Office of the Washington State Auditor
Pat McCarthy

September 5, 2024

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

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of the Lakehaven Water & Sewer District for the fiscal year ended December 31, 2022. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

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

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

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

Americans with Disabilities

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LINDLEY & ASSOCIATES LLC
CERTIFIED PUBLIC ACCOUNTANTS

1603 116th Ave NE, Suite 100
Bellevue, WA 98004-9003
Phone: 425-455-4800
www.LindleyCPAs.com

Lakehaven
WATER & SEWER DISTRICT

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2022

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

LAKEHAVEN WATER & SEWER DISTRICT

Table of Contents

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

Board of Commissioners
Lakehaven Water & Sewer District
Federal Way WA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the Lakehaven Water & Sewer District, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 12, 2024.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

REPORT ON COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

Lindley & Associates LLC

Lindley & Associates LLC
January 12, 2024

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Lakehaven Water & Sewer District
Federal Way WA

OPINIONS

We have audited the accompanying financial statements of the Lakehaven Water & Sewer District, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lakehaven Water & Sewer District, as of December 31, 2022, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINIONS

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

Performing an audit in accordance with generally accepted auditing standards, we:

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

REQUIRED SUPPLEMENTARY INFORMATION

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

OTHER INFORMATION

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover other information, and we do not express an opinion or provide any assurance thereon.

In connection with the audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2024, 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.

Lindley & Associates LLC

Lindley & Associates LLC
January 12, 2024

Management's Discussion and Analysis (MD&A) presents a narrative overview and analysis of the financial activities of Lakehaven Water & Sewer District (the District) for the year ended December 31, 2022. Readers are encouraged to read this section in conjunction with the accompanying financial statements and notes to the financial statements, which follow.

FINANCIAL HIGHLIGHTS

- As of December 31, 2022, the District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $299.3 million (net position). Net position included net investment in capital assets of $223.6 million, restricted net position of $28.8 million and unrestricted net position of $46.9 million.
- In 2022, the District's total net position increased by $10.3 million.
- The District issued revenue bonds in 2021 to fund infrastructure improvements and new building facilities. Capital projects have progressed and 92% or approximately $78.5 million of the proceeds have been spent as of December 31, 2022.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements include: a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, a Statement of Cash Flows and Notes to the Financial Statements. The financial statements are prepared based on the economic resource's measurement focus and the full accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments.

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

The Statement of Revenues, Expenses, and Changes in Fund Net Position presents the results of the business activities over the course of the year. All transactions that affect net position are included. Revenues are reported by major source. Expenses are reported by function. Revenues and expenses are distinguished between operating and nonoperating. This statement can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

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

The Notes to the Financial Statements provide additional information essential to a full understanding of the District's financial statements. The notes disclose the District's significant accounting policies, significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any. The Notes to the Financial Statements can be found immediately following the basic financial statements.

In addition to the basic financial statements and accompanying notes, required supplementary information is also presented. The required supplementary information immediately follows the notes to the financial statements.

The combining statements are presented in separate sections immediately after the required supplementary information for the purposes of additional analysis.

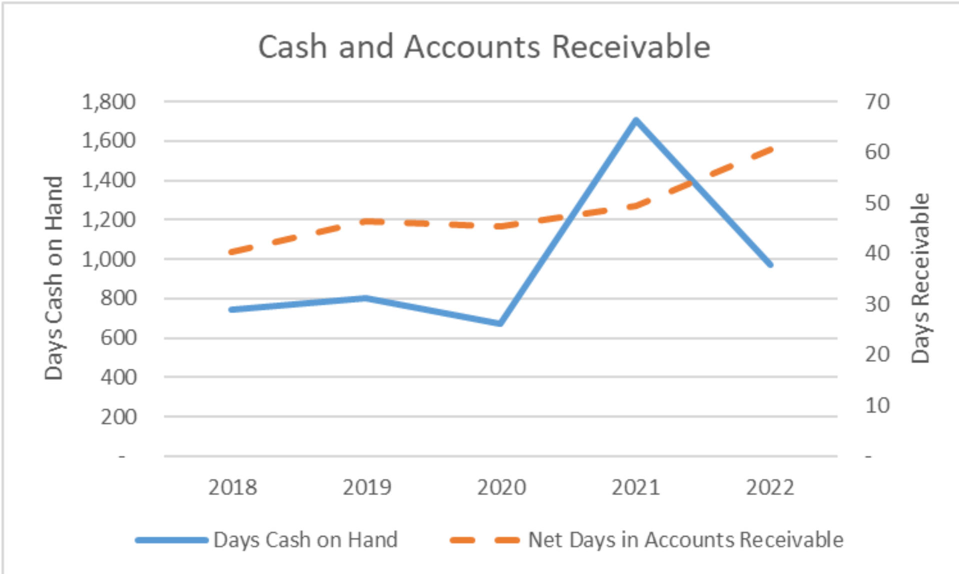
ANALYSIS OF THE CONDENSED COMPARATIVE STATEMENTS OF NET POSITION

The following condensed statements of net position present the assets and deferred outflows of resources of the District as of December 31, 2022 and 2021, and show the mix of liabilities and deferred inflows of resources and net position used to acquire these assets and deferred outflows of resources:

	As of December 31, 2022			As of December 31, 2021		
Assets	Water	Waste Water	Total	Water	Waste Water	Total
Current Assets	$ 40,396,285	$ 47,157,629	$ 87,553,914	$ 61,242,072	$ 63,850,660	$ 125,092,732
Noncurrent Assets						
Noncurrent Other	1,734,535	1,682,848	3,417,383	4,727,559	4,668,856	9,396,415
Capital Assets - Net	163,909,083	163,303,759	327,212,842	138,776,332	143,152,075	281,928,406
Total Assets	206,039,903	212,144,236	418,184,139	204,745,962	211,671,591	416,417,553
Deferred Outflow of Resources						
Total Deferred Outflows	4,214,699	2,066,375	6,281,074	3,210,886	991,139	4,202,025
Liabilities						
Current Liabilities	7,741,390	6,767,402	14,508,792	6,346,869	6,424,652	12,771,521
Noncurrent Liabilities	46,173,493	58,103,486	104,276,979	48,810,335	60,065,091	108,875,426
Total Liabilities	53,914,883	64,870,888	118,785,771	55,157,204	66,489,743	121,646,947
Deferred Inflow of Resources						
Total Deferred Inflows	3,283,919	3,110,822	6,394,741	5,107,531	4,880,987	9,988,518
Net Position						
Net Investment in Capital Assets	117,978,413	105,602,638	223,581,051	91,947,467	84,405,583	176,353,050
Restricted	7,513,310	21,294,985	28,808,295	24,138,789	34,290,314	58,429,103
Unrestricted	27,564,077	19,331,278	46,895,355	31,605,856	22,596,103	54,201,959
Total Net Position	$153,055,800	$146,228,901	$ 299,284,701	$ 147,692,111	$ 141,292,000	$ 288,984,111

Current Assets consist of cash and cash equivalents, as well as accounts receivable, prepaid expenses, inventory, and accrued interest. Current assets decreased by approximately $37.5 million. The decrease primarily is due to the increased spending on capital projects.

Cash balances vary from year to year based on income from operations, expenses paid for operations and construction costs, borrowings, and debt service payments. Customer accounts receivable increased by $1.5 million in 2022 primarily due to slower collection from customers. Restricted cash decreased by $31.4 million due to spending of bonds proceeds which are restricted to funding capital projects. Unrestricted cash decreased $8.1 million in 2022. See the days of cash on hand and the accounts receivable chart below.

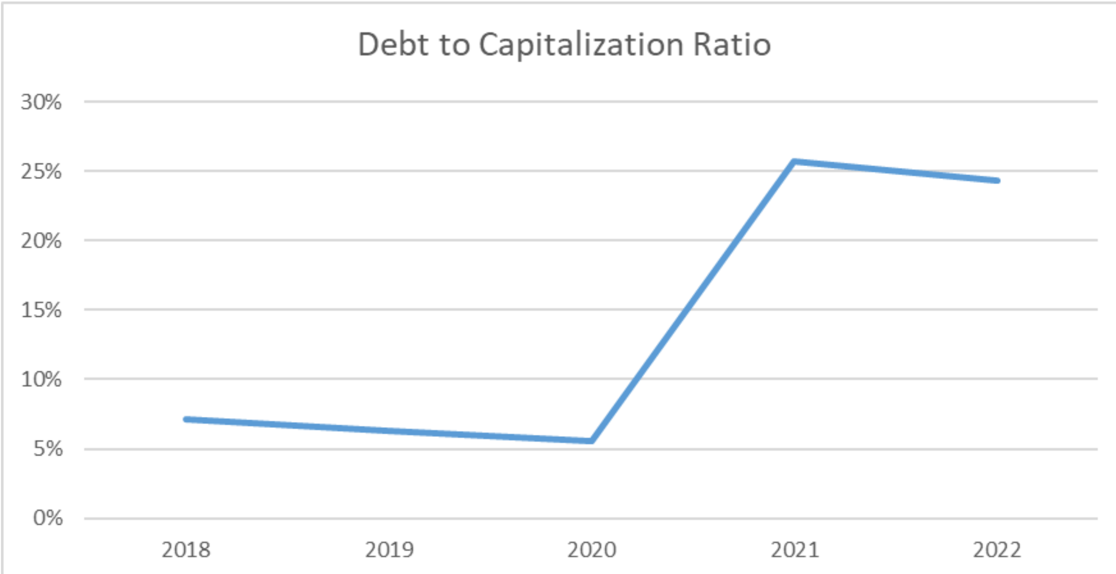


Capital Assets consist of net capital assets, which include land, construction in progress, equipment, buildings, infrastructure, and intangibles. Capital assets increased by $45.3 million in 2022. The increase was primarily due to increases in capital project spending, which was partially offset by depreciation expense.

Deferred Outflows of Resources consist of pension and OPEB deferred outflows, and deferral related to asset retirement obligations. Pension deferred outflows totaled $3.4 million in 2022, an increase of $2.2 million from 2021. The increase was primarily due to the net effect of differences between expected and actual experience, changes in assumptions and proportionate share and contributions subsequent to the measurement date. OPEB deferred outflows totaled $0.7 million in 2022, a decrease of $0.1 million from 2021. Asset retirement obligations deferred outflows totaled $2.2 million in 2022. See Note 14 for more information.

