year ended December 31, 2016, the following changes occurred in Revenue Bonds and Public Works Trust Fund & State Revolving Fund Loans:

	<u>Balance</u> <u>1/1/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/16</u>	<u>Due In</u> <u>One Year</u>
Revenue Bonds					
September 2013	\$ 3,965,000	\$ -	\$ (2,020,000)	\$ 1,945,000	\$ 1,945,000
December 2013	371,923	-	(371,923)	-	-
Public Works Trust Fund Loans					
2000 Loan	416,962	-	(83,393)	333,569	83,393
2002 Loan	3,705,882	-	(529,411)	3,176,471	529,411
2004 Loan	850,559	-	(94,506)	756,053	94,506
2004 Loan	273,510	-	(30,390)	243,120	30,390
2005 Loan	1,431,930	-	(130,176)	1,301,754	130,176
2012 Loan	8,574,413	-	(535,902)	8,038,511	535,902
State Revolving Fund Loans					
2014 Loan	30,000	-	(30,000)	-	-
2014 Loan	2,593,500	300,000	(152,290)	2,741,210	152,290
2014 Loan	5,460,000	522,486	(299,123)	5,683,363	299,123
2014 Loan	1,820,000	200,000	(101,000)	1,919,000	101,000
Totals	<u>\$ 29,493,679</u>	<u>\$ 1,022,486</u>	<u>\$ (4,378,114)</u>	<u>\$ 26,138,051</u>	<u>\$ 3,901,191</u>

**Changes in Long-Term Liabilities**

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	<u>Balance</u> <u>1/1/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/16</u>	<u>Due In</u> <u>One Year</u>
Revenue Bonds Payable	\$ 4,336,923	\$ -	\$ (2,391,923)	\$ 1,945,000	\$ 1,945,000
Public Works Trust Fund & State Revolving Fund Loans	25,156,756	1,022,486	(1,986,191)	24,193,051	1,956,191
Compensated Absences	744,941	772,141	(749,195)	767,887	-
Net Pension Liability	6,663,220	1,328,254	-	7,991,474	-
Co-Op Certificates	25,000	-	-	25,000	-
Unamortized Bond Premium	7,135	-	(4,932)	2,203	2,203
Totals	<u>\$ 36,933,975</u>	<u>\$ 3,122,881</u>	<u>\$ (5,132,241)</u>	<u>\$ 34,924,615</u>	<u>\$ 3,903,394</u>

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 6 LONG-TERM DEBT AND LIABILITIES (CONTINUED)**

**Schedule of Bonds Issued, Redeemed and Future Annual Bond Principal and Interest Requirements for Water and Sewer Improvement Revenue Bonds**

The following bonds were issued in September of 2013 with serial maturities occurring on November 1:

Interest Rate	Payable During Year Ended December 31,	Serial Maturities	Bonds Redeemed and Defeased	Future Requirements		
				Balance to Retire	Interest	Total
0.40%	2013	\$ 130,000	\$ 130,000	\$ -	\$ -	\$ -
0.50%	2014	150,000	150,000	-	-	-
0.85%	2015	2,105,000	2,105,000	-	-	-
1.35%	2016	2,020,000	2,020,000	-	-	-
2.33%	2017	1,945,000	-	1,945,000	45,400	1,990,400
		<u>\$6,350,000</u>	<u>\$4,405,000</u>	<u>\$1,945,000</u>	<u>\$ 45,400</u>	<u>\$1,990,400</u>

The following bonds were issued in December of 2013 with serial maturities occurring quarterly:

Interest Rate	Payable During Year Ended December 31,	Serial Maturities	Bonds Redeemed and Defeased	Future Requirements		
				Balance to Retire	Interest	Total
2.17%	2014	\$ 66,248	\$ 66,248	\$ -	\$ -	\$ -
2.17%	2014	71,236	71,236	-	-	-
2.17%	2014	71,622	71,622	-	-	-
2.17%	2015	72,010	72,010	-	-	-
2.17%	2015	72,400	72,400	-	-	-
2.17%	2015	72,792	72,792	-	-	-
2.17%	2015	73,187	73,187	-	-	-
2.17%	2016	73,583	73,583	-	-	-
2.17%	2016	73,982	73,982	-	-	-
2.17%	2016	74,383	74,383	-	-	-
2.17%	2016	74,785	74,785	-	-	-
2.17%	2017*	75,190	75,190	-	-	-
		<u>\$ 871,418</u>	<u>\$ 871,418</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

