



**Washington State Auditor's Office**

**Troy Kelley**

**Integrity • Respect • Independence**

**Financial Statements Audit Report**

**Lakehaven Utility District**

**King County**

**For the period January 1, 2013 through December 31, 2013**

**Published December 11, 2014**

**Report No. 1013141**





**Washington State Auditor**  
**Troy Kelley**

December 11, 2014

Board of Commissioners  
Lakehaven Utility District  
Federal Way, Washington

**Report on Financial Statements**

Please find attached our report on the Lakehaven Utility District's financial statements.

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

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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

**Lakehaven Utility District  
King County  
January 1, 2013 through December 31, 2013**

Board of Commissioners  
Lakehaven Utility District  
Federal Way, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Lakehaven Utility District, King County, Washington, as of and for the year ended December 31, 2013, 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 5, 2014. As discussed in Note 13 to the financial statements, during the year ended December 31, 2013, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

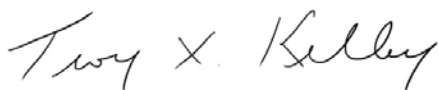
## **COMPLIANCE AND OTHER MATTERS**

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

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

## **PURPOSE OF THIS REPORT**

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



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

December 5, 2014

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## Lakehaven Utility District King County January 1, 2013 through December 31, 2013

Board of Commissioners  
Lakehaven Utility District  
Federal Way, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Lakehaven Utility District, King County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

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

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

#### Auditor's Responsibility

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

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lakehaven Utility District, as of December 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 13 to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets*

## **Other Matters**

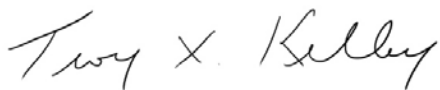
### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any

assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

December 5, 2014



## **FINANCIAL SECTION**

**Lakehaven Utility District  
King County  
January 1, 2013 through December 31, 2013**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2013

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2013

Statement of Revenues, Expenses and Changes in Fund Net Position – 2013

Statement of Cash Flows – 2013

Note to the Financial Statements – 2013

Lakehaven Utility District  
Management's Discussion & Analysis  
Year Ended December 31, 2013

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**Brief Discussion of the Basic Financial Statements**

The District's financial statements include a Statement of Net Position, a Statement of Revenues, Expenses & Changes in Fund Net Position, a Statement of Cash Flows, and Notes to the Financial Statements. 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, 2013. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

The statement of net position provides a record, or snap shot, of the assets and liabilities of the District at the close of the year. It provides information about the nature and amounts of investments in resources (assets), and the obligations to District creditors (liabilities). It provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

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 presents the assets of the District and show the mix of liabilities and net assets used to acquire these assets:

	<u>2013</u>	<u>2012</u>
<b><u>Assets</u></b>		
Current Assets	\$ 32,237,090	\$ 27,142,492
Noncurrent Assets:		
Capital Assets - Net	229,316,741	219,630,769
Other	<u>-</u>	<u>38,503</u>
Total Assets	<u>\$ 261,553,831</u>	<u>\$ 246,811,764</u>
<b><u>Deferred Outflow Of Resources</u></b>		
Deferred Loss on Refunding	\$ 320,994	\$ -

Lakehaven Utility District  
Management's Discussion & Analysis  
Year Ended December 31, 2013

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**Condensed Comparative Statement of Net Position (Continued)**

**Liabilities**

Current Liabilities	\$ 9,515,091	\$ 6,274,936
Noncurrent Liabilities:		
Long-Term Debt	23,404,250	19,472,677
Other	<u>644,393</u>	<u>644,146</u>
Total Liabilities	<u>\$ 33,563,734</u>	<u>\$ 26,391,759</u>

**Net Position**

Net Investment in Capital Assets	\$ 202,285,489	\$ 195,725,443
Restricted for Debt Service	3,469,357	2,776,383
Restricted for Capital Projects	-	-
Unrestricted	<u>22,556,245</u>	<u>21,918,179</u>
Total Net Position	<u>\$ 228,311,091</u>	<u>\$ 220,420,005</u>

**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 bond funds as well as accounts receivable and accrued revenue, prepaid expenses, inventory, and accrued interest. Current assets increased by \$5,094,598 largely due to increases in the unrestricted and restricted cash and cash equivalents held by the King County Investment Pool, partially offset by decreases to accrued revenue and customer accounts receivable. Cash balances in the funds vary from year to year based on income from operations, expenses paid for operations and construction costs, transfers into other funds, borrowings and debt service payments. Accrued interest receivable on investments did not materially change in 2013.

Noncurrent assets consist of net capital assets, which include land, construction in progress, equipment, buildings, infrastructure and intangibles. Noncurrent assets also include assessment receivables. Noncurrent assets increased by \$9,647,469 in 2013. This increase was due to increased capital spending and was partially offset by depreciation expense and fixed asset disposals.