Current Liabilities include accounts payable, deposits, interest payable on debt, retainage and the current portion of noncurrent debts. Current liabilities increased by $1.7 million in 2022. The increase was primarily due to the net effect of an increase in current accounts payable. The District had accounts payable of $10.3 million as of December 31, 2022, compared to $8.5 million as of December 31, 2021. The increase in accounts payable was primarily due to the timing of payments made to vendors.

Noncurrent Liabilities include the noncurrent portion of Public Works Trust Fund/Department of Health Office of Drinking Water and State Revolving Fund loans and Revenue bonds. Noncurrent liabilities also include compensated absences, co-op certificates, pension liability, net other post-employment benefits and excise tax payable. Noncurrent liabilities decreased by $4.6 million in 2022 primarily due to net other post-employment benefits estimates. See the debt to capitalization ratio chart below and Note 8 for more information.

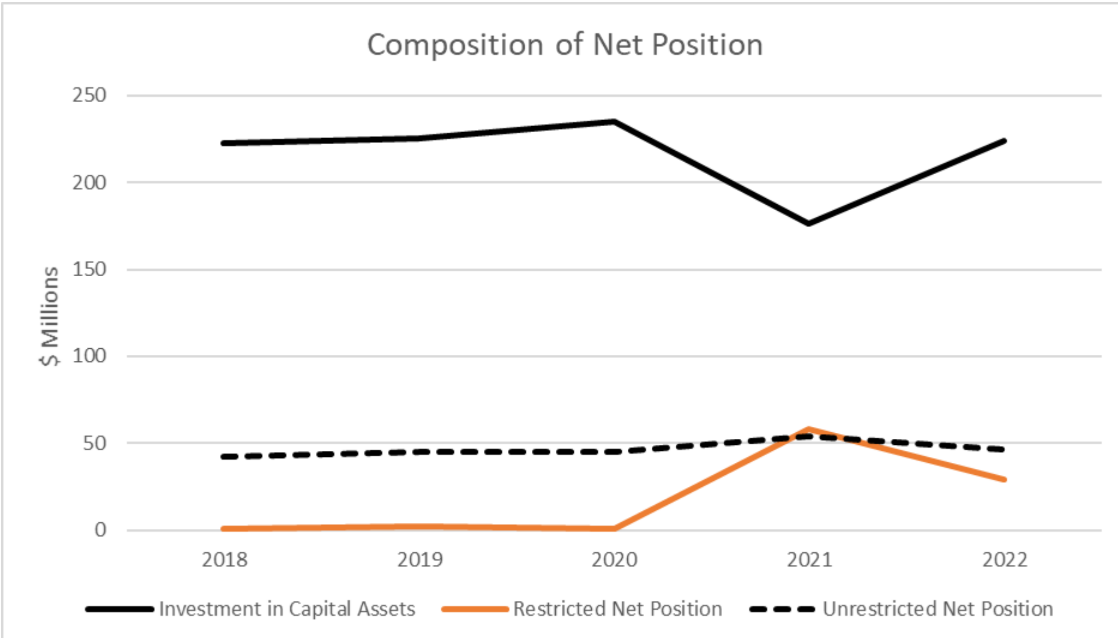


Deferred Inflows of Resources consist of pension, OPEB and lease-related deferred inflows. Deferred inflows decreased by approximately $3.6 million. Primarily this decrease is due to the net effect of differences in projected and actual earnings on pension and OPEB plan investments, differences between expected and actual experience, and changes of assumptions. See Note 10.

Net Position measures the amount by which assets and deferred outflows exceed the corresponding liabilities and deferred inflows. Over time this may serve as a useful measure of the District's financial position. The total net position of $299.3 million is in three categories.

- Investment in Capital Assets represents the book value amount invested in capital assets net of depreciation and the related debt. The primary changes that affected this category were the increase of the District's overall debt and principal partially offset by the net increase in the District's capital assets.
- The Restricted Net Position consists primarily of unspent proceeds of the revenue bonds held with the King County Investment Pool and restricted net pension asset. See Note 1 and 8.
- The Unrestricted Net Position represents the District's unrestricted cash and investments, which is essentially anything that does not fall into the first two categories. The increase in this category is primarily the result of positive change in fund net position. The District is accumulating cash reserves in order to fund future capital and renovation projects.

The District's net position increased by $10.3 million in 2022. See the five years net position chart below. The increase in net position in 2022 reflects the District's ability to meet current and future obligations in the course of its activities.



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

The following statements of revenues, expenses and changes in fund net position for the years ended December 31, 2022, and 2021 present the annual surplus or deficiency of revenues over expenses (the change in net position):

	As of December 31, 2022			As of December 31, 2021		
Revenues	Water	Waste Water	Total	Water	Waste Water	Total
Operating Revenues	$ 18,915,324	$ 25,130,277	$ 44,045,601	$ 18,493,432	$ 22,201,699	$ 40,695,131
Grants	25,226	31,256	56,482	-	2,424	2,424
Other Income	1,244,575	31,889	1,276,464	1,104,057	(3,670)	1,100,387
Total Revenues	20,185,125	25,193,422	45,378,547	19,597,489	22,200,453	41,797,942
Expenses						
Maintenance & Operations	7,390,005	13,117,330	20,507,335	6,781,235	10,744,663	17,525,898
Administrative & General	2,662,133	2,759,899	5,422,032	1,947,124	2,097,127	4,044,251
Depreciation & Amortization	4,634,164	4,848,006	9,482,170	4,662,649	4,986,899	9,649,548
Taxes	1,811,092	1,896,065	3,707,157	1,709,600	1,778,592	3,488,192
Loss on Disposal of Capital Assets	-	-	-	188,700	-	188,700
Public Works & SRF& Bonds Interest	670,113	975,591	1,645,704	288,509	250,911	539,420
Investment Loss	311,480	532,157	843,637	128,879	115,976	244,855
Total Expenses	17,478,987	24,129,048	41,608,035	15,706,695	19,974,168	35,680,863
Change in Net Position before Capital Contributions	2,706,138	1,064,374	3,770,512	3,890,794	2,226,285	6,117,079
Capital Contributions	2,657,551	3,872,527	6,530,078	1,990,636	3,389,635	5,380,271
Change in Net Position	5,363,689	4,936,901	10,300,590	5,881,430	5,615,920	11,497,350
Total Net Position, January 1	147,692,111	141,292,000	288,984,111	141,810,681	135,676,080	277,486,761
Total Net Position, December 31	$153,055,800	$146,228,901	$299,284,701	$147,692,111	$141,292,000	$288,984,111

Revenues

Total operating revenues increased by $3.4 million in 2022. Water operating revenues increased by $0.4 million in 2022 due to a rate increase of approximately 4.5% usage and normal variation in billing cycles. Wastewater operating revenues increased by $2.9 million in 2022 due to a rate increase of 10.5%.

Investment losses increased $0.6 million in 2022 resulting in an unrealized loss of $2.1 million due to the apportionment of fair market value losses from the King County investment pool. The average interest rate increased from 0.67% in 2021 to 1.11% in 2022. The average balance being invested varies from year to year and can result in differences in the investment income (loss) collected by the District. See Note 2.

Expenses

Water maintenance and operations costs increased in 2022 by $0.6 million, and wastewater maintenance and operations costs increased by $2.4 million in 2022. Total maintenance and operations costs increased by $3.0 million in 2022. Maintenance and operations expenses have varied over time.

The District had an increase in administrative and general expenses, approximately $1.4 million in 2022. Administrative and general expenses have varied over time.

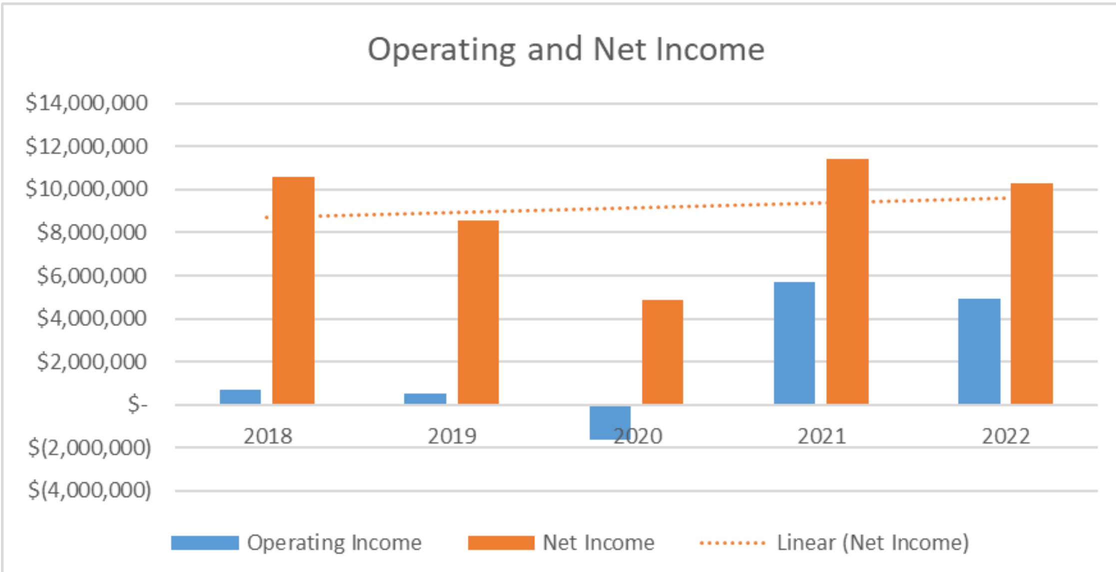
The decrease in depreciation and amortization of $0.2 million in 2022 was due to asset disposals and assets becoming fully depreciated in 2022.

Taxes are State and local assessments, not income taxes. The taxes are based on revenues from services and charges. Increases in taxes were primarily due to the increase in the amount of billings in 2022.

Interest expense increased by $1.1 million due to the revenue bonds issued in 2021 being outstanding for a full year in 2022.