\* Paid in 2016

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 7 PENSION PLAN**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* as of and for the year ended December 31, 2016:

<b>Aggregate Pension Amounts – All Plans</b>	
Net Pension Liabilities	\$7,991,474
Pension Assets	\$ -
Deferred Outflows of Resources	\$1,350,436
Deferred Inflows of Resources	\$ 154,166
Pension Expense/Expenditures	\$ 815,453

**State Sponsored Pension Plans**

Substantially all District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans.

The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

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

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

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

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

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

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 7 PENSION PLAN (CONTINUED)**

**PERS Plan 1** provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. 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%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

<b>PERS Plan 1</b>		
Actual Contribution Rates:	Employer	Employee
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	-
Administrative Fee	0.18%	-
<b>Total</b>	<b>11.18%</b>	<b>6.00%</b>

The District's actual contributions to the plan were \$413,916 to PERS Plan 1 for the year ended December 31, 2016.

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

- With a benefit that is reduced by 3% for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 7 PENSION PLAN (CONTINUED)**

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% 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 3% 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% and escalate to 15% with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2</b>
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	-
Administrative Fee	0.18%	-
Employee PERS Plan 3	-	varies
<b>Total</b>	<b>11.18%</b>	<b>6.12%</b>

The District's actual contributions to the plan were \$508,798 to PERS Plan 2/3 for the year ended December 31, 2016.

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 7 PENSION PLAN (CONTINUED)**

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest, and actual benefit payments.

- Inflation: 3% total economic inflation; 3.75% salary inflation
- Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100% Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- The assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

**Discount Rate**

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

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.5% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5% was used to determine the total liability.

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 7 PENSION PLAN (CONTINUED)**

**Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.5% was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions.

The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5% approximately equals the median of the simulated investment returns over a 50-year time horizon.

**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, 2016, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	<b>100%</b>	

**Sensitivity of NPL**

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$ 4,525,408	\$ 3,752,725	\$ 3,087,782
PERS 2/3	\$ 7,804,229	\$ 4,238,749	\$(2,206,513)

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 7 PENSION PLAN (CONTINUED)**

**Pension Plan Fiduciary Net Position**

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

**Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the District reported a total pension liability of \$7,991,474 for its proportionate share of the net pension liabilities as follows:

	<b>Liability (or Asset)</b>
PERS 1	\$3,752,725
PERS 2/3	\$4,238,749

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

	<b>Proportionate Share 6/30/15</b>	<b>Proportionate Share 6/30/16</b>	<b>Change in Proportion</b>
PERS 1	.069594%	.069877%	.000283%
PERS 2/3	.084600%	.084187%	.000413%

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

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the year ended December 31, 2016, the District recognized pension expense as follows:

	<b>Pension Expense</b>
PERS 1	\$ 215,321
PERS 2/3	\$ 600,132

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 7 PENSION PLAN (CONTINUED)**

**Deferred Outflows of Resources and Deferred Inflows of Resources**

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS 1, 2, &amp; 3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 225,710	\$ 139,928
Net difference between projected and actual investment earnings on pension plan investments	\$ 613,188	\$ -
Changes of assumptions	\$ 43,811	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ -	\$ 14,238
Contributions subsequent to the measurement date	\$ 467,727	\$ -
<b>Total</b>	<b>\$1,350,436</b>	<b>\$ 154,166</b>

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended December 31:</b>	<b>PERS 1</b>	<b>PERS 2/3</b>
2017	\$ (23,265)	\$ (1,647)
2018	\$ (23,265)	\$ (1,647)
2019	\$ 86,777	\$ 392,332
2020	\$ 54,241	\$ 245,018
2021	\$ -	\$ -
Thereafter	\$ -	\$ -

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 8 RISK MANAGEMENT**

The District is a member of Cities Insurance Association of Washington (CIAW). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988, when 34 cities in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 1, 2016, there are 205 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members: Property, including Automobile Comprehensive, and Collision, Equipment Breakdown, and Crime Protection; and Liability, including General, Automobile, and Wrongful Acts, which are included to fit members' various needs. The District carries commercial general liability, automobile, and fidelity coverage with CIAW.