Deferred Outflow of Resources consists of unamortized losses on the refunding of revenue bonds. Deferred Outflow of Resources increased by \$320,994 in 2013 due to losses incurred on bond refunding during 2013 and a change in accounting principle adopted during 2013 partially offset by the amortization of the deferred losses.

Lakehaven Utility District  
Management's Discussion & Analysis  
Year Ended December 31, 2013

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**Analysis of the Condensed Comparative Statement of Net Position (Continued)**

Liabilities

Current liabilities include accounts payable, deposits, interest payable on debt, retainage and the current portion of long term debt. Current liabilities increased by \$3,240,155 from 2012 due to increases in accounts payable and the current portion of debt. The current portion of debt, including interest payable and capital lease payable, increased by \$668,294 during the year. This increase is due to draws on the Public Work Trust Fund loans in 2013. Amounts held as deposits from developers and customers decreased by \$83,158, and amounts held as retainage increased by \$86,218. Accounts payable increased by \$2,568,801 during 2013 due to increased capital expenditures related to the Second Supply Partnership (See Note 9).

Noncurrent liabilities include the long term portion of revenue bonds, Public Work Trust Fund loans and the capital lease. Noncurrent liabilities also include compensated absences, and co-op certificates. Noncurrent liabilities increased by \$3,931,820 in 2013 primarily due to draws on the Public Work Trust Fund and the change in accounting principal partially offset by principal payments on long term debt.

Net Position

Net position consists of total assets minus total liabilities. Net position is the portion of the assets the District no longer finances with revenue bonds or other liabilities. Net position increased by \$7,831,409 in 2013. Over time, increases or decreases in the District's net position is an indicator of the District's overall financial growth. An increase in net position is a positive sign of the District's financial strength.

Lakehaven Utility District  
Management's Discussion & Analysis  
Year Ended December 31, 2013

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**Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position**

The following statement of revenues, expenses, and changes in fund net position present the annual surplus or deficiency of revenues over expenses (the change in net position):

	<u>2013</u>	<u>2012</u>
<b><u>Revenues</u></b>		
Wastewater Operating Revenue	\$ 14,956,900	\$ 15,006,290
Water Operating Revenue	14,769,217	13,942,828
Investment Income	28,931	371,337
Gain on Sale of Fixed Assets	-	22,708
Other Income	<u>405,862</u>	<u>294,785</u>
Total Revenues	<u>\$ 30,160,910</u>	<u>\$ 29,637,948</u>
<b><u>Expenses</u></b>		
Wastewater Operations & Maintenance	\$ 8,622,169	\$ 8,151,038
Water Operations & Maintenance	5,212,055	5,012,463
Administrative & General	3,839,831	3,645,294
Depreciation & Amortization	7,703,110	7,593,003
Taxes	956,683	1,006,298
Loss on Sale of Fixed Assets	58,588	-
Public Works Trust Fund Interest	47,370	60,499
Revenue Bond Interest	<u>489,472</u>	<u>516,609</u>
Total Expenses	<u>\$ 26,929,278</u>	<u>\$ 25,985,204</u>
Change in Net Position before Capital Contributions	\$ 3,231,632	\$ 3,652,744
Capital Contributions	<u>4,599,777</u>	<u>2,814,269</u>
Change in Net Position	\$ 7,831,409	\$ 6,467,013
<u>Total Net Position, January 1</u>	220,420,005	213,952,992
Prior Period Adjustment	97,836	-
Change in Application of Accounting Principle	<u>(38,159)</u>	<u>-</u>
<u>Total Net Position, December 31</u>	<u>\$ 228,311,091</u>	<u>\$ 220,420,005</u>

Lakehaven Utility District  
Management's Discussion & Analysis  
Year Ended December 31, 2013

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**Analysis of the Condensed Comparative Statement of Revenues, Expenses, & Changes in Fund Net Position**

Revenues

Wastewater operating revenues were \$49,390 lower in 2013, primarily due to decreased usage in the winter months. Water operating revenues were \$826,389 higher in 2013, primarily due to a rate increase enacted during 2013.

Investment income decreased by \$342,406 in 2013. The average balance being invested varies by fund from year to year and can result in differences in the interest collected by the District.

Expenses

Operations and maintenance costs increased in 2013 by \$670,723. The increase was partially driven by an increase in insurance costs as well as an increase in the District's labor and benefit costs.

Administrative and general expenses increased in 2013 by \$194,537. The increase was driven mostly by an increase in wages and benefits.

Interest expense decreased by \$40,266 compared to 2012. This was due to a lower average interest rate on the outstanding bonds and an increase in capitalized interest. The District capitalized \$32,423 of interest in 2013.

Capital Contributions

The District experienced a \$1,785,508 increase in capital contributions in 2013. This increase was primarily driven by an increase in connection charges related to new development and an increase in leased capacity charges.