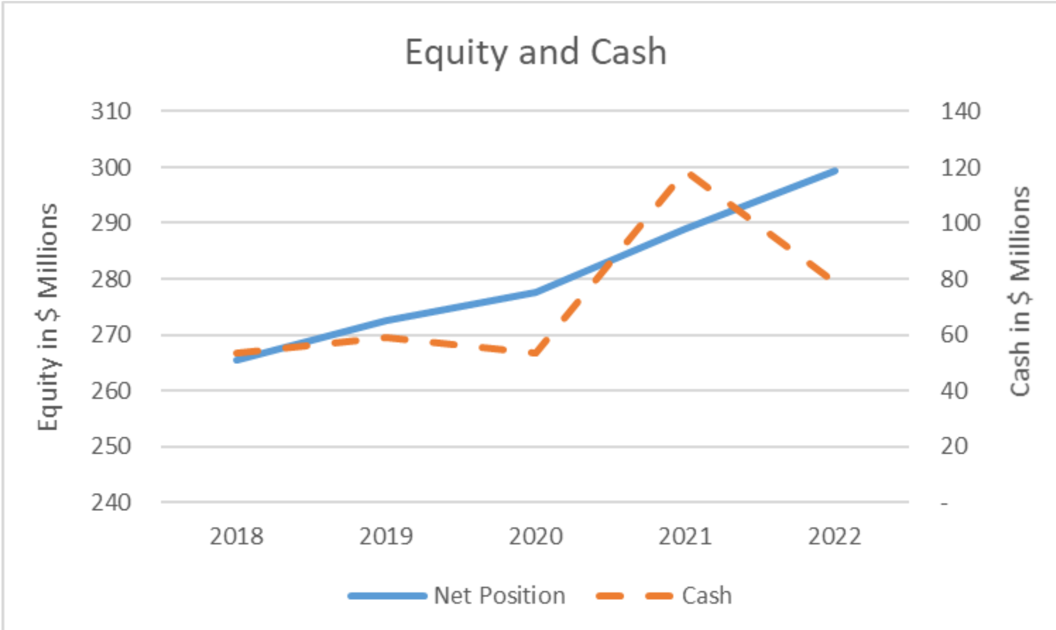
Capital Contribution

The District had $6.5 million in capital contribution from development activities in 2022. It increased from $5.4 million in 2021. This increase is primarily due to the completion of private development activities in the District during 2022. See the five-years' operating and net income chart below.



Net Position

The District's operating revenues exceeded operating expenses in 2022. For 2022, total revenues exceeded expenses before capital contributions by $3.8 million. This is a decrease of $2.3 million compared to $6.1 million in income before capital contributions in 2020. Capital contributions further added $6.5 million to the final increase in net position of $10.3 million. The change in net position for 2022 was $1.2 million more than 2021. The overall financial position of the District has improved in 2022 which indicates its ability to meet its ongoing obligations. See the following five years' equity and cash chart.



Capital Assets

Capital assets consist of land, construction in progress, equipment, buildings, infrastructure, and intangibles. Net capital assets increased by $45.3 million in 2022. The increase was primarily due to spending for capital projects, which was partially offset by depreciation and amortization expense of $9.5 million.

Significant District capital projects included in the 2022 capital assets are infrastructure improvements and new building facilities totaling $36.0 million.

Over the next ten years, it is anticipated that capital spending will be in the range of $365 million, with approximately 36% of that for water projects and 64% for wastewater projects. The areas of major emphasis in the capital budget include upgrades to water treatment and filtration, existing infrastructure, system improvements, pump stations and additional water sources. See Note 3 for more information.

Capital assets for the years ended December 31, 2022 and 2021, were as follows:

	As of December 31, 2022			As of December 31, 2021		
	Water	Waste Water	Total	Water	Waste Water	Total
Land	$ 985,776	$ 5,376,746	$ 6,362,522	$ 985,776	$ 5,376,746	$ 6,362,522
Construction in Progress	50,335,803	56,972,825	107,308,628	21,202,159	36,836,299	58,038,458
Equipment	15,476,110	33,377,693	48,853,803	15,337,109	29,211,697	44,548,806
Buildings	1,304,965	1,062,580	2,367,545	1,304,965	1,062,580	2,367,545
Infrastructure	123,473,952	178,228,303	301,702,255	123,434,525	177,531,135	300,965,660
Intangibles and leased	67,259,604	1,057,099	68,316,703	67,259,604	1,057,099	68,316,703
Accumulated Depreciation & Amortization	(94,927,127)	(112,771,487)	(207,698,614)	(90,747,807)	(107,923,482)	(198,671,288)
Total Capital Assets, Net	$ 163,909,083	$ 163,303,759	$ 327,212,842	$ 138,776,332	$ 143,152,075	$ 281,928,406

Additional Comments

In 2022, the District implemented Water rate increases of approximately 4.5% for years 2022 through 2025. For wastewater, the District implemented rate increases of 10.5% for years 2022 through 2025. The City of Federal Way's imposed 7.75% utility tax and the City of Edgewood's imposed 6% utility tax are included in the planned rate increases. See Note 15, Subsequent Events, for more information on a 2023 rate increase.

Request for Information

This financial report is designed to provide a general overview of the District's finances to all those with an interest in the District's finances. Questions concerning any information provided in this report should be addressed to: Lakehaven Water and Sewer District, 31627 1st Avenue South, Federal Way, WA 98063.

Lakehaven Water & Sewer District
Statement of Net Position
December 31, 2022

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	53,706,506
Accrued Interest Receivable		89,549
Accounts Receivables - Customers		6,751,722
Accounts Receivables - Other		248,849
Lease Receivable		124,115
Inventory		783,555
Prepaid Expenses		521,877
Restricted Assets:		
Cash and Cash Equivalents		25,285,067
Accrued Interest		42,674
Total Current Assets		87,553,914
Noncurrent Assets		
Net Pension Assets		3,299,702
Lease Receivable		117,681
Capital Assets Not Being Depreciated		
Land		6,362,522
Construction in Progress		107,308,628
Total Capital Assets Not Being Depreciated		113,671,150
Capital Assets Being Depreciated		
Equipment		48,853,803
Buildings		2,367,545
Infrastructure		301,702,255
Intangibles and leases		68,316,703
Less Accumulated Depreciation		(207,698,614)
Total Capital Assets Being Depreciated		213,541,692
Total Capital Assets		327,212,842
Total Noncurrent Assets		330,630,225
TOTAL ASSETS		418,184,139
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Asset Retirement Obligations		2,182,188
Deferred Outflows Related to OPEB		671,895
Deferred Outflows Related to Pensions		3,426,991
Total Deferred Outflows of Resources		6,281,074
Total Assets and Deferred Outflows of Resources	$	424,465,213

See accompanying notes to the financial statements.

Lakehaven Water & Sewer District
Statement of Net Position
December 31, 2022

LIABILITIES		
Current Liabilities		
Accounts Payable	$	10,080,728
Deposits, Customers and Developers		1,897,680
Retainage Due Contractors		202,743
Current Portion of Leases		19,118
Current Portion of Loans		1,345,276
Current Portion of Other Postemployment Benefits Liability		120,250
Current Portion of Compensated Absences		108,964
Interest Payable		734,033
Total Current Liabilities		14,508,792
Noncurrent Liabilities		
Revenue Bonds and Premium		83,795,544
Loans (Less Current Portion)		11,301,973
Compensated Absences		981,647
Net Pension Liability		1,963,480
Accrued Other Postemployment Benefits Liability		3,929,196
Long-Term Lease Liability		20,878
Asset Retirement Obligations		2,259,261
Other Noncurrent Liabilities		25,000
Total Noncurrent Liabilities		104,276,979
Total Liabilities		118,785,771
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Leases		241,796
Deferred Inflows Related to Pensions		3,340,068
Deferred Inflows Related to OPEB		2,812,877
Total Deferred Inflows of Resources		6,394,741
Total Liabilities and Deferred Inflows of Resources		125,180,512
NET POSITION		
Invested in Capital Assets, Net of Related Debt		223,581,051
Restricted Net Assets		
Debt Service		25,327,741
Pension		3,480,554
Unrestricted Net Assets		46,895,355
Total Net Position	$	299,284,701

See accompanying notes to the financial statements.

Lakehaven Water & Sewer District
Statement of Revenues, Expenditures and Changes in Net Position
For the Year Ended December 31, 2022

OPERATING REVENUES		
Customer Sales and Service Fees	$	42,142,845
Permits, Inspections & Delinquency Fees		315,344
Developer Revenues & Administrative Charges		1,496,848
Street Lighting Revenues		90,564
Total Operating Revenue		44,045,601
OPERATING EXPENSES		
Maintenance and Operations		20,507,335
Administrative and General		5,422,032
Depreciation and Amortization		9,482,170
Taxes, Other than Income Tax		3,707,157
Total Operating Expenses		39,118,694
NET OPERATING INCOME (LOSS)		4,926,907
NON-OPERATING REVENUES (EXPENSES)		
Interest (Expense)		(1,645,704)
Investment (Expense)		(843,637)
Grants		56,482
Other Income		1,276,464
Total Non-Operating Revenues (Expenses)		(1,156,395)
Income before Contributions, Transfers, Extraordinary and Special Items		3,770,512
CAPITAL CONTRIBUTIONS		6,530,078
CHANGE IN NET POSITION		10,300,590
BEGINNING TOTAL NET POSITION		288,984,111
ENDING TOTAL NET POSITION	$	299,284,701

See accompanying notes to the financial statements.

Lakehaven Water & Sewer District
Statement of Cash Flows
December 31, 2022

Cash Flows from Operating Activities		
Cash Received from Customers	$	43,835,068
Cash Paid to Suppliers		(26,609,590)
Cash Paid to Employees		(4,460,242)
Net Cash Provided by Operating Activities		12,765,236
Cash Flows Provided by Noncapital Financing Activities:		
Noncapital Grants		56,482
Net Cash Provided by Noncapital Financing Activities		56,482
Cash Flows from Capital and Related Financing Activities		
Acquisition and Construction of Capital Assets		(51,867,902)
Payment of Lease Assets		(18,368)
Payment of Bond Principal and Other Financing		(1,874,691)
Interest Paid		(2,930,408)
Cash Contributions in Aid of Construction		5,291,470
Net Cash Provided (Used) by Capital and Related Financing Activities		(51,399,899)
Cash Flows From Investing Activities		
Interest Received on Investments		(924,205)
Net Cash Provided by Investing Activities		(924,205)
Net Increase in Cash and Cash Equivalents		(39,502,386)
Cash and Cash Equivalents - Beginning		118,493,960
Cash and Cash Equivalents - Ending	$	78,991,573
Noncash Investing, Capital and Financing Activities		
Contributions of Capital Assets from Developers	$	1,070,943

See accompanying notes to the financial statements.

Lakehaven Water & Sewer District
Statement of Cash Flows
December 31, 2022

Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities	
Net Operating Income	$ 4,926,907
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation and Amortization	9,482,170
Other Income	1,276,464
Changes in Assets, Deferred Outflows of Resources Liabilities and Deferred Inflows of Resources	
(Increase) in Accounts Receivable	(1,486,998)
(Increase) in Inventory	(275,375)
Decrease in Prepaid Expenses	27,182
Decrease in Net Pension Assets	5,854,916
Increase in Accounts Payable	264,413
Increase in Compensated Absences	32,218
(Increase) in Deferred Outflow of Resources - Pension	(2,079,048)
(Decrease) in Deferred Inflow of Resources - Pension	(3,593,777)
Increase in Net Pension Liabilities	1,058,069
(Decrease) in Other Post-employment Benefits Liability	(2,721,905)
Total Adjustments	7,838,329
Total Cash Provided by Operating Activities	$ 12,765,236

See accompanying notes to the financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lakehaven Water & Sewer District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant accounting policies of the District.