The program acquires liability insurance through their Administrator, Clear Risk Solutions that is subject to a per-occurrence self-insured retention of \$100,000 with the exception of Wrongful Acts and Law Enforcement Liability which have a self-insured retention of \$25,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$1,718,302.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention, in addition to the deductible.

Equipment Breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member with the exception of Pumps & Motors which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps & Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 8 RISK MANAGEMENT (CONTINUED)**

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment, administration, and loss prevention for the program. Fees paid to the third party administrator under this agreement for the year ending December 1, 2016 were \$1,484,482.

**Unemployment Compensation Self-insurance**

The Lakehaven Water & Sewer District is self-insured for unemployment compensation exposure. Claims against the District are administered by the Washington State Department of Employment Security and are subsequently reimbursed by the District. Actual costs are paid by the District as incurred.

**Property Risks**

The District carries commercial insurance for all other risks of loss, including property, earth movement, flood, electronic data processing equipment, and boiler & machinery insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in 2014 or 2015 fiscal years. In 2016 the District incurred a casualty loss of \$1,232,639 in excess of insurance coverage. See Note 12.

**NOTE 9 SECOND SUPPLY PROJECT PARTNERSHIP AGREEMENT**

During 2002 the District entered into an agreement with the City of Tacoma, Department of Public Utilities, Water Division, the City of Kent, and the Covington Water District to permit, design, finance, construct, operate, and maintain the project and to receive deliveries of project water. The project has been designed to permit all participants to receive at their point(s) of delivery their respective participant share of second diversion water simultaneously. 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.

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 9 SECOND SUPPLY PROJECT PARTNERSHIP AGREEMENT (CONTINUED)**

It is anticipated that the agreement will have a life of no less than 100 years. There shall be a project committee composed of one representative of each participant. The representatives of the participants shall have the following votes at the project committee meetings: Tacoma (15) votes, Covington Water District (7) votes, Kent (7) votes, Lakehaven Water & Sewer District (7) votes.

The District has spent \$70,226,125 towards this project as of December 31, 2016.

Further information can be obtained from the District office.

**NOTE 10 OTHER POSTRETIREMENT BENEFITS (OPEB)**

There exists a potential postemployment benefits liability arising out of the cost of providing health care insurance to retired District employees. The State, through the Health Care Authority (HCA), provides and administers the District's health insurance plans. The HCA designs the benefits and determines the terms and conditions of employee and retiree participation and coverage, including establishment of eligibility criteria. Programs include medical, dental, life insurance and long term disability insurance. Employers participating in the plan include the State of Washington (including both general government agencies and higher education institutions), K-12 school districts and educational service districts (ESDs), and over 200 political subdivisions and tribal governments. As the District participates in this plan, eligible retired employees may receive health care insurance coverage through the Washington State Health Care Authority.

The District has no control over the benefits offered to retirees, the rates they are charged, or the fees paid to the HCA by employers for coverage. The monthly insurance premiums paid by all enrolled retirees throughout the State are not sufficient to meet the cost of their coverage; this shortfall is included, by statute, as an implicit component of the monthly charges for health care coverage of current employees. The District's share of this annual shortfall has been treated as an operating expenditure in the current and prior years. As the District provides no other healthcare or postemployment benefits directly to former employees, and that the cost of any benefits provided to eligible District retirees by the State of Washington are liabilities of the State, the District has determined that there is no material OPEB obligation requiring disclosure or accrual under GASB Statement Number 74 and 75 *Accounting and Financial Reporting For Employers for Postemployment Benefits other than Pensions*.

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 11 FRANCHISE AGREEMENT WITH THE CITY OF FEDERAL WAY**

In March of 2016 the District entered into a franchise agreement with the City of Federal Way (the City) in order to specify the rights and duties of the District to install, operate and maintain a water and sewer system located in certain rights of way located in the City.

In July of 2016, the District began collecting and distributing to the City a monthly franchise fee equal to 3.6% of revenue generated within the City (as defined by the agreement). The franchise fee increases to 3.8% in 2020-2023, and to 4.0% for 2024-2026. Amounts paid to the City under the agreement totaled \$424,289 in 2016.