Net Position

In 2013 the District experienced a change in net position of \$7,831,409, an increase of \$1,364,396 as compared with 2012.

Lakehaven Utility District  
Management's Discussion & Analysis  
Year Ended December 31, 2013

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**Analysis of Overall Financial Condition**

With operating income, a larger growth in net position, and higher cash flows from operations, the financial condition of the District improved in 2013.

**Capital Assets**

Capital assets consist of land, construction in progress, equipment, buildings, infrastructure, and intangibles. Net capital assets increased by \$9,685,972 in 2013. The increase was primarily due to net acquisitions of depreciable assets and construction in progress of \$16,322,235 partially offset by depreciation and amortization of \$7,703,110.

Principal projects included in the 2013 capital spending were the Second Supply & Filtration projects totaling \$8,508,560, Lakota treatment upgrades totaling \$1,526,754, work on the Redondo projects totaling \$1,003,378, the Downtown Trunk Upgrade of \$496,058, service connections of \$409,219, purchasing additional storage for \$374,951, the purchase of an excavator totaling \$369,565, the 356<sup>th</sup> St Water Main Relocation project totaling \$368,514, Pump Station #33 upsizing of \$176,261, the I&I Study project totaling \$164,212, the 2014 Water System Plan of \$162,773, and meter installations totaling \$151,201. Donated systems (infrastructure donated by developers) in the amount of \$2,172,140 are included in the 2013 increase in net capital assets. Over the next ten years it is anticipated that capital spending will be in the range of \$140 million with approximately 45% 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.

Capital assets activity for the year ended December 31, 2013 was as follows:

	<u>Balance</u> <u>12/31/13</u>	<u>Balance</u> <u>12/31/12</u>	<u>Change</u>
Land	\$ 6,440,862	\$ 6,440,862	\$ -
Construction in Progress	26,264,387	14,228,937	12,035,450
Equipment	28,380,931	26,794,484	1,586,447
Buildings	2,590,482	2,590,482	-
Infrastructure	253,259,079	250,524,390	2,734,689
Intangibles	47,587,973	47,622,324	(34,351)
Accumulated Depreciation	<u>(135,206,973)</u>	<u>(128,570,710)</u>	<u>(6,636,263)</u>
Total Capital Assets, Net	<u>\$229,316,741</u>	<u>\$219,630,769</u>	<u>\$ 9,685,972</u>

See Note 3 for more information.

Lakehaven Utility District  
Management's Discussion & Analysis  
Year Ended December 31, 2013

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**Long-Term Debt**

In 2013 the long-term debt increased by \$3,782,588. The increase was driven by draws on the Public Works Trust Fund loans and the issuance of new revenue bonds partially offset by the refunding of revenue bonds and principal payments on the revenue bonds, Public Works Trust Fund loans, and the capital lease. These principal payments totaled \$2,901,663.

At December 31, 2013, the District had total Public Works Trust Fund loans outstanding of \$18,060,809, total revenue bonds outstanding of \$9,081,418 and a capital lease payable of \$40,931. See Note 6 for more information.

**Additional Comments**

In 2014 there will be a 1.7% increase in water rates and a 2.7% increase in sewer rates. As the customer base in the District is only expected to experience modest growth, most revenue growth will likely be driven by future rate increases. The District expects their operating expenses to continue to grow in line with revenues.

In 2014 the District plans on drawing up to \$11,000,000 on State Revolving Loans with the proceeds going to water projects.



Lakehaven Utility District  
Statement of Net Position  
December 31, 2013

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	<u>2013</u>
<u>ASSETS</u>	
<u>Current Assets</u>	
Cash and Cash Equivalents	\$ 24,923,027
Accrued Interest Receivable	9,683
Accounts Receivable - Customers	1,773,513
Accounts Receivable - Other	17,780
Restricted Assets:	
- Cash and Cash Equivalents	3,497,014
- Accrued Interest Receivable	1,202
Inventory	230,079
Prepaid Expenses	327,129
Accrued Utility Revenue	<u>1,457,663</u>
Total Current Assets	<u>\$ 32,237,090</u>
<u>Noncurrent Assets</u>	
Capital Assets Not Being Depreciated	
- Land	\$ 6,440,862
- Construction in Progress	26,264,387
Capital Assets Being Depreciated	
- Equipment	28,380,931
- Buildings	2,590,482
- Infrastructure	253,259,079
- Intangibles	47,587,973
Less Accumulated Depreciation	<u>(135,206,973)</u>
	<u>196,611,492</u>
Total Capital Assets	<u>\$ 229,316,741</u>
Total Noncurrent Assets	<u>\$ 229,316,741</u>
Total Assets	<u>\$ 261,553,831</u>
<u>DEFERRED OUTFLOW OF RESOURCES</u>	
Deferred Loss on Refunding	<u>\$ 320,994</u>
Total Deferred Outflow of Resources	<u>\$ 320,994</u>

See accompanying notes.