Reporting Entity

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

Basis of Accounting and Presentation

The District uses a single enterprise fund, and its financial statements are presented based on the flow of economic resources measurement focus and the full accrual basis of accounting. The proprietary fund is comprised of two divisions: water and wastewater. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Unbilled utility service receivables are accrued at year end.

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

Cash and Cash Equivalents

Cash and cash equivalents consist of bank accounts maintained at U.S. Bank, pooled investments in the King County Investment Pool (the KCIP), and restricted cash maintained by other entities. For the purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

The District voluntarily participates in the KCIP maintained by the King County Treasury Operation Section. The King County Treasurer acts as custodian for the District's cash. The KCIP functions essentially as a demand deposit account where the District receives an allocation of its proportionate share of pooled earnings. Interest earnings distributed are used for the District's operations. The District's equity share of the KCIP's net position is reported on the statement of net position as cash and cash equivalents and reflects the change in fair value of the corresponding investment securities. See Note 2, Deposits and Investments.

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 the authority to record liens for its receivables and does not experience significant uncollectible amounts.

Inventories
Inventories are valued at average cost. The cost is recorded as an expense at the time an individual inventory item is consumed rather than purchased. A comparison to market value is not considered necessary.

Prepaids
Payments made in advance to vendors for certain goods or services, such as insurance, that will benefit future periods are recorded as prepaid items. The expenses are recognized in the period of consumption or occupancy.

Capital Assets
Capital assets include land, construction in progress, buildings, equipment, infrastructure, and intangible assets. Construction in progress reports all costs associated with projects being developed. Costs relating to projects which are ultimately put into service are transferred to capitalized utility plant. Costs relating to abandoned projects are charged to expense when it is determined that they will not be put into service. Assets acquired through contributions are recorded as additions to the appropriate property, plant and equipment accounts.

Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost when purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Costs for additions or improvements to capital assets are capitalized when they increase the life, effectiveness or efficiency of the asset. Expenditures for maintenance and repairs are charged to expenses as incurred.

Provision for depreciation is computed on the straight-line method with the following estimated useful lives:

Equipment	3 - 25 years
Buildings	50 years
Infrastructure	10 - 50 years
Intangibles and leases	5 - 50 years

Upon retirement of an asset, the cost of the asset and the related accumulated depreciation are removed from the property accounts and the gain or loss is reflected in the statement of revenues, expenses and changes in fund net position. (See Note 3).

Leases
GASB Statement No. 87 defines a lease a contract that transfers the right to use another entity's asset for a specific period of time in an exchange or exchange-like transaction. The District has entered into various lease agreements, primarily for equipment. Under these current contracts, the District recognizes a lease liability and a lease asset (intangible right-to-use asset). The lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset is

measured at the amount of initial measurement of the lease liability, plus any payment made to the lessor at the before the commencement of the lease term and certain direct costs.

Likewise, the District leases its real property and structures to another entity. Under this contract, the District recognizes a lease receivable and deferred inflows of resources. The lease receivable is measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources is measured at the value of lease receivable plus any payments received at or before the commencement of the lease term that related to future periods.

An amendment to a lease contract is considered a lease modification, unless the lessee's right-to-use the underlying asset decreases, in which case it is considered a partial or full lease termination. A lease termination is accounted for by reducing the carrying values of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflows of resources by the lessor, with any difference being recognized as a gain or loss.

The future lease payments are discounted using the interest rate implicit in the lease. If the interest rate is not available, the District uses its incremental borrowing rate determined by the District. The lease term is determined by the sum of the non-cancellable period, plus renewal options when they are reasonably certain of being exercised or early termination options when they are reasonably certain of not being exercised.

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.

Unemployment Insurance

The District is on the reimbursable method with the State of Washington for unemployment compensation. The District does not have a reserve account for this liability, should it occur.

Medical Insurance

The District's medical, dental and life insurance program is purchased through the Health Care Authority of the State of Washington (see Note 10).

Costs Arising Out of Developer Extensions

The Board of Commissioners adopted resolutions establishing a procedure which reimburses the District for costs associated with the preparation and execution of the Developer Extension Agreements.

Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing operations. The principal revenue is charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation and amortization of capital assets. All revenues not meeting this definition are reported as non-operating revenues and expenses.

Capital Contributions

Grants, ULID assessments, and contributions in aid of construction from property owners are recorded as capital contributions in the Statement of Revenues, Expenses and Changes in Fund Net Position.

Noncurrent Debt

Noncurrent debt is recorded net of premiums and discounts. Premiums and discounts on noncurrent debt are amortized by the interest method over the period the related debt is outstanding. Amortization of discounts/premiums is included in interest expense.

Pensions

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

Post-Employment Benefits Other Than Pensions (OPEB)

The total OPEB liability is measured as the portion of actuarial present value of projected benefits that is attributed to past period of employee service. The total OPEB liability is measured as of a date (measurement date) no earlier than the end of the employers' period fiscal year, consistently applied from period to period. Changes in the OPEB liability during the period are recorded as OPEB expense.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred outflows of resources relating to pension plans consist of contributions subsequent to the measurement date and the District's proportionate share of deferred outflows related to those plans. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the following year. Deferred outflows of resources for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period.

The remaining deferred outflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan. Deferred outflows relating to other post-employment benefits (OPEB) are similar to pension described above. The deferred outflow of resources related to the retirement of certain tangible capital assets arises from a legal obligation for the District to perform future asset retirement activities to offset the liability recognized.

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

Net Position
Net position is classified in the following three components:

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

Restricted - This component of net position consists of assets restricted by external creditors (such as through debt covenants), grantors, contributors or others reduced by related liabilities and deferred inflows of resources, that restrict the use of net assets. The restricted net position for pension in the government-wide financial statements is equal to the net pension asset, minus the deferred inflows, plus the deferred outflows. Only the deferred inflows and deferred outflows for the pension plans that have a net pension asset were included.

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

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

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

GASB Statement No. 94, *Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs)*. This statement provides guidance to account for PPPs and APAs. The requirements of this statement are effective for fiscal years beginning after June 15, 2022. Earlier application is encouraged. The District is currently evaluating the impact of this new GASB statement.

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

GASB Statement No. 99, *Omnibus 2022*. This statement clarifies multiple financial reporting topics included in multiple GASB Statements. Certain portions of the statement are effective and implemented for the fiscal year ended December 31, 2022 including the extension of the use of LIBOR, disclosure of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in GASB Statement No. 34, as amended, and terminology updates related to GASB Statement No. 53 and Statement No. 63 upon issue date (April 2022). The District implemented these portions.

GASB Statement No. 100, *Accounting Changes and Error Corrections*. This statement is an amendment of GASB Statement No. 62; it defines accounting changes and prescribes accounting and financial reporting as well as required disclosures in the notes to financial statements. The requirements of this Statement for changes in accounting principles apply to implementation of a new pronouncement in the absence of specific transition provisions in the new pronouncement. The requirements of this statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. The District is currently evaluating the impact of this new GASB statement.

GASB Statement No. 101, *Compensated Absences*. This statement aligns the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. The District is currently evaluating the impact of this new GASB statement.

NOTE 2 DEPOSITS AND INVESTMENTS

The District's cash and investment balances, including restricted cash and cash equivalents, at December 31, 2022, are listed below:

Bank Deposits	$	36,250
Restricted cash deposit City of Tacoma		136,254
Investment in King County Pool		53,670,257
Restricted Grant funds in King County Pool		22,749
Restricted Impaired Investment in King County Pool		9,528
Restricted Investment in King County Pool Revenue Bonds		25,116,534
Total Cash and Investments, including restricted	$	78,991,573

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).

The restricted cash deposit held by the City of Tacoma is an operating reserve balance related to the Second Supply Partnership. In March 2023, this reserve required additional funding of $68,451. See Note 12 for more information on the Second Supply Partnership.

Unimpaired Investments in King County Investment Pool

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

The KCIP is not registered with the Securities and Exchange Commission as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC), which serves the role of the County Finance Committee as defined in RCW 36.48.070. All investments are subject to written policies and procedures adopted by the EFC.

The District receives an allocation of its proportionate share of pooled earnings. Unrealized gains and losses due to changes in the fair values are not distributed to the District. However, the District has adopted GASB 72 and reports its investments in the KCIP at fair value. The unrealized gains or losses are recognized in the statement of revenues, expenses, and changes in fund net position.

As of December 31, 2022, the District had the following unimpaired investments in the KCIP:

Investment Type	Fair Value	Effective Duration
King County Investment Pool	$ 78,809,513	0.99 Years

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation of inputs used to measure the fair value of assets. Level 1 inputs are quoted prices in an active market from identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. The following is a summary of inputs in valuing the District's unimpaired investment in the KCIP as of December 31, 2022:

			Fair Value Measurements Using		
Investments at Fair Value Level		**Fair Value 12/31/22**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs**	**Unobservable Inputs (Level 3)**
Governmental Agencies	$	32,390,710	$ -	$ 32,390,710	-
Commercial Paper		7,486,904	-	7,486,904	-
Corporate Notes		1,418,571	-	1,418,571	-
Treasury Securities		30,105,234	30,105,233.97	-	-
Subtotals	$	71,401,419			
Investments measured at amortized costs					
(not subject to Fair Value Hierarchy)					
Cash and Cash Equivalents	$	78,810			
Repurchase Agreements		1,733,809			
Local government Investment Pool		5,595,476			
Subtotal investments measured at cost	$	7,408,095			
Total investments in Investment Pool	**$**	**78,809,513**			

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

U.S. Agency Securities, Commercial Paper, and Bank Corporate Notes are valued using standard inputs including benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications.

Repurchase Agreements and Local Government Investment Pool are overnight securities and are not subject to GASB Statement No. 72 and reported at amortized costs.

Impaired Investment Pool

As of December 31, 2022, the District had the following impaired investments in the KCIP:

Investment Type	Fair Value
King County Investment Pool	$ 9,528

The King County Executive Finance Committee approved the bifurcation of the investment pool as of September 1, 2008. This separated the impaired investments into their own pool distinct from the main pool of performing investments. The reasons for bifurcating the pool were to: (1) ensure the yield on the performing assets is not negatively impacted by the impaired investments; (2) enhance transparency about the value of the performing pool and the impaired pool; and (3) ease the implementation of the restructuring processes for the impaired investments.