In July of 2016, the City began paying the District for the cost of maintaining the fire hydrants within City boundaries and agrees to bear the cost of the Puget Sound Energy streetlights located in the right of way within City boundaries previously paid for by the District. Amounts received from the City under the agreement totaled \$310,293 in 2016.

The agreement runs through 2026 and as a result of the franchise agreement, the City will not attempt to assume the jurisdiction of the District under the provisions of RCW Chapter 35.13A.

Further information can be obtained from the District office.

**NOTE 12 SIGNIFICANT AND UNUSUAL EVENTS**

In December 2015, the Redondo Wastewater treatment plant experienced multiple high flow situations caused by significant rainfall that resulted in the submergence and failure of the UV system. During 2016, the District decided to scrap and replace the UV system. The resulting 2016 casualty loss on disposal of the system was \$1,468,875 which was reduced by insurance proceeds of \$236,236 for a net casualty loss of \$1,232,639.

**NOTE 13 PRIOR PERIOD ADJUSTMENT**

In the previously issued financial statements, the District reported 2015 pension deferred outflow of resources of \$998,230. The previously reported pension deferred outflow balance was calculated incorrectly. The prior period adjustment decreases pension deferred outflow of resources and net position by \$244,746. The adjustment is to correct the deferred outflow pension balance that relates to District contributions between the plan fiscal year-end and the District's calendar year-end.

**LAKEHAVEN WATER AND SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 14 CONTINGENCY**

The District faces a potential material liability related to penalties imposed by the Puget Sound Clean Air Alliance (PSCAA) arising out of the operation of the odor control system at the Lakota Treatment Plant. Although the penalty imposed by the PSCAA is \$528,662, the District expects to resolve this matter for a considerably lower amount. An estimate of the potential liability cannot reasonably be made and therefore no amounts have been accrued in the financial statements.

**NOTE 15 NAME CHANGE**

During 2016 the District changed their name from Lakehaven Utility District to Lakehaven Water and Sewer District. Further information can be obtained from the District office.

**LAKEHAVEN WATER AND SEWER DISTRICT  
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 PERS 1  
 AS OF JUNE 30 (MEASUREMENT DATE)  
 LAST 10 FISCAL YEARS\*  
 (SEE INDEPENDENT AUDITORS' REPORT)**

<b>PERS 1</b>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Employer's Proportion of the Net Pension Liability (Asset)	0.0699%	0.0696%	0.0712%	0.0469%
Employer's Proportionate Share of the Net Pension Liability	\$ 3,752,724	\$ 3,640,414	\$ 3,588,698	\$ 2,738,733
Employer's Covered Employee Payroll	\$ 217,204	\$ 216,154	\$ 201,587	\$ 202,020
Employer's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll	1727.74%	1684.18%	1780.22%	1355.67%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	57.03%	59.10%	61.19%	

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

**LAKEHAVEN WATER AND SEWER DISTRICT  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
PERS 2/3  
AS OF JUNE 30 (MEASUREMENT DATE)  
LAST 10 FISCAL YEARS\*  
(SEE INDEPENDENT AUDITORS' REPORT)**

<b>PERS 2/3</b>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Employer's Proportion of the Net Pension Liability (Asset)	0.0842%	0.0846%	0.0864%	0.0603%
Employer's Proportionate Share of the Net Pension Liability	\$ 4,238,750	\$ 3,022,806	\$ 1,746,942	\$ 2,575,289
Employer's Covered Employee Payroll	\$ 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 Employee Payroll	53.91%	39.70%	23.46%	35.50%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.82%	89.20%	93.29%	

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

**LAKEHAVEN WATER AND SEWER DISTRICT  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
PERS 1  
AS OF DECEMBER 31 (EMPLOYER REPORTING DATE)  
LAST 10 FISCAL YEARS\*  
(SEE INDEPENDENT AUDITORS' REPORT)**

<b>PERS 1</b>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily or Contractually Required Contributions	\$ 413,916	\$ 353,367	\$ 318,625	\$ 232,460
Contributions in Relation to the Statutorily or Contractually Required Contributions	<u>(413,916)</u>	<u>(353,367)</u>	<u>(318,625)</u>	<u>(232,460)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employer Payroll	\$ 221,401	\$ 216,154	\$ 202,020	\$ 183,930
Contributions as a Percentage of Covered Employee Payroll	186.95%	163.48%	157.72%	126.39%