Lakehaven Utility District  
Statement of Net Position  
December 31, 2013

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	<u>2013</u>
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts Payable	\$ 4,582,466
Deposits, Customers & Developers	910,852
Retainage Due Contractors	113,474
Capital Lease Payable (Current Portion)	40,931
Public Works Trust Fund Loans (Current Portion)	1,403,777
Interest Payable - PWTF Loans	46,120
Payable from Restricted Assets:	
Revenue Bonds Outstanding - Net of Unamortized	
Bond Premium (Current Portion)	2,389,814
Bond Interest Payable	<u>27,657</u>
Total Current Liabilities	<u>\$ 9,515,091</u>
<u>Noncurrent Liabilities</u>	
Public Works Trust Fund Loans (Less Current Portion)	\$ 16,657,032
Compensated Absences	619,393
Co-Op Certificates	25,000
Payable from Restricted Assets:	
Revenue Bonds Outstanding - Net of Unamortized	
Bond Premium (Less Current Portion)	<u>6,747,218</u>
Total Noncurrent Liabilities	<u>\$ 24,048,643</u>
Total Liabilities	<u>\$ 33,563,734</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	\$ 202,285,489
Restricted for Debt Service	3,469,357
Unrestricted	<u>22,556,245</u>
Total Net Position	<u>\$ 228,311,091</u>

See accompanying notes.

Lakehaven Utility District  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Year Ended December 31, 2013

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	<u>2013</u>
<u>Operating Revenues</u>	
Customer Sales & Service Fees	\$ 28,532,557
Permits, Inspection & Delinquency Fees	447,939
Developer Revenues & Administrative Charges	404,649
Street Lighting Revenues	<u>340,972</u>
Total Operating Revenues	<u>\$ 29,726,117</u>
<u>Operating Expenses</u>	
Maintenance & Operations	\$ 13,834,224
Administrative & General	3,839,831
Depreciation & Amortization	7,703,110
Taxes, Other Than Income Tax	<u>956,683</u>
Total Operating Expenses	<u>\$ 26,333,848</u>
Net Operating Income (Loss)	<u>\$ 3,392,269</u>
<u>Nonoperating Revenues (Expenses)</u>	
Interest Expense	\$ (536,842)
Investment Income	28,931
Gain (Loss) on Sale of Fixed Assets	(58,588)
Other Income	<u>405,862</u>
Total Nonoperating Revenues (Expenses)	<u>\$ (160,637)</u>
Income (Loss) Before Contributions	\$ 3,231,632
Capital Contributions	<u>4,599,777</u>
Change in Net Position	\$ 7,831,409
<u>Total Net Position, January 1</u>	220,420,005
Prior Period Adjustment	97,836
Change in Application of Accounting Principle	<u>(38,159)</u>
<u>Total Net Position, December 31</u>	<u>\$ 228,311,091</u>

See accompanying notes.

Lakehaven Utility District  
Statement of Cash Flows  
Year Ended December 31, 2013

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	<u>2013</u>
<u>Cash Flows From Operating Activities</u>	
Cash Received From Customers	\$ 30,835,096
Cash Paid to Suppliers	(8,471,284)
Cash Paid to Employees	<u>(10,044,395)</u>
Net Cash Provided by Operating Activities	<u>\$ 12,319,417</u>
<u>Cash Flows From Capital &amp; Related Financing Activities</u>	
Acquisition & Construction of Capital Assets	\$ (13,063,360)
Proceeds from Public Works Trust Fund Loans	6,650,597
Proceeds from Revenue Bonds	871,418
Payment of Bond Principal & Other Financing Interest Paid	(2,901,663) (602,393)
Proceeds from Sale of Fixed Assets	50,158
Cash Contributions in Aid of Construction	<u>2,472,560</u>
Net Cash (Used) by Capital & Related Financing Activities	<u>\$ (6,522,683)</u>
<u>Cash Flows From Investing Activities</u>	
Interest Received on Investments	<u>\$ 28,158</u>
Net Cash Provided by Investing Activities	<u>\$ 28,158</u>
<u>Net Increase (Decrease) in Cash &amp; Cash Equivalents</u>	<u>\$ 5,824,892</u>
Cash & Cash Equivalents - January 1	<u>22,595,149</u>
Cash & Cash Equivalents - December 31	<u>\$ 28,420,041</u>
<u>Noncash Investing, Capital and Financing Activities</u>	
Contributions of Capital Assets from Developers	<u>\$ 2,172,140</u>

See accompanying notes.