As of December 31, 2022, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool held one commercial paper asset where the impaired investment pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The District's share of the impaired pool principal was $16,985 and the total fair value of these investments was $9,528. The District's unrealized loss for this investment is $7,457 as of December 31, 2022.

Interest Rate Risk. As of December 31, 2022, the Pool's average duration was 0.99 years. As a means of limiting its exposure to rising interest rates, securities purchased in the KCIP must have a final maturity, or weighted average life, no longer than five years. While the KCIP's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The KCIP distributes earnings monthly using an amortized cost methodology.

Credit Risk. As of December 31, 2022, the District's investment in the KCIP was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, KCIP's policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage- backed securities, corporate notes (rated at least "A" by two NRSROs), municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public 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, 2022 were as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land	$ 6,362,522	$ -	$ -	$ 6,362,522
Construction in progress	58,038,458	55,072,851	5,802,681	107,308,628
Total capital assets not being depreciated	64,400,980	55,072,851	5,802,681	113,671,150
Capital assets being depreciated:				
Equipment	44,548,806	4,308,438	3,440	48,853,803
Buildings	2,367,545	-	-	2,367,545
Infrastructure	300,965,661	2,141,734	1,405,139	301,702,255
Intangibles	68,316,703	-	-	68,316,703
Total capital assets being depreciated	416,198,714	6,450,172	1,408,580	421,240,306
Less accumulated depreciation and amortization:				
Depreciation For				
Equipment	21,865,100	5,403,622	3,512,603	23,756,119
Buildings	1,377,102	153,186	100,665	1,429,623
Infrastructure	155,899,406	18,398,646	12,792,856	161,505,196
Intangibles and leased	19,529,680	4,275,617	2,797,621	21,007,676
Total accumulated depreciation	198,671,288	28,231,070	19,203,745	207,698,614
Total capital assets being depreciated, net	217,527,426	21,780,899	17,795,165	213,541,692
TOTAL CAPITAL ASSETS, NET	$ 281,928,406	$ 76,853,750	$ 23,597,846	$ 327,212,842

The District capitalizes employee wages and benefits in connection with the construction of utility plant assets. In 2022, total wage and benefit costs of $3.3 million were capitalized.

Total depreciation expense of $9.5 million is reported on the accompanying statement of revenues, expenses, and changes in fund net position.

NOTE 4 RESTRICTED ASSETS

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

Restricted cash and cash equivalents include bond funds received in 2021, debt service reserves, utility taxes payable to City of Federal Way as required by the contractual terms, and grant funds received in 2022 in excess of arrearages meeting the grant's criteria.

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

NOTE 5 DEFERRED COMPENSATION PLAN

Pursuant to RCW 41.50.770, Washington State offers its employees and employees of those political subdivisions that elect to participate, a deferred compensation program, in accordance with Internal Revenue Code Section 457. The deferred compensation is not available to employees until termination, retirement, disability, death or unforeseeable financial emergency. This deferred compensation plan is administered by the Washington State Department of Retirement Systems (DRS). Employee deferrals totaled $404,191 in 2022. This asset and related liability are excluded from the accompanying financial statements.

NOTE 6 LEASES (LESSEE)

The District leases copiers, printers, and postage machines from various vendors. All leases were made using a State of Washington contract in effect at the time of the lease. All leases have a 60-month lease term with equal monthly or quarterly payments.

Lease assets and the related accumulated amortization are as follows:

	Beginnning Balance	Increase	Decrease	Ending Balance
Leased Equipment	$ 105,069	$ -	$ -	$ 105,069
Accumulated Amortization	(46,704)	(18,369)	-	(65,073)
Total	$ 58,365	$ (18,369)	$ -	$ 39,996

As of December 31, 2022, the principal and interest requirements to maturity are as follows:

Year ended December 31,	Principal	Interest	Total
2023	$ 19,118	$ 1,280	$ 20,398
2024	15,164	480	15,644
2025	5,714	76	5,790
Total	$ 39,996	$ 1,836	$ 41,832

NOTE 7 LEASES (LESSOR)

The District leases space on its water towers and pump stations to various vendors to place their telecommunications equipment on. Leases are made for a period of five or ten years. Each lease is negotiated individually and requires payments either monthly, quarterly or annually depending on the amount of the lease. Each lease is cancellable, by the lessee, before the term of the contract. A cancelation fee is applicable.

During 2022, the District recognized $175,478 in lease revenues and an associated $14,456 in interest revenues. As of December 31, 2022, the District had 14 leases in place with a valuation of $241,796.

As of December 31, 2022, future lease receivable principal and interest payments are as follows:

Year ended December 31,	Principal	Interest	Total
2023	$ 124,115	$ 7,483	$ 131,598
2024	100,138	2,600	102,738
2025	4,139	452	4,592
2026	210	436	645
2027	242	428	671
2028-2045	12,952	4,951	17,901
Total	$ 241,796	$ 16,750	$ 258,445

NOTE 8 NONCURRENT DEBTS AND LIABILITIES

Revenue Bonds

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

The District retains the right to issue future bonds and notes that constitute a lien and change on net revenue superior to the liens and charges of the existing loan contracts. The District has the option to redeem the bonds stated to mature on or after October 1, 2032 after October 1, 2031. The District does not have the option to redeem bonds stated to mature in the years 2024 through 2031 early.

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

The following table summarize the bond issuances and amounts outstanding as of December 31, 2022:

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

Direct Borrowings

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 and State Revolving Fund long term loans as direct borrowings. The District has pledged future water and wastewater net revenue to repay the loans. The loans are revenue obligations of the District payable solely from the net revenue of the District. Net revenue means gross revenue minus expenses of maintenance and operations.

The District retains the right to issue future bonds and notes that constitute a lien and change on net revenue superior to the liens and charges of the existing loan contracts. The District has the right to prepay the unpaid balance of the loan in full at any time or make accelerated payments without penalty.

Loan payments 30 days or more delinquent will be assessed a daily penalty of 12% per annum on the entire due balance. If the lender terminates the loan agreement for cause or convenience, there is no effect on the District's obligations to repay the unpaid balance of the loan.

The following table summarize the direct borrowing issuances and amounts outstanding as of December 31, 2022:

Type	Contract	Project	Origination Date	Maturity Date	Interest Rate	Original Debt	Outstanding Balance
Loan	PW-04-691-039	Water filtration at various well sites	4/8/2004	7/1/2024	0.228%	$ 1,700,000	$ 189,013
Loan	PC-12-951-018	Green River Water Treatment Plant Filtration Facility	4/8/2004	6/1/2031	0.500%	10,000,000	4,823,107
Loan	PW-04-691-PRE-130	Redondo outfall replacement	6/30/2004	7/1/2024	0.500%	570,705	60,780
Loan	PW-06-962-021	Redondo outfall replacement	6/5/2006	7/1/2026	0.500%	2,400,000	520,702
Loan	DM 10-952-030	Green River Treatment Plant/Filtration Facility	8/26/2010	10/1/2034	1.500%	3,030,000	1,827,419
Loan	DM 11-952-021	Green River Treatment Plant/Filtration Facility	6/30/2011	10/1/2035	1.500%	2,020,000	1,313,051
Loan	DM 12-952-108	Green River Filtration Facility	6/3/2012	10/1/2035	1.500%	5,982,486	3,913,177
						Total Outstanding	**$ 12,647,249**
						Less: Current portion	$ (1,345,276)
						Long Term Debt	$ 11,301,973

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

	Bond		Direct Borrowing	
	Principal	Interest	Principal	Interest
2023	$ -	$ 1,494,933	$ 1,345,276	$ 133,773
2024	1,890,000	1,494,933	1,345,276	121,503
2025	1,985,000	1,491,002	1,220,380	109,234
2026	2,085,000	1,483,890	1,220,380	97,589
2027	2,190,000	1,562,982	1,090,204	85,944
2028-2032	12,705,000	7,034,060	4,915,120	264,810
2033-2037	15,640,000	5,900,277	1,510,615	43,034
2038-2042	18,230,000	4,122,724	-	-
2043-2046	16,905,000	1,365,352	-	-
	$ 71,630,000	$25,950,152	$ 12,647,249	$ 855,888

Changes in Long-term Liabilities

	Beginning Balance	Increase	Decrease	Ending Balance	Due Within One Year
Bonds Payable					
Bonds	$ 71,630,000	$ -	$ -	$ 71,630,000	$ -
Unamortized Bond Premium	13,754,815	-	1,589,271	12,165,544	1,271,417
Total	$ 85,384,815	$ -	$ 1,589,271	$ 83,795,544	$ 1,271,417
Other Liabilities					
State Revolving Loans- Direct Borrowings	$ 14,521,939	$ -	$ 1,874,690	$ 12,647,249	$ 1,345,276
Compensated Absences Liability	1,058,393	32,218	-	1,090,611	108,964
Net Pension Liability	905,410	1,058,070	-	1,963,480	-
Other Postemployment Benefits	6,771,351	-	2,721,905	4,049,446	120,250
Asset Retirement Obligations	2,259,261	-	-	2,259,261	-
Lease Liabilities	58,365	-	18,369	39,996	19,118
Other Long-term Liabilty	25,000	-	-	25,000	-
Total	$ 25,599,719	$ 1,090,288	$ 4,614,964	$ 22,075,043	$ 1,593,608

NOTE 9 PENSIONS

The following table represents the aggregate pension amounts for all plans for the year 2022:

Aggregate Pension Amounts – All Plans	
Pension liabilities	($1,963,480)
Pension assets	$ 3,299,702
Deferred outflows of resources	$3,426,991
Deferred inflows of resources	($3,340,068)
Pension expense/expenditures	($248,607)

State Sponsored Pension Plans

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

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

The DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee***
January – August 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Total	**10.25%**	**6.00%**
September – December 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total	**10.39%**	**6.00%**

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

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2***
January – August 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**10.25%**	**6.36%**
September – December 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**10.39%**	**6.36%**

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

The District's actual PERS plan contributions were $446,156 to PERS Plan 1 and $731,635 to PERS Plan 2/3 for the year ended December 31, 2022.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2021 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

Inflation: 2.75% total economic inflation; 3.25% salary inflation

Salary increases: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

Investment rate of return: 7.00%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Methods did not change from the prior contribution rate setting June 30, 2019 Actuarial Valuation Report (AVR), however OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020 AVR. There were also the following assumption changes:

OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.

