



## **Quarterly Financial Report Second Quarter 2022**

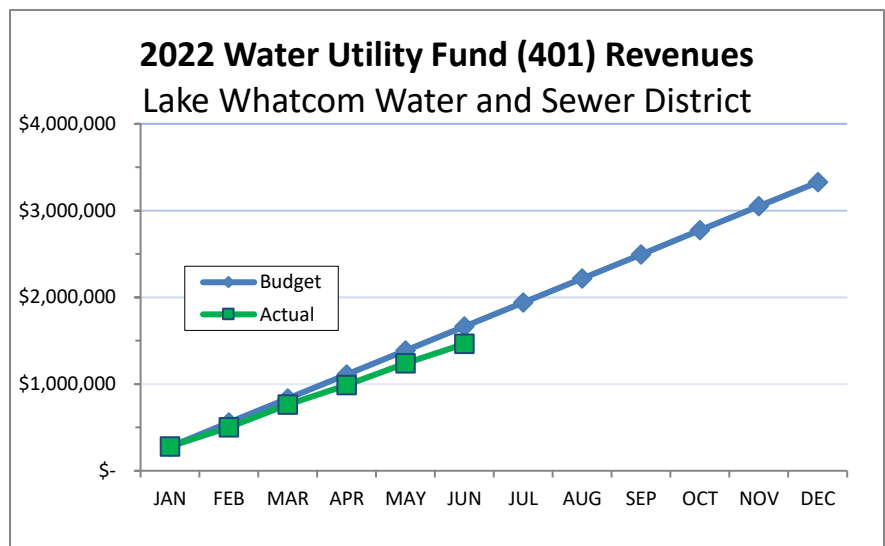
Lake Whatcom Water and Sewer District  
Bellingham, Washington

## Summary

Revenues associated with the Lake Whatcom Water and Sewer District's (District) Water Utility Fund (Fund 401) and Sewer Utility Fund (Fund 402), which serve as the primary operational funds for the District's water and sewer utilities, respectively, largely followed financial projections reflected in the 2022 Budget throughout the first half of 2022. Though expenditures of both funds slightly lagged projections, this is consistent with prior years' expenditures and due to large capital project-related expenses not anticipated to be incurred until the summer construction season. We will see the expenditures start to track more closely with the projected budget beginning in the third quarter of the year. The District continues, however, to incur expenses as a result of the emergency flood event that took place during the fourth quarter of 2021. As the recovery efforts are ongoing and are anticipated to continue throughout the year, the District will monitor these costs closely. It should be noted that it is anticipated that the majority of these costs will be offset by insurance recovery and/or FEMA public assistance grant funds. It is also important to note that the District's revenues remain relatively unaffected by the ongoing COVID-19 pandemic. Collection processes have returned to pre-pandemic standards and customer arrearages have significantly decreased since the pandemic's onset. The District is monitoring the market closely as inflation costs continue to impact operating costs and supply chain issues. Along with monitoring inflation, the District has taken advantage of rising interest rates and strategically invested funds in short-term liquid investments through Washington State's Local Government Investment Pool (LGIP) to maintain and maximize reserve funds that can be accessed quickly if needed.

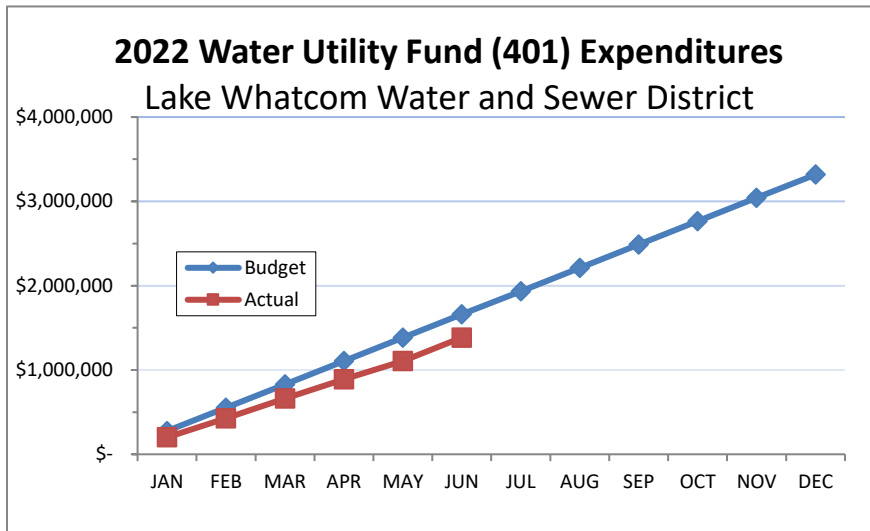
### Water Utility Fund (Fund 401)