Lakehaven Utility District  
Statement of Cash Flows  
Year Ended December 31, 2013

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	<u>2013</u>
<u>Reconciliation of Net Operating</u>	
<u>Income (Loss) to Net Cash Provided by</u>	
<u>Operating Activities</u>	
Net Operating Income (Loss)	\$ 3,392,269
<u>Adjustments to Reconcile Operating</u>	
<u>Income (Loss) to Net Cash Provided by</u>	
<u>Operating Activities</u>	
Depreciation & Amortization	\$ 7,703,110
Other Income	405,862
<u>Changes in Assets &amp; Liabilities</u>	
(Increase) Decrease in Accounts Receivable	379,837
(Increase) Decrease in Inventory	16,152
(Increase) Decrease in Prepaid Expenses	(32,781)
(Increase) Decrease in Accrued Utility Revenue	323,280
Increase (Decrease) in Accounts Payable	131,441
Increase (Decrease) in Compensated Absences	<u>247</u>
Total Adjustments	<u>\$ 8,927,148</u>
 Total Cash Provided by Operating Activities	 <u>\$ 12,319,417</u>

See accompanying notes.

Lakehaven Utility District  
Notes to Financial Statements  
December 31, 2013

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lakehaven Utility 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 Utility District is a municipal corporation governed by an elected, five member board. The District's primary activity is to provide water and sewer 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 accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the Budgetary Accounting and Reporting System (BARS).

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. 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 services 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.

Lakehaven Utility District  
Notes to Financial Statements  
December 31, 2013

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

f. Investments

Investments are recorded at fair market 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 additions to the appropriate property, plant and equipment accounts.

Preliminary planning and design costs incurred for proposed projects are deferred 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.

Lakehaven Utility District  
Notes to Financial Statements  
December 31, 2013

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Restricted Funds

Restricted accounting funds currently include the Revenue Bond Fund.

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.

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

There are four components of net position: net investment in capital assets; restricted for debt service; restricted for capital projects; and unrestricted net assets. Net investment in capital assets includes utility plant, other deferred charges that are capital in nature, and net unamortized bond issuance costs.

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.



Lakehaven Utility District  
Notes to Financial Statements  
December 31, 2013

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p. Reclassifications

Certain reclassifications have been made to prior year balances to provide a presentation consistent with the current year.

NOTE 2 - DEPOSITS AND INVESTMENTS

The District's cash and investment balances at December 31, 2013 are listed below:

Bank Deposits	\$ 25,850
Investment in King County Investment Pool	<u>28,394,191</u>
Total Cash & Investments	<u>\$ 28,420,041</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 has entered into a formal Interlocal agreement with the District's *ex officio* treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool).

As of December 31, 2013, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$ 28,394,191	1.23 Years

*Impaired Investments.* As of December 31, 2013, all impaired commercial paper investments have 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 in four 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 is \$130,616 and the District's fair value of these investments is \$77,326 as of December 31, 2013.

Lakehaven Utility District  
Notes to Financial Statements  
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NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

*Interest Rate Risk.* As of December 31, 2013, the Pool's average duration was 1.23 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, 2013, 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, 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 depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land and Land Rights	\$ 6,440,862	\$ -	\$ -	\$ 6,440,862
Construction in Progress	<u>14,228,937</u>	<u>15,268,052</u>	<u>(3,232,602)</u>	<u>26,264,387</u>
<u>Total capital assets not being depreciated</u>	20,669,799	15,268,052	(3,232,602)	32,705,249
Capital assets being depreciated:				
Equipment	26,794,484	2,628,499	(1,042,052)	28,380,931
Buildings	2,590,482	-	-	2,590,482
Infrastructure	250,524,390	2,885,701	(151,012)	253,259,079
Intangibles	<u>47,622,324</u>	<u>-</u>	<u>(34,351)</u>	<u>47,587,973</u>
<u>Total capital assets being depreciated</u>	327,531,680	5,514,200	(1,227,415)	331,818,465
Less Accumulated Depreciation	<u>128,570,710</u>	<u>7,703,110</u>	<u>(1,066,847)</u>	<u>135,206,973</u>
<u>Total capital assets being depreciated, net</u>	<u>198,960,970</u>	<u>(2,188,910)</u>	<u>(160,568)</u>	<u>196,611,492</u>
<u>TOTAL CAPITAL ASSETS, NET</u>	<u>\$ 219,630,769</u>	<u>\$ 13,079,142</u>	<u>\$ (3,393,170)</u>	<u>\$ 229,316,741</u>

Lakehaven Utility District  
Notes to Financial Statements  
December 31, 2013

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NOTE 3 - CAPITAL ASSETS (Continued)

The District capitalized employee wages and benefit costs in connection with the construction of utility plant assets. In 2013, the total wage and benefit expense was \$10,044,395 of which \$1,531,350 was capitalized.

The District's total interest cost was \$569,265 in 2013, of which \$32,423 was capitalized as construction period interest.