OSA updated the economic assumptions based on the 2021 action of the PFC and the LEOFF Plan 2 Retirement Board. The investment return assumption was reduced from 7.5% (7.4% for LEOFF 2) to 7.0%, and the salary growth assumption was lowered from 3.5% to 3.25%. This action is a result of recommendations from OSA's biennial economic experience study.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.0%.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.0% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.0% was determined using a building-block-method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

The table below summarizes the best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022. 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%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
	100%	

Sensitivity of the Net Pension Liability/(Asset)
The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0 percent) or 1-percentage point higher (8.0 percent) than the current rate.

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
PERS 1	$ 2,623,182	$ 1,963,480	$ 1,387,715
PERS 2/3	$3,885,831	($3,299,702)	($9,203,073)

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, 2022, the District reported its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$ 1,963,480
PERS 2/3	($ 3,299,702)

At June 30, 2022, the District's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/21	Proportionate Share 6/30/22	Change in Proportion
PERS 1	0.074139%	0.070518%	0.003621%
PERS 2/3	0.091899%	0.088970%	0.002929%

Employer contribution transmittals received and processed by the DRS for its fiscal year ended June 30, 2022 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans in which the District participates.

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

Pension Expense

For the year ended December 31, 2022, the District recognized pension expense as follows:

	Pension Expense
PERS 1	$ 805,715
PERS 2/3	(1,054,322)
TOTAL	**$(248,607)**

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	($325,406)
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	$231,477	-
TOTAL	**$231,477**	**($ 325,406)**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 817,589	($74,697)
Net difference between projected and actual investment earnings on pension plan investments	-	(2,439,494)
Changes of assumptions	1,839,129	(481,550)
Changes in proportion and differences between contributions and proportionate share of contributions	162,955	(18,921)
Contributions subsequent to the measurement date	375,841	-
TOTAL	$ 3,195,514	($3,014,662)

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$817,589	($74,697)
Net difference between projected and actual investment earnings on pension plan investments	-	(2,764,900)
Changes of assumptions	1,839,129	(481,550)
Changes in proportion and differences between contributions and proportionate share of contributions	162,955	(18,921)
Contributions subsequent to the measurement date	607,318	-
TOTAL	$3,426,991	($3,340,068)

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	PERS 1
2023	($137,705)
2024	(125,072)
2025	(156,899)
2026	94,270
2027	
Thereafter	-
Year ended December 31	**PERS 2/3**
2023	($714,145)
2024	(633,831)
2025	(782,870)
2026	(1,129,925)
2027	406,284
Thereafter	399,558

NOTE 10 OTHER POST EMPLOYMENT BENEFITS (OPEB) PLAN

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB Statement 75 for the year 2022:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	$4,049,446
OPEB assets	-
Deferred outflows of resources	$671,895
Deferred inflows of resources	$2,812,877
OPEB expenses/expenditures	$211,014

OPEB Plan Description

The District provides to its retiree’s employer subsidies for post-employment medical and dental insurance benefits (OPEB) provided through the Public Employees Benefits Board (PEBB). It is a single-employer defined benefit plan and administered by the Washington State Health Care Authority (HCA) per RCW 41.05.065.

The PEBB plan is not a trust and there are no assets available. The plan is financed on a pay-as-you-go basis, meaning that PEBB employers pay these costs as they occur. The actual medical and dental costs are paid through annual fees and premiums to the PEBB. Legally, the District does not have a contractual obligation or a policy to maintain and provide its employees with continued medical and dental insurance coverage after termination or retirement. The OPEB relationship between PEBB employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

GASB Statement 75, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions, requires governments to account for other post-employment benefits (OPEB) on an accrual basis, rather than on a pay as you go basis. The effect is the recognition of an actuarially determined expense on the statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. The post-employment benefit liability is recognized on the Statement of Net Position over time.

The PEBB created within the HCA, is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including the establishment of eligibility criteria for both active and retired employees. The PEBB program that the District enrolled in covers medical and dental benefits; no other employee benefits are included in the program. The District employees who end public employment are eligible to continue PEBB insurance coverage as a retiree if they retire under the public employees' retirement system and are vested in that system.

The Office of the State Actuary, a department within the primary government of the State of Washington, issues a publicly available Other Post-employment Benefits Actuarial Valuation Report. The Other Post-employment Benefits Actuarial Valuation Report may be obtained by writing to: Office of the State Actuary, PO Box 40914, Olympia, Washington 98504, or it may be downloaded from the Office of the State Actuary website at http://osa.leg.wa.gov.

The Public Employees Benefits Board (PEBB) plan offers subsidized retirement coverage to its plan participants and the District can terminate medical insurance with no future obligation or liability to PEBB or its retirees.

The subsidies provided by PEBB to the District include the following:

- Explicit Medical Subsidy for Post 65 retirees and spouses
- Implicit Medical and Dental Subsidy

The explicit subsidies are monthly amounts per retiree and spouse. As of the valuation date, the explicit subsidy for post 65 retirees and spouses is the lesser of $183 or 50% of the monthly premium.

The implicit medical subsidy is the difference between the total cost of medical benefits and the premiums. For pre-65 retirees and spouses, the retirees pay the full premium amount, but that amount is based on a pool that includes active employees. Active employees will tend to be younger and healthier than retirees on average, and therefore can be expected to have lower average health costs. For post 65 retirees and spouses, the retiree does not pay the full premium due to the subsidy discussed above.

Employees covered by benefit terms: At December 31, 2022, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	41
Inactive employees entitled to but not yet receiving benefits	-
Active employees	110
Total	151

It is not possible to estimate the number of employees entitled to, but not yet receiving benefits because neither the District nor HCA has an accurate way to measure this.

The plan is funded on a pay as you go basis and there are no assets accumulated in a qualifying trust.

<u>Assumptions and Other Inputs</u>

The total OPEB liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

- The actuarial cost method used for determining the benefit obligations is the Entry Age Actuarial Cost method.
- The discount rate is based on Bond Buyer General Obligation 20-Bond Municipal Index. This resulted in a 2.16% discount rate for the beginning total OPEB liability, measured as of June 30, 2021, and 3.54% for the ending total OPEB liability, measured as of June 30, 2022.
- Projected salary changes at 3.25%. In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by merits and longevity.
- Health cost trend rate initially at 5.40% for pre-65 claims and contributions and increases to 5.70%, 5.50%, 5.00%, for the years ending June 30, 2023, 2024, 2025, and 2026, respectively. The rate for each year between June 30, 2027 through 2036 is 4.90%. 4.50% for each of next 10 years ending June 30, 2046, 4.40% for each year of next 20 years ending June 30, 2066, 4.20% for each year of next 10 years ending June 30, 2076, 3.80% each year thereafter.
- Health cost trend rate initially at 7.70% for post 65 claims and decreases to 6.80% for years ending June 30, 2023 and 2024. The rate decreases to 6.90% and 4.90% for each of the years ending June 30, 2025 and 2026. The rate for each year between June 30, 2027 through 2036 is 4.80%, 4.50% for each year of next 10 years ending June 30, 2046. 4.30% for each year of next 20 years ending June 30, 2066, 4.20% for each year of the next 10 years ending June 30, 2076 and 3.80% per year thereafter.
- Dental costs trend at 1.10% for the year ending June 30, 2023, 2.50% for the year ending June 30, 2024, 3.50% for the year ending June 30, 2025, 4.00% for the year ending June 30, 2026, 4.00% for the years ending June 30, 2073, and 3.80% per year thereafter.
- Mortality rates were based on the assumptions from the 2019 actuarial valuation for Washington State retirement systems, adjusted for Lakehaven Water and Sewer District. For all healthy members, PubG.H-2010 base mortality table with generational mortality adjustments using the long-term MP-2017 generational improvement scale was used.
- Inflation rate at 2.35% total economic inflation.

- Post retirement participation percentage of 65% for medical benefits and 65% for dental benefits.
- Percentage with spouse coverage of 45%.

Sensitivity of OPEB Liability

The following presents the total OPEB liability of the District, calculated using the current healthcare cost trend rates as well as what the OPEB liability would be if it were calculated using trend rates that are 1-percentage point lower or 1-percentage point higher than the current trend rates.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Total OPEB Liability	$3,422,306	$4,049,446	$4,852,492

The following presents the total OPEB liability of the District, calculated using the discount rate of 3.54 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.54%) or 1-percentage point higher (4.54%) that the current rate.

	1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
Total OPEB Liability	$4,755,283	$4,049,446	$3,481,515

Changes in the Total OPEB Liability

OPEB- All Plans	
Total OPEB Liability Beginning Balance	$ 6,771,351
Service cost	332,933
Interest	152,160
Changes of benefit terms	-
**Differences between expected and actual experience*	(1,158,696)
**Changes of assumptions*	(1,928,052)
Benefit payments	(120,250)
Other changes	-
Total OPEB Liability Ending Balance	$ 4,049,446

The net OPEB liability of $4,049,446 was determined by the actuarial valuation as of June 30, 2020, with the results rolled forward to December 31, 2022. The actuarial valuation and actuarial measurement dates was June 30, 2022. Discount rates increased from 2.16% to 3.54% based on the Bond Buyer General Obligation 20-bond municipal bond index for bonds that mature in 20 years. Service costs, which are the amounts of benefits earned by active employees over the current year, and interest costs on the OPEB liability (or future value subsidy) increased the OPEB liability were $332,933 and $152,160, respectively. The net effect of assumptions changes and economic and demographic effects decreased the OPEB liability by ($1,928,052) and ($1,158,696). Benefit payments of $120,250 were subsidies expected to be paid throughout the year.

The District recognized OPEB expense of $103,550 in 2022.

At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources	**Deferred Outflows of Resources**
Differences between expected and actual experience	($ 1,019,094)	$ **90,339**
Changes of assumptions	(1,793,783)	534,217
Contributions made subsequent to the measurement date	N/A	47,339
TOTAL	($2,812,877)	$ 671,895

Contributions made subsequent to the measurement date are expected benefits payments in the half year between the measurement date and the reporting date. Per paragraph 159 of GASB 75, deferred outflows of resources should be reported for benefits that come due subsequent to the measurement date, but prior to the reporting date. Per GASB's illustrations, these amounts should not be reported in the schedule below.