As of June 30, 2022, Water Utility Fund revenues were \$1,462,604, which are slightly less than revenues projected through the first half of the year in the 2022 Budget (\$1,663,004). This remains consistent with prior years' revenues, which typically lag projections through the first half of each year, and then grow significantly during the third quarter due



to increased water sales (e.g., lawn watering during dry summer months). During the first quarter, the District also invested an additional \$500,000 in US Treasury Notes of which has been equally divided between the Water Utility Fund and the Sewer Utility Fund. As mentioned in the Summary above,

the District took advantage of the rising interest rates and invested \$320,000 in Washington State's LGIP during May. As a result of these additional investments in the first half of the year, the District's investment interest is at 70% of projected budget for the entire year tracking 20% higher than anticipated. The revenue from these investments is recognized in both the Water Utility and Sewer Utility Funds equally to represent the proportion of resources contributed by each fund.

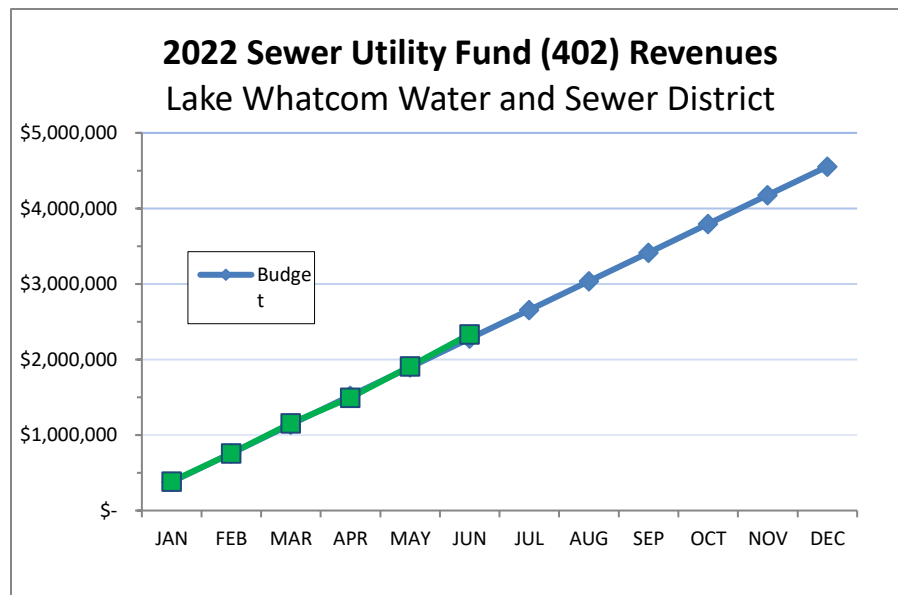


Water Utility Fund expenditures were approximately \$275,000 under budget projections as of June 30, 2022 (42% of the budget expended over the first half of the year). This is consistent with prior years, where expenditures associated with large capital improvement projects are incurred during the Lake Whatcom land disturbance

window (June 1 through September 30). That said, expenditures are anticipated to shift upward significantly in the third quarter but will remain within budgeted allocations and align with the District's Capital Improvement Plan. It should also be noted that in accordance with the District's adopted 2021 rate study, District revenues will continue to outpace expenditures in the coming years as the District plans for significant capital projects that will require reserves to be built up to ensure proper funding for the projects as outlined in the District's Capital Improvement Plan.