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects whose authorizations total \$99,266,326. Of the committed balance of \$73,001,939, the District will be required to raise \$11,500,000 in future financing.

	<u>Project</u> <u>Authorization</u>	<u>Expended</u> <u>to 12/31/13</u>	<u>Committed</u>	<u>Anticipated</u> <u>Future Financing</u>
Oasis Phase I	\$ 5,547,000	\$ 857,561	\$ 4,689,439	\$ -
Second Supply Filtration	23,366,000	14,817,823	8,548,177	3,000,000
Balance Second Supply	42,364,000	479,508	41,884,492	-
Lakota Project	8,833,988	3,077,157	5,756,831	5,000,000
Pump Station 33	6,184,000	1,125,428	5,058,572	-
Redondo Project	1,355,346	987,678	367,668	-
I&I Study	1,693,000	1,011,402	681,598	-
Pacific Highway	1,274,896	1,244,345	30,551	-
Other Projects	<u>8,648,096</u>	<u>2,663,485</u>	<u>5,984,611</u>	<u>3,500,000</u>
	<u>\$ 99,266,326</u>	<u>\$ 26,264,387</u>	<u>\$ 73,001,939</u>	<u>\$ 11,500,000</u>

Lakehaven Utility District  
Notes to Financial Statements  
December 31, 2013

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NOTE 5 - CAPITAL LEASE

In 2010, the District entered into a lease agreement for financing the acquisition of on-site generated mixed oxidant equipment. This lease agreement qualifies as a capital lease for accounting purposes and is recorded as an asset and a long-term liability at the present value of the future minimum lease payments as of the date of its inception. The District records lease payments as reductions of the long-term liability and as interest expense over the life of the lease. The future minimum lease payments under the lease agreements are as follows:

Year Ending December 31,

2014	\$ 55,188
Total future minimum lease payments	\$ 55,188
Less amount representing maintenance and service	(13,140)
Less amount representing interest	<u>(1,117)</u>
Present value of future minimum lease payments	\$ 40,931
Less current maturities of capital lease obligations	<u>(40,931)</u>
Obligations under capital lease, non-current portion	<u>\$ -</u>

NOTE 6 - LONG-TERM DEBT AND LIABILITIES

Revenue Bonds

At December 31, 2013 revenue bonds consist of the following:

	<u>Long-Term</u>	<u>Short-Term</u>	<u>Total</u>
2005 water and sewer revenue refunding bonds, rates 2.70% to 5.00%, due through 2014. Original Debt: \$16,975,000	\$ -	\$ 1,990,000	\$ 1,990,000
2013 water and sewer revenue refunding bonds, rates 0.40% to 3.00%, due through 2017. Original Debt: \$6,350,000	6,070,000	150,000	6,220,000
2013 sewer revenue bond, rate 2.17%, due through 2017. Original Debt: \$871,418	<u>662,312</u>	<u>209,106</u>	<u>871,418</u>
Totals	<u>\$ 6,732,312</u>	<u>\$ 2,349,106</u>	<u>\$ 9,081,418</u>

Lakehaven Utility District  
Notes to Financial Statements  
December 31, 2013

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NOTE 6 - LONG-TERM DEBT AND LIABILITIES (Continued)

In May 2005, the District issued \$16,975,000 of water and sewer revenue refunding bonds with principal payments due beginning in 2006 and ending in 2017, with annual interest rates ranging from 2.70% to 5.00%. The advance refunding was undertaken to reduce total debt service payments over the next twelve years by \$743,472 and resulted in an economic gain of \$290,731. The District defeased certain bonds by placing investments acquired from the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the District's financial statements.

In September 2013, the District issued \$6,350,000 of water and sewer revenue refunding bonds with principal payments due beginning in 2013 and ending in 2017, with annual interest rates ranging from 0.40% to 3.00%. The advance refunding was undertaken to reduce total debt service payments over the next four years by \$214,122 and resulted in an economic gain of \$208,334. The District defeased on \$5,850,000 worth of bonds by placing investments acquired from the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the District's financial statements.

Trustees hold direct obligations of the U.S. Government in irrevocable escrows for the defeasance of all refunded issues. Cash flow from these escrowed investments matches the principal and interest payments of the defeased obligations.

In December, 2013 the District issued a sewer revenue bond in the principal amount \$871,418 for the purpose of financing certain energy efficiency improvements and upgrades.