Year ended December 31,	Amount
2023	$ 274,079
2024	274,079
2025	274,079
2026	245,625
2027	281,275
Thereafter	$ 839,184

NOTE 11 RISK MANAGEMENT

The District is a member of the Cities Insurance Association of Washington (CIAW). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 29.34 RCW (Interlocal Cooperation Act), nine cities originally formed CIAW on January 1, 1981. CIAW was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. CIAW has approximately 192 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without a deductible. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices and employee benefit liability Limits are $4 million per occurrence in the self-insured layer, and $21 million in limits above the self-insured layer is provided by reinsurance. Total limits are $25 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by types of coverage. Property coverage is self-funded from the members' deductible to $750,000, for all perils other than flood and earthquake, and insured above that to $400 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the member's deductible to $250,000 and insured above that $100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. CIAW contracts for certain claims investigations, consultants for personnel issues and land use issues, insurance brokerage, actuarial and lobbyist services.

CIAW is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance, and other administrative expenses. As outlines in the interlocal, CIAW retains the right to additionally assess the membership for any funding shortfall.
An investment committee, using investment brokers, produces additional revenue by investment of CIAW's assets in financial instruments, which comply with all State guidelines.

A Board of Directors governs CIAW, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The CIAW Executive Director reports to the Executive Committee and is responsible for conducting the day-to-day operations of CIAW.

In the last three years, there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

Unemployment Compensation Self-insurance
The District is self-insured for unemployment compensation exposure. Claims against the District are administered by the Washington State Department of Employment Security and are subsequently reimbursed by the District. Actual costs are paid by the District as incurred. Claims or reimbursements of $9,364 were paid in 2022.

Property Risks
The District carries commercial insurance for all other risks of loss, including property, earth movement, flood, electronic data processing equipment and boiler & machinery insurance. No claims or reimbursements were paid in 2022.

NOTE 12 SECOND SUPPLY PROJECT PARTNERSHIP AGREEMENT

In 2002, the District entered into an agreement with the City of Tacoma, Department of Public Utilities, Water Division, the City of Kent, and the Covington Water District to permit, design, finance, construct, operate, and maintain a second supply project and to receive deliveries of project water. The project has been designed to permit all participants to receive at their point(s) of delivery their respective participant shares of second diversion water simultaneously. The participants understand and acknowledge that the capability of project facilities at any point in time is dependent upon the use being made of the project by the participants, and external factors as well. Tacoma shall own the project, and all facilities related thereto, up to points of diversion. Each participant has a contractual obligation to pay its participant share of project costs, initially as a capital contribution in exchange for, and to qualify each participant to enjoy, the rights and interest as described in section 5 of the agreement, and upon operation as a share of operating and maintenance costs of a project providing water that is furnished by each of the participants to its customers.

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

The District has spent $77.5 million and $76.4 million towards this project through 2022 and 2021, respectively. Further information can be obtained from the District office.

NOTE 13 CONSTRUCTION AND OTHER SIGNFICIANT COMMITMENTS

As of December 31, 2022, the District is obligated under various construction contracts totaling $34.9 million of which $8.6 million remains outstanding.

NOTE 14 ASSET RETIREMENT OBLIGATIONS

The District has wells which have legally enforceable liabilities associated with their retirements. There are currently no assets restricted for payment of the liabilities. As of December 31, 2022, the District reported an asset retirement obligation (the ARO) of $2.3 million and related deferred outflows of resources of $2.2 million.

Wells have explicit decommissioning requirements per the Washington State Department of Ecology. There are two types of wells with related regulations: water wells (RCW 18.104 and WAC 173-160-381) and resource monitoring wells (WAC 173-160-460). The ARO liabilities were estimated based on the estimated costs of decommissioning. The decommissioning cost for a well is assumed at $100 per foot of depth, including labor and equipment costs of $75 per foot and grout or other plugging material costs of $25 per foot. The District currently has a total of 52 wells, ranging from 34 feet to 1,097 feet in depth.

The functional life of a well hole and casing is estimated to be 120 years. The remaining useful life of each well is determined based on the year of the well placed in service, in a range of 63 to 118 years.

NOTE 15 SUBSEQUENT EVENTS

On January 12, 2023, the District implemented Wastewater rate increases of approximately 12.5% for 2023, leaving water rates as set in December. Beginning in 2023, the City of Auburn has imposed a utility tax of

11.5% which will be added to the water and sewer rate revenues charged to customers within the City of Auburn. The City of Federal Way's imposed 7.75% utility tax and the City of Edgewood's imposed 6% utility tax are included in the planned rate increases.

NOTE 16 COVID-19 PANDEMIC

In February 2020, the Governor of the State of Washington declared a state of emergency in response to the spread of COVID 19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gathering, travel, and in-person interactions. The District proactively implemented safety measures, with most staff working remotely in 2021 and 2022. Management continues to monitor the situation for any operational or financial effects and is ready to respond appropriately as needed. To date, the District has not experienced any direct financial impact due to the pandemic. In October 2022, the Governor of the State of Washington declared an end to the state of emergency in response to the spread of COVID 19.

REQUIRED SUPPLEMENTARY INFORMATION

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Employer's proportion of the net pension liability (asset)	0.070518%	0.074139%	0.0722610%	0.073643%	0.071163%	0.070027%	0.069877%	0.069594%	0.071239%	0.046870%
Employer's proportionate share of the net pension liability (asset)	$ 861,190	2,617,507	2,778,692	3,288,921	3,178,165	3,322,836	3,752,724	3,640,414	3,588,698	2,738,733
Covered payroll	$ 11,640,285	11,114,803	11,602,736	10,099,294	9,131,898	8,536,481	8,080,298	7,830,626	7,647,088	7,455,744
Employer's proportionate share of the net pension liability as a percentage of covered payroll	7.40%	23.55%	23.95%	32.57%	34.80%	38.93%	46.44%	46.49%	46.93%	36.73%
Plan fiduciary net position as a percentage of the total pension liability	76.56%	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%	

Lakehaven Water and Sewer District
Schedule of Proportionate Share of the Net Pension Liability
OPERS 2/3
As of June 30
Last 10 Fiscal Years

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Employer's proportion of the net pension liability (asset)	0.088970%	0.091899%	0.089565%	0.089565%	0.058640%	0.084629%	0.084187%	0.084600%	0.086424%	0.060311%
Employer's proportionate share of the net pension liability (asset)	$ (8,862,844)	1,175,336	858,305	1,529,243	1,462,227	2,940,454	4,238,750	3,022,806	1,746,942	2,575,289
Covered payroll	$ 11,503,693	10,983,103	10,852,421	9,857,052	8,891,877	8,304,868	7,863,094	4,614,472	7,445,501	7,253,724
Employer's proportionate share of the net pension liability (asset) as a percentage of covered payroll	-77.04%	10.70%	7.91%	15.51%	16.44%	35.41%	53.91%	65.51%	23.46%	35.50%
Plan fiduciary net position as a percentage of the total pension liability	106.73%	120.29%	97.22%	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%	61.19%

The required supplementary information is an integral part of the accompanying financial statements

Lakehaven Water and Sewer District
Schedule of Employer Contributions
PERS 1
For the year ended December 31,
Last 10 Fiscal Years

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Statutorily or contractually required contributions	$ 446,156	485,909	547,380	525,839	506,907	442,993	413,916	353,367	318,625	232,460
Contributions in relation to the statutorily or contractually required contributions	(446,156)	(485,909)	(547,380)	(525,839)	(506,907)	(442,993)	(413,916)	(353,367)	(318,625)	(232,460)
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Covered payroll	$ 11,640,285	11,114,803	11,062,736	10,099,294	9,652,251	8,709,281	8,388,336	7,837,215	7,455,744	7,088,370
Contributions as a percentage of covered payroll	3.83%	4.37%	4.95%	5.21%	5.25%	5.09%	4.93%	4.51%	4.27%	3.28%

Lakehaven Water and Sewer District
Schedule of Employer Contributions
PERS 2/3
For the year ended December 31,
Last 10 Fiscal Years

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Statutorily or contractually required contributions	$ 731,635	783,836	859,512	772,773	705,267	582,100	508,798	425,476	371,781	323,470
Contributions in relation to the statutorily or contractually required contributions	(731,635)	(783,836)	(859,512)	(772,773)	(705,267)	(582,100)	(508,798)	(425,476)	(371,781)	(323,470)
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Covered payroll	$ 11,503,693	10,983,103	10,852,421	10,099,294	9,652,251	8,709,281	8,388,336	7,837,215	7,455,744	7,088,370
Contributions as a percentage of covered payroll	6.36%	7.14%	7.92%	7.65%	7.31%	6.68%	6.07%	5.43%	4.99%	4.56%

The required supplementary information is an integral part of the accompanying financial statements

Lakehaven Water and Sewer District
Schedule of Changes in Total OPEB Liability and Related Ratios
as of June 30, 2022
Last 10 Fiscal Years*

	2022	2021	2020	2019
Total OPEB liability - beginning	$ 6,771,351	$ 6,357,293	5,381,587	4,721,642
Service cost	332,933	316,830	238,874	205,875
Interest	152,160	146,287	195,048	189,079
Changes in benefit terms	0	0	-	-
Differences between expected and actual experience	(1,158,696)	0	143,478	-
Changes of assumptions	(1,928,052)	61,154	494,504	349,309
Benefit payments	(120,250)	(110,213)	(965,198)	(84,318)
Other changes	-	-	-	-
Total OPEB liability - ending	4,049,446	6,771,351	5,488,293	5,381,587
Covered-employee payroll	11,264,832	11,129,911	10,617,238	9,993,945
Total OPEB liability as a % of covered-employee payroll	35.95%	60.84%	51.69%	53.85%

Notes to Schedule:

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

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Changes of assumptions and other inputs reflect the effect of changes in the discount rate, election, demographic and health assumptions in each period.