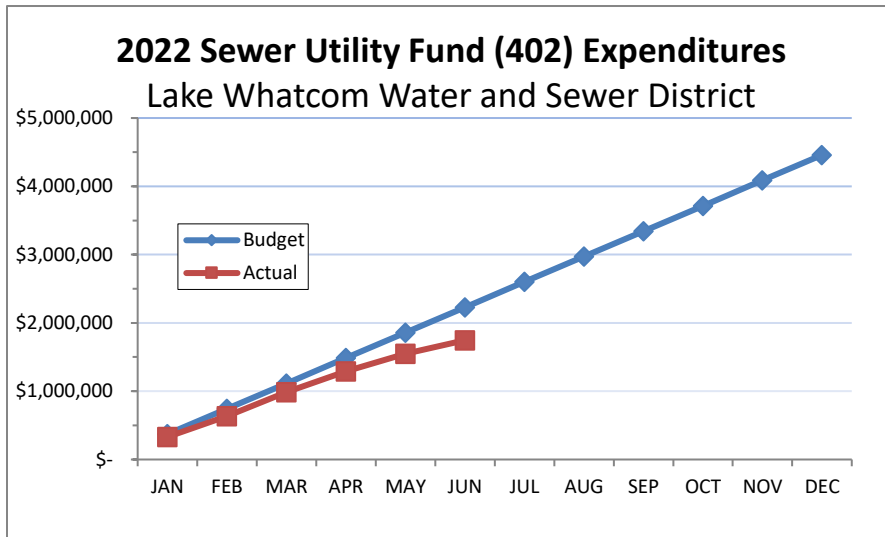
### Sewer Utility Fund (Fund 402)

Sewer Utility Fund revenues remained relatively consistent with projections during the first half of 2022 (\$2,335,160 actual vs \$2,279,180 budgeted). This is largely due to the District's uniform rate structure for sewer accounts, which allows for little variation in revenues throughout the year.



As presented in the Summary discussion above, sewer utility revenues remain relatively

unaffected by the ongoing pandemic and with collection activity returned to pre-pandemic procedures, arrearages have decreased significantly since the onset of the COVID-19 pandemic. It should also be noted as mentioned in the Water Fund, interest revenues have also increased in the Sewer Fund as a result of the additional resources being strategically invested in the first half of the year. Along with this, as the District continues to follow the adopted 2021 rate study, revenues will out pace expenditures in an effort to build reserves for large capital projects in the coming years associated mainly with the City of Bellingham’s Post Point Resource Recovery Project. The District will be required to pay for part of this project as the City of Bellingham treats the waste from the District through an interlocal agreement.



Sewer Utility Fund expenditures lagged behind projections during the first half of the year (\$1,746,107 in actual expenditures relative to \$2,229,495 budgeted). As presented in the Water Utility Fund expenditures discussion above, Sewer Utility expenditures typically increase significantly during the summer months when expenses associated with