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

**LAKEHAVEN WATER AND SEWER DISTRICT  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
PERS 1  
AS OF DECEMBER 31 (EMPLOYER REPORTING DATE)  
LAST 10 FISCAL YEARS\*  
(SEE INDEPENDENT AUDITORS' REPORT)**

<b>PERS 2/3</b>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily or Contractually Required Contributions	\$ 508,798	\$ 425,476	\$ 371,781	\$ 323,470
Contributions in Relation to the Statutorily or Contractually Required Contributions	<u>(508,798)</u>	<u>(425,476)</u>	<u>(371,781)</u>	<u>(323,470)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employer Payroll	\$ 8,166,935	\$ 7,621,061	\$ 7,253,724	\$ 6,904,440
Contributions as a Percentage of Covered Employee Payroll	6.23%	5.58%	5.13%	4.68%

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

**LAKEHAVEN WATER AND SEWER DISTRICT  
INTRODUCTION  
DECEMBER 31, 2016  
(SEE INDEPENDENT AUDITORS' REPORT)**

The Lakehaven Water and Sewer District is committed to the continued deliver of safe, reliable, and high quality drinking water and environmentally responsible sewer service to our customers. To further this goal we are providing the following Departmental Statements of Net Position, Departmental Statements of Revenues, Expenses, and Changes in Fund Net Position, and Departmental Statements of Cash Flows. These statements are intended to facilitate a better understanding of the Lakehaven Water and Sewer District and to allow further analysis by our partners.

**LAKEHAVEN WATER AND SEWER DISTRICT**  
**DEPARTMENTAL STATEMENT OF NET POSITION**  
**DECEMBER 31, 2016**  
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>Water Division</u>	<u>Wastewater Division</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
<b><u>Current Assets</u></b>			
Cash and Cash Equivalents	\$ 24,292,453	\$ 25,426,600	\$ 49,719,053
Accrued Interest Receivable	18,771	20,671	39,442
Accounts Receivable - Customers	1,497,153	1,850,565	3,347,718
Accounts Receivable - Other	59,873	-	59,873
Restricted Assets:			
- Cash and Cash Equivalents	1,789,014	103,625	1,892,639
- Accrued Interest Receivable	1,438	84	1,522
Inventory	240,015	-	240,015
Prepaid Expenses	193,207	199,709	392,916
<b>Total Current Assets</b>	<b><u>28,091,924</u></b>	<b><u>27,601,254</u></b>	<b><u>55,693,178</u></b>
<b><u>Noncurrent Assets</u></b>			
Capital Assets Not Being Depreciated:			
- Land	1,064,117	5,376,745	6,440,862
- Construction in Progress	2,446,631	9,428,994	11,875,625
Capital Assets Being Depreciated			
- Equipment	13,114,042	15,247,105	28,361,147
- Buildings	1,545,686	1,044,796	2,590,482
- Infrastructure	108,449,276	160,125,544	268,574,820
- Intangibles	67,989,378	2,340,571	70,329,949
Less Accumulated Depreciation and Amortization	<u>(70,647,470)</u>	<u>(85,959,758)</u>	<u>(156,607,228)</u>
<b>Total Capital Assets Being Depreciated</b>	<b><u>120,450,912</u></b>	<b><u>92,798,258</u></b>	<b><u>213,249,170</u></b>
<b>Total Capital Assets</b>	<b><u>123,961,660</u></b>	<b><u>107,603,997</u></b>	<b><u>231,565,657</u></b>
<b>Total Noncurrent Assets</b>	<b><u>123,961,660</u></b>	<b><u>107,603,997</u></b>	<b><u>231,565,657</u></b>
<b>Total Assets</b>	<b><u>152,053,584</u></b>	<b><u>135,205,251</u></b>	<b><u>287,258,835</u></b>
<b><u>DEFERRED OUTFLOW OF RESOURCES</u></b>			
Deferred Outflow - Pension	675,218	675,218	1,350,436
Deferred Loss on Refunding	24,299	2,973	27,272
<b>Total Deferred Outflow of Resources</b>	<b><u>699,517</u></b>	<b><u>678,191</u></b>	<b><u>1,377,708</u></b>