Lakehaven Water and Sewer District
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2022

ALN #	COVID-19 Expenditures	Federal Agency Name (Optional)	Federal Program Name (Optional)	Pass-Through Agency Name	Other Award I.D. Number	R&D	Total	Passed Through to Subrecipients	Footnote Ref.
97.036	$ 9,231	FEMA	Public Assistance Grants	Washington State Military Department	4481		$ 9,231	$ -	
21.027	$ 56,482	US Department of the Treasury	Utility Residential Customer Arrearages	Washington Department of Commerce	22-56104-055		$ 56,482	$ -	
							$ 65,713	**$ -**	

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 BASIS OF ACCOUNTING

This Schedule is prepared on the same basis of accounting as the District's financial statements. The District uses a single enterprise fund and its financial statements are presented based on the flow of economic resources measurement focus and the full accrual basis of accounting. The proprietary fund is comprised of two divisions: water and wastewater. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

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

NOTE 2 FEDERAL DE MINIMIS INDIRECT COST RATE

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

NOTE 3 PROGRAM COSTS

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

The required supplementary information is an integral part of the accompanying financial statements

SUPPLEMENTARY AND OTHER INFORMATION

Lakehaven Water and Sewer District
Departmental Statement of Net Position by Division
December 31, 2022

	Water	Waste Water	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 30,264,170	$ 23,442,336	$ 53,706,506
Accrued Interest Receivable	48,605	40,944	89,549
Accounts Receivables - Customers	2,892,571	3,859,151	6,751,722
Accounts Receivables - Other	232,674	16,175	248,849
Lease Receivable	124,115	-	124,115
Inventory	783,555	-	783,555
Prepaid Expenses	242,756	279,121	521,877
Restricted Assets:			
Cash and Cash Equivalents	5,798,345	19,486,722	25,285,067
Accrued Interest	9,494	33,180	42,674
Total Current Assets	40,396,285	47,157,629	87,553,914
Noncurrent Assets			
Net Pension Assets	1,616,854	1,682,848	3,299,702
Lease Receivable	117,681	-	117,681
Capital Assets Not Being Depreciated			
Land	985,776	5,376,746	6,362,522
Construction in Progress	50,335,803	56,972,825	107,308,628
Total Capital Assets Not Being Depreciated	51,321,579	62,349,571	113,671,150
Capital Assets Being Depreciated			
Equipment	15,476,110	33,377,693	48,853,803
Buildings	1,304,965	1,062,580	2,367,545
Infrastructure	123,473,952	178,228,303	301,702,255
Intangibles and leases	67,259,604	1,057,099	68,316,703
Less Accumulated Depreciation	(94,927,127)	(112,771,487)	(207,698,614)
Total Capital Assets Being Depreciated	112,587,504	100,954,187	213,541,692
Total Capital Assets	163,909,083	163,303,759	327,212,842
Total Noncurrent Assets	165,643,618	164,986,607	330,630,225
TOTAL ASSETS	206,039,903	212,144,236	418,184,139
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows Related to Asset Retirement Obligations	2,182,188	-	2,182,188
Deferred Outflows Related to OPEB	353,285	318,610	671,895
Deferred Outflows Related to Pensions	1,679,226	1,747,765	3,426,991
Total Deferred Outflows of Resources	4,214,699	2,066,375	6,281,074
Total Assets and Deferred Outflows of Resources	$ 210,254,602	$ 214,210,611	$ 424,465,213

Lakehaven Water and Sewer District
Departmental Statement of Net Position by Division
December 31, 2022

	Water	Waste Water	Total
LIABILITIES			
Current Liabilities			
Accounts Payable	5,541,153	4,539,575	$ 10,080,728
Deposits, Customers and Developers	553,781	1,343,899	1,897,680
Retainage Due Contractors	53,693	149,050	202,743
Current Portion of Leases	9,559	9,559	19,118
Current Portion of Loans	1,184,711	160,565	1,345,276
Current Portion of Other Postemployment Benefits Liability	61,327	58,923	120,250
Current Portion of Compensated Absences	52,085	56,879	108,964
Interest Payable	285,081	448,952	734,033
Total Current Liabilities	7,741,390	6,767,402	14,508,792
Noncurrent Liabilities			
Revenue Bonds and Premium	29,574,898	54,220,646	83,795,544
Loans (Less Current Portion)	10,881,056	420,917	11,301,973
Compensated Absences	468,766	512,881	981,647
Net Pension Liability	962,105	1,001,375	1,963,480
Accrued Other Postemployment Benefits Liability	1,991,968	1,937,228	3,929,196
Long-Term Lease Liability	10,439	10,439	20,878
Asset Retirement Obligations	2,259,261	-	2,259,261
Other Noncurrent Liabilities	25,000	-	25,000
Total Noncurrent Liabilities	46,173,493	58,103,486	104,276,979
Total Liabilities	53,914,883	64,870,888	118,785,771
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Related to Leases	241,796	-	241,796
Deferred Inflows Related to Pensions	1,636,633	1,703,435	3,340,068
Deferred Inflows Related to OPEB	1,405,490	1,407,387	2,812,877
Total Deferred Inflows of Resources	3,283,919	3,110,822	6,394,741
Total Liabilities and Deferred Inflows of Resources	57,198,802	67,981,710	125,180,512
NET POSITION			
Invested in Capital Assets, Net of Related Debt	117,978,413	105,602,638	223,581,051
Restricted Net Assets			
Debt Service	5,807,839	19,519,902	25,327,741
Pension	1,705,471	1,775,083	3,480,554
Unrestricted Net Assets	27,564,077	19,331,278	46,895,355
Total Net Position	$ 153,055,800	$ 146,228,901	$ 299,284,701

Lakehaven Water and Sewer District
Departmental Statement of Revenues, Expenses, and Changes in
Fund Net Position by Division
Year Ended December 31, 2022

	Water	Waste Water	Total
OPERATING REVENUES			
Customer Sales and Service Fees	$ 17,824,219	$ 24,318,626	$ 42,142,845
Permits, Inspections & Delinquency Fees	132,710	182,634	315,344
Developer Revenues & Administrative Charges	867,831	629,017	1,496,848
Street Lighting Revenues	90,564	-	90,564
Total Operating Revenue	18,915,324	25,130,277	44,045,601
OPERATING EXPENSES			
Maintenance and Operations	7,390,005	13,117,330	20,507,335
Administrative and General	2,662,133	2,759,899	5,422,032
Depreciation and Amortization	4,634,164	4,848,006	9,482,170
Taxes, Other than Income Tax	1,811,092	1,896,065	3,707,157
Total Operating Expenses	16,497,394	22,621,300	39,118,694
NET OPERATING INCOME (LOSS)	2,417,930	2,508,977	4,926,907
NON-OPERATING REVENUES (EXPENSES)			
Interest (Expense)	(670,113)	(975,591)	(1,645,704)
Investment (Expense)	(311,480)	(532,157)	(843,637)
Grants	25,226	31,256	56,482
Other Income	1,244,575	31,889	1,276,464
Total Non-Operating Revenues (Expenses)	288,208	(1,444,603)	(1,156,395)
Income before Contributions, Transfers, Extraordinary and Special Items	2,706,138	1,064,374	3,770,512
CAPITAL CONTRIBUTIONS	2,657,551	3,872,527	6,530,078
CHANGE IN NET POSITION	5,363,689	4,936,901	10,300,590
BEGINNING TOTAL NET POSITION	147,692,111	141,292,000	288,984,111
ENDING TOTAL NET POSITION	$ 153,055,800	$ 146,228,901	$ 299,284,701

Lakehaven Water and Sewer District
Departmental Statement of Cash Flows by Division
Year Ended December 31, 2022

	Water	Waste Water	Total
Cash Flows from Operating Activities			
Cash Received from Customers	$ 19,537,311	$ 24,297,757	$ 43,835,068
Cash Paid to Suppliers	(8,903,933)	(17,705,657)	(26,609,590)
Cash Paid to Employees	(3,746,237)	(714,005)	(4,460,242)
Net Cash Provided by Operating Activities	6,887,141	5,878,095	12,765,236
Cash Flows Provided by Noncapital Financing Activities:			
Noncapital Grants	25,226	31,256	56,482
Net Cash Provided by Noncapital Financing Activities	25,226	31,256	56,482
Cash Flows from Capital and Related Financing Activities			
Acquisition and Construction of Capital Assets	(27,750,913)	(24,116,989)	(51,867,902)
Payment of Lease Assets	(9,184)	(9,184)	(18,368)
Payment of Bond Principal and Other Financing	(1,714,126)	(160,565)	(1,874,691)
Interest Paid	(1,126,762)	(1,803,646)	(2,930,408)
Cash Contributions in Aid of Construction	2,129,610	3,161,860	5,291,470
Net Cash Provided (Used) by Capital and Related Financing Activities	(28,471,375)	(22,928,524)	(51,399,899)
Cash Flows From Investing Activities			
Interest Received on Investments	(344,573)	(579,632)	(924,205)
Net Cash Provided by Investing Activities	(344,573)	(579,632)	(924,205)
Net Increase in Cash and Cash Equivalents	(21,903,581)	(17,598,805)	(39,502,386)
Cash and Cash Equivalents - Beginning	57,966,097	60,527,863	118,493,960
Cash and Cash Equivalents - Ending	$ 36,062,515	$ 42,929,058	$ 78,991,573
Noncash Investing, Capital and Financing Activities			
Contributions of Capital Assets from Developers	$ 373,344	$ 697,599	$ 1,070,943

Lakehaven Water and Sewer District
Departmental Statement of Cash Flows by Division
Year Ended December 31, 2022

	Water	Waste Water	Total
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities			
Net Operating Income	$ 2,417,930	$ 2,508,977	$ 4,926,907
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation and Amortization	4,634,164	4,848,006	9,482,170
Other Income	1,244,575	31,889	1,276,464
Changes in Assets, Deferred Outflows of Resources Liabilities and Deferred Inflows of Resources			
Change in Accounts Receivable	(622,589)	(864,409)	(1,486,998)
Change in Inventory	(275,375)	-	(275,375)
Change in Prepaid Expenses	(11,375)	38,557	27,182
Change in Net Pension Assets	2,868,909	2,986,007	5,854,916
Change in Accounts Payable	339,864	(75,451)	264,413
Change in Compensated Absences	(39,039)	71,257	32,218
Change in Deferred Outflow of Resources - Pension	(1,003,812)	(1,075,236)	(2,079,048)
Change in Deferred Inflow of Resources - Pension	(1,823,612)	(1,770,165)	(3,593,777)
Change in Net Pension Liabilities	518,454	539,615	1,058,069
Change in Other Post-employment Benefits Liability	(1,360,953)	(1,360,953)	(2,721,905)
Total Adjustments	4,469,211	3,369,118	7,838,329
Total Cash Provided by Operating Activities	$ 6,887,141	$ 5,878,095	$ 12,765,236

LAKEHAVEN WATER AND SEWER DISTRICT
KING COUNTY, WASHINGTON

ANNUAL FINANCIAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31,2022

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

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

Authorized, issued and outstanding bonded debt:

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

Debt service coverage ratio:

Revenue			
	$	44,045,601	Operating
		489,309	Non-Operating
		2,133,603	Unrealized (Gains)/Losses
		6,530,078	Capital Contributions
		53,198,591	
Expenses			
		39,118,694	Operating
		(9,482,170)	Depreciation
		29,636,524	
Net Revenue	$	23,562,067	
Debt Service		-	
Debt Service Ratio		N/A	
All Debt Service	$	4,805,099	
Overall Debt Service Ratio		4.90	