The annual requirements to amortize all revenue bond debt outstanding as of December 31, 2013, including interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,349,106	\$ 183,627	\$ 2,532,733
2015	2,395,389	102,566	2,497,955
2016	2,316,733	78,329	2,395,062
2017	<u>2,020,190</u>	<u>45,807</u>	<u>2,065,997</u>
	<u>\$ 9,081,418</u>	<u>\$ 410,329</u>	<u>\$ 9,491,747</u>

Lakehaven Utility District  
Notes to Financial Statements  
December 31, 2013

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NOTE 6 - LONG-TERM DEBT AND LIABILITIES (Continued)

Debt Service Requirements

Debt service income requirements for the year 2013 were:

Total Available for Debt Service - (Non-Assessment)	\$ 13,852,071
Non Assessment Debt Service	\$ 2,484,883
Coverage Factor - (Non-Assessment)	5.57
Coverage Requirement - (Non-Assessment)	1.25

Public Works Trust 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 loans:

2000 loan - payable at \$83,392 annually through the year 2020, plus interest at 1% per annum. Original debt: \$1,575,700.	\$ 583,747
2002 loan - payable at \$529,412 annually through the year 2022, plus interest at ½% per annum. Original debt: \$10,000,000.	4,764,705
2004 loan - payable at \$94,507 annually through the year 2024, plus interest at ½% per annum. Original debt: \$1,700,000.	1,039,572
2004 loan - payable at \$30,390 annually through the year 2024, plus interest at ½% per annum. Original debt: \$600,000.	334,290
2005 loan - payable at \$130,175 annually through the year 2026, plus interest at ½% per annum. Original debt: \$2,400,000.	1,692,282
2012 loan - payable at \$535,901 annually through the year 2031, plus interest at ½% per annum. Original debt: \$10,000,000.	9,646,213
	\$ 18,060,809

Lakehaven Utility District  
Notes to Financial Statements  
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NOTE 6 - LONG-TERM DEBT AND LIABILITIES (Continued)

In 2013 the District drew an additional \$6,650,597 on the Public Works Trust Fund 2012 loan bringing the total draw on the loan to \$10,000,000.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,403,777	\$ 92,240	\$ 1,496,017
2015	1,403,777	85,787	1,489,564
2016	1,403,777	78,351	1,482,128
2017	1,403,777	70,915	1,474,692
2018	1,403,777	63,479	1,467,256
2019 - 2023	6,239,296	208,361	6,447,657
2024 - 2028	3,194,927	84,915	3,279,842
2029 - 2031	<u>1,607,701</u>	<u>16,077</u>	<u>1,623,778</u>
	<u>\$ 18,060,809</u>	<u>\$ 700,125</u>	<u>\$ 18,760,934</u>

Changes in Long-Term Debt

During the year ended December 31, 2013, the following changes occurred in Revenue Bonds and Public Work Trust Fund Loans:

	<u>Balance</u> <u>1/1/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/13</u>	<u>Due In</u> <u>One Year</u>
<b>Revenue Bonds</b>					
May 2005	\$ 9,890,000	\$ -	\$ (7,900,000)	\$ 1,990,000	\$ 1,990,000
September 2013	-	6,350,000	(130,000)	6,220,000	150,000
December 2013	-	871,418	-	871,418	209,106
<b>Public Works Trust Fund Loans</b>					
2000 Loan	667,139	-	(83,392)	583,747	83,392
2002 Loan	5,294,117	-	(529,412)	4,764,705	529,412
2004 Loan	1,134,079	-	(94,507)	1,039,572	94,507
2004 Loan	364,680	-	(30,390)	334,290	30,390
2005 Loan	1,822,457	-	(130,175)	1,692,282	130,175
2012 Loan	<u>3,349,403</u>	<u>6,650,597</u>	<u>(353,787)</u>	<u>9,646,213</u>	<u>535,901</u>
Totals	<u>\$ 22,521,875</u>	<u>\$ 13,872,015</u>	<u>\$ (9,251,663)</u>	<u>\$ 27,142,227</u>	<u>\$ 3,752,883</u>

Lakehaven Utility District  
Notes to Financial Statements  
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NOTE 6 - LONG-TERM DEBT AND LIABILITIES (Continued)

Changes in Long-Term Debt and Liabilities

During the year ended December 31, 2013, the following changes occurred in long-term debt:

	<u>Balance</u> <u>1/1/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/13</u>	<u>Due In</u> <u>One Year</u>
Revenue Bonds Payable	\$ 9,890,000	\$ 7,221,418	\$ (8,030,000)	\$ 9,081,418	\$ 2,349,106
Public Works Trust Fund Loans	12,631,875	6,650,597	(1,221,663)	18,060,809	1,403,777
Capital Lease	79,870	-	(38,939)	40,931	40,931
Compensated Absences	619,146	536,851	(536,604)	619,393	-
Co-Op Certificates	25,000	-	-	25,000	-
Unamortized Bond Premium	<u>153,017</u>	<u>25,454</u>	<u>(122,857)</u>	<u>55,614</u>	<u>40,708</u>
Totals	<u>\$ 23,398,908</u>	<u>\$ 14,434,320</u>	<u>\$ (9,950,063)</u>	<u>\$ 27,883,165</u>	<u>\$ 3,834,522</u>