**LAKEHAVEN WATER AND SEWER DISTRICT**  
**DEPARTMENTAL STATEMENT OF NET POSITION (CONTINUED)**  
**DECEMBER 31, 2016**  
(SEE INDEPENDENT AUDITORS' REPORT)

	Water Division	Wastewater Division	Total
<u>LIABILITIES</u>			
<u>Current Liabilities</u>			
Accounts Payable	\$ 1,212,592	\$ 1,936,337	\$ 3,148,929
Deposits, Customers & Developers	801,071	1,317,181	2,118,252
Retainage Due Contractors	9,028	20,769	29,797
Public Works Trust Fund & State Revolving Fund Loans (Current Portion)	1,712,233	243,958	1,956,191
Interest Payable - PETF & SRF Loans	72,065	5,530	77,595
Payable from Restricted Assets:			
Revenue Bonds Outstanding Net of Unamortized Bond Premium (Current Portion)	1,772,341	174,862	1,947,203
Bond Interest Payable	6,887	676	7,563
Total Current Liabilities	5,586,217	3,699,313	9,285,530
<u>Noncurrent Liabilities</u>			
Public Works Trust Fund & State Revolving Fund Loans (Less Current Portion)	20,602,374	1,634,486	22,236,860
Compensated Absences	386,460	381,427	767,887
Co-Op Certificated	25,000	-	25,000
Net Pension Liability	3,995,737	3,995,737	7,991,474
Total Noncurrent Liabilities	25,009,571	6,011,650	31,021,221
Total Liabilities	30,595,788	9,710,963	40,306,751
<u>DEFERRED INFLOW OF RESOURCES</u>			
Deferred Inflow - Pension	77,083	77,083	154,166
Total Deferred Inflow of Resources	77,083	77,083	154,166
<u>NET POSITION</u>			
Net Investment in Capital Assets	99,892,313	105,553,664	205,445,977
Restricted for Debt Service and Impaired			
Investments	1,782,127	102,949	1,885,076
Unrestricted	20,405,790	20,438,783	40,844,573
Total Net Position	\$ 122,080,230	\$ 126,095,396	\$ 248,175,626

**LAKEHAVEN WATER AND SEWER DISTRICT  
DEPARTMENTAL STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET POSITION  
YEAR ENDED DECEMBER 31, 2016  
(SEE INDEPENDENT AUDITORS' REPORT)**

	<u>Water Division</u>	<u>Wastewater Division</u>	<u>Total</u>
<u>Operating Revenues</u>			
Customer Sales & Service Fees	\$ 14,782,971	\$ 15,784,437	\$ 30,567,408
Permits, Inspections & Delinquency Fees	159,940	232,694	392,634
Developer Revenues & Administrative Charges	527,085	321,760	848,845
Street Lighting Revenues	185,939	-	185,939
Total Operating Revenues	<u>15,655,935</u>	<u>16,338,891</u>	<u>31,994,826</u>
<u>Operating Expenses</u>			
Maintenance & Operations	6,917,734	11,828,401	18,746,135
Administrative & General	2,235,687	2,296,533	4,532,220
Depreciation & Amortization	3,939,376	4,027,214	7,966,590
Taxes, Other Than Income Tax	939,453	531,066	1,470,519
Total Operating Expenses	<u>14,032,250</u>	<u>18,683,214</u>	<u>32,715,464</u>
Net Operating Income (Loss)	<u>1,623,685</u>	<u>(2,344,323)</u>	<u>(720,638)</u>
<u>Nonoperating Revenues (Expenses)</u>			
Interest Expense	(329,981)	(30,330)	(360,311)
Investment Income	167,902	180,088	347,990
Gain (Loss) on Sale of Capital Assets	15,944	26,414	42,358
Casualty Loss	-	(1,232,639)	(1,232,639)
Other Income	541,485	10,766	552,251
Total Nonoperating Revenues (Expenses)	<u>395,350</u>	<u>(1,045,701)</u>	<u>(650,351)</u>
Income (Loss) Before Contributions	<u>2,019,035</u>	<u>(3,390,024)</u>	<u>(1,370,989)</u>
Capital Contributions	<u>3,649,664</u>	<u>3,188,556</u>	<u>6,838,220</u>
Change in Net Position	5,668,699	(201,468)	5,467,231
Total Net Position, January 1	116,533,904	126,419,237	242,953,141
Prior Period Adjustment	(122,373)	(122,373)	(244,746)
Total Net Position, December 31	<u>\$ 122,080,230</u>	<u>\$ 126,095,396</u>	<u>\$ 248,175,626</u>