NOTE 7 - PENSION PLAN

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 retirement plans. 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 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employers and the GASB Statement 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.*

**Public Employees' Retirement System (PERS) Plans 1, 2 and 3**

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

Lakehaven Utility District  
Notes to Financial Statements  
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NOTE 7 - PENSION PLAN (Continued)

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with 5 years of service, or at the age of 55 with 25 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to re-elect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

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NOTE 7 - PENSION PLAN (Continued)

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 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 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

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NOTE 7 - PENSION PLAN (Continued)

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' fiscal year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reductions of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

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NOTE 7 - PENSION PLAN (Continued)

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans as of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Non-vested	44,273
<b>Total</b>	<b>263,347</b>

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan I are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

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NOTE 7 - PENSION PLAN (Continued)

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

\*The employer rates include the employer administrative expense fee currently set at 0.18%.  
\*\*The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

\*\*\*Plan 3 defined benefit portion only.

\*\*\*\*The employee for state elected officials is 7.5% for Plan 1 and 4.92% for Plan 2.

\*\*\*\*\*Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the District and the employees made the required contributions. The District's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$ 16,774	\$ 579,919	\$ 10,930
2012	\$ 13,235	\$ 485,764	\$ 11,298
2011	\$ 10,745	\$ 405,090	\$ 8,612

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**NOTE 8 - RISK MANAGEMENT**

The District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of anyone or more governmental entities to form together into or join a pool 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-insurance, 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 Pool was formed in November 1987 when water and sewer districts 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. The Pool currently has 70 members. The Pool's fiscal year is November 1st through October 31st.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability; Crime; Public Officials Liability; Identity Fraud Reimbursement Program; and bonds of various types. All coverage's are on an "occurrence" basis.

Members make an annual contribution to fund the Pool. The Pool purchases insurance policies from unrelated underwriters as follows:

<b>Coverage</b>	<b>Subject to Self-Insured Retention by Pool</b>	<b>Description</b>
General Liability	\$200,000	Includes General Liability, Public Officials Liability and Automobile Liability);
Property Insurance	\$25,000	Except earthquake and flood which is subject to a deductible of 5% of the values at risk at the time of the loss subject to a minimum of \$100,000. Properties located in NFIP Flood Zones A and V are subject to a \$250,000 deductible
Boiler & Machinery	\$25,000	Per occurrence
Crime	\$25,000	Per occurrence
Cyber	\$50,000 \$100,000	Per occurrence for members with TIV less than \$500,000 Per occurrence for members with TIV greater than \$500,000
Identity Theft	\$0	Reimbursement of up to \$25,000 for expenses

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NOTE 8 - RISK MANAGEMENT (Continued)

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims).

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2012, written notice must be in the Pool possession by April 30, 2012). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with Arcadia Claims Services. In FY 2012-2013 the Pool engaged AssetWorks who performed appraisal services valued at \$26,861, for approximately one third of all member structures valued at \$250,000 or more.

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director.

For years ending December 31, 2011, 2012, and 2013 the district had no claims in excess of their insurance coverage.



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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.

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 Utility District (7) votes.

The District has spent \$59,350,063 towards this project as of December 31, 2013.

Further information can be obtained from the District office.

NOTE 10 - CONTINGENT LIABILITIES

The District's financial statements include all material liabilities. There are no material contingent liabilities to record.

NOTE 11 - OTHER POST RETIREMENT BENEFITS (OPEB)

There exists a potential post-employment benefits liability of an unknown value arising out of the cost of providing health care insurance to retired District employees. Current and eligible retired District employees receive health care insurance coverage through the Washington State Health Care Authority. The monthly insurance premiums paid by enrolled retirees throughout the State are not sufficient to meet the cost of their coverage; this shortfall is included as an implicit component of the monthly charges for health care coverage of current District 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 healthcare or other post-employment 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 45 Accounting and Financial Reporting For Employers for Postemployment Benefits other than Pensions.

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NOTE 12 - PRIOR PERIOD ADJUSTMENT

The prior period adjustment increased net capital assets and net position by \$97,836. The adjustment was to record donated assets and related accumulated depreciation that were not recorded in prior years.

NOTE 13 - ACCOUNTING AND REPORTING CHANGES

The District implemented GASB 65, *Items Previously Reported as Assets & Liabilities*. This standard states in part, “Debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. Prepaid insurance costs should be reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt.”

This statement also states in part, “Accounting changes adopted to conform to the provisions of this statement should be applied retroactively by restating financial statements if practical, for all periods presented.” As the District does not present comparative financial statements the adjustment has been applied to the 2013 financial statements.

Implementation of the standard requires the District to reclassify the applicable 2005 unamortized bond issuance costs from an asset account to change in application of accounting principle in the amount of \$38,159.

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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