**LAKEHAVEN WATER AND SEWER DISTRICT**  
**DEPARTMENTAL STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

	Water Division	Wastewater Division	Total
<u>Cash Flows From Operating Activities</u>			
Cash Received From Customers	\$ 16,428,453	\$ 16,289,907	\$ 32,718,360
Cash Paid to Suppliers	(4,594,587)	(8,238,918)	(12,833,505)
Cash Paid to Employees	(5,491,796)	(6,124,314)	(11,616,110)
Net Cash Provided by Operating Activities	<u>6,342,070</u>	<u>1,926,675</u>	<u>8,268,745</u>
<u>Cash Flows From Capital &amp; Related Financing Activities</u>			
Acquisition & Construction of Capital Assets	(1,072,619)	(2,654,700)	(3,727,319)
Proceeds from State Revolving Fund Loans	1,022,486	-	1,022,486
Payment of Bond Principal & Other Financing	(3,580,837)	(797,278)	(4,378,115)
Interest Paid	(357,749)	(24,882)	(382,631)
Proceeds from Sale of Capital Assets	15,944	26,414	42,358
Insurance Proceeds on Casualty Loss	-	236,236	236,236
Cash Contribution in Aid of Construction	2,097,321	3,118,244	5,215,565
Net Cash (Used) by Capital & Related Financing Activities	<u>(1,875,454)</u>	<u>(95,966)</u>	<u>(1,971,420)</u>
<u>Cash Flows From Investing Activities</u>			
Interest Received on Investments	158,867	171,778	330,645
Net Cash Provided by Investing Activities	<u>158,867</u>	<u>171,778</u>	<u>330,645</u>
<u>Net Increase in Cash &amp; Cash Equivalents</u>	4,625,483	2,002,487	6,627,970
Cash & Cash Equivalents - January 1	21,455,984	23,527,738	44,983,722
Cash & Cash Equivalents - December 31	<u>\$ 26,081,467</u>	<u>\$ 25,530,225</u>	<u>\$ 51,611,692</u>
<u>Noncash Investing, Capital and Financing Activities</u>			
Contributions of Capital Assets from Developers	<u>\$ 1,037,248</u>	<u>\$ 542,498</u>	<u>\$ 1,579,746</u>

**LAKEHAVEN WATER AND SEWER DISTRICT**  
**DEPARTMENTAL STATEMENT OF CASH FLOWS (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2016**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

	<u>Water Division</u>	<u>Wastewater Division</u>	<u>Total</u>
<u>Reconciliation of Net Operating Income (Loss)</u> <u>to Net Cash Provided by Operating Activities</u>			
Net Operating Income (Loss)	\$ 1,623,685	\$ (2,344,323)	\$ (720,638)
<u>Adjustments to Reconcile Operating Income (Loss)</u> <u>to Net Cash Provided by Operating Activities</u>			
Depreciation & Amortization	3,939,376	4,027,214	7,966,590
Other Income	541,485	10,766	552,251
<u>Changes in Assets, Deferred Outflow of Resources,</u> <u>Liabilities &amp; Deferred Inflow of Resources</u>			
(Increase) Decrease in Accounts Receivable	231,033	(59,750)	171,283
(Increase) in Inventory	(30,478)	-	(30,478)
Decrease in Prepaid Expenses	69,925	62,514	132,439
Increase in Accounts Payable	16,525	276,765	293,290
Increase in Compensated Absences	9,988	12,958	22,946
(Increase) in Deferred Outflows Related to Pensions	(298,476)	(298,476)	(596,952)
(Decrease) in Deferred Inflows Related to Pensions	(425,120)	(425,120)	(850,240)
Increase in Net Pension Liability	664,127	664,127	1,328,254
Total Adjustments	<u>4,718,385</u>	<u>4,270,998</u>	<u>8,989,383</u>
Total Cash Provided by Operating Activities	<u>\$ 6,342,070</u>	<u>\$ 1,926,675</u>	<u>\$ 8,268,745</u>