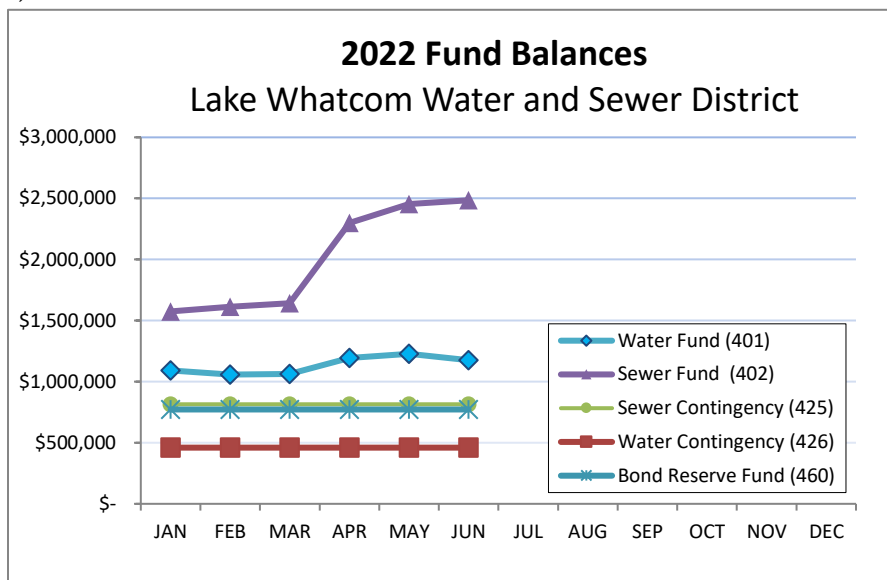
large capital improvement projects are incurred. Along with these historic trends, the District is still realizing the effects of the November 2021 flood event with increased fuel costs for back-up diesel-driven pumps, increased repair and maintenance bills, and other expenditures associated with recovery. However, as stated in the Summary at the beginning of this report, the District anticipates costs will be recovered through District insurance and/or FEMA grant funds later in the year.

### District Fund Balances

The District manages its monies within five primary funds: Water Utility Fund (401), Sewer Utility Fund (402), Sewer Contingency Reserve Fund (425), Water Contingency Reserve Fund (426), and Bond Reserve Fund (460). Of note, within the Water Utility and Sewer Utility funds are system reinvestment funds (i.e., funds dedicated to capital projects) and debt service funds associated with the respective utility. The following discussion summarizes the activity associated with each fund over the first half of 2022.

### Water Utility Fund (Fund 401)

The Water Utility Fund, which serves as the primary operating fund for the District's water utility, derives most of its revenue from rates charged to water customers. Fund expenditures are comprised of general operating expenses (personnel salary and benefits, professional services, utilities, etc.), payments relative to debt



service on past capital improvement projects, and expenditures on water system reinvestment-defined equipment and projects. Also managed within the Water Utility Fund are monies allocated towards an operating reserve, which is equal to the cost of operating the water utility for 90 days (\$590,000). The fund entered 2022 with a balance of \$1,034,772. Over the first half of the year, fund revenues exceeded expenditures by approximately \$140,000, with the June 30<sup>th</sup> balance being \$1,174,826. This is an increase of approximately 14%. As discussed earlier, the overall fund balance is anticipated to increase throughout 2022 in an effort to build reserves for significant future capital projects in the coming years. This surplus is assigned through the adopted 2021 rate study.

### Sewer Utility Fund (Fund 402)

Like the Water Utility Fund, the Sewer Utility Fund serves as the primary operating fund for the District's sewer utility. Revenues are comprised primarily of rates charged to sewer customers, and expenditures consist of general operating expenses (personnel salary and benefits, professional services, utilities, etc.), payments relative to debt service on past capital improvement projects, and expenditures on sewer system reinvestment-defined equipment and projects. Also managed within the fund are monies allocated towards an operating reserve, which is equal to the cost of operating the sewer utility for 60 days (\$470,000). The fund entered 2022 with a balance of \$2,105,875. Over the first half of the year, fund revenues outpaced expenditures approximately \$379,000, resulting in a June 30<sup>th</sup> fund balance of \$2,484,982. This is an increase of approximately 18%. As discussed earlier, the overall fund balance is anticipated to increase throughout 2022 in an effort to build fund balances for significant future capital projects in the coming years. This surplus is assigned through the adopted 2021 rate study.

#### Sewer Contingency Reserve (Fund 425)

A sewer contingency reserve is maintained in accordance with District financial policies at one percent of the sewer utility infrastructure replacement cost (\$815,000). This fund provides for paying for unanticipated costs that may be incurred by the Sewer Utility. The Sewer Contingency Reserve was fully funded throughout the first half of 2022.

#### Water Contingency Reserve (Fund 426)

A water contingency reserve is maintained in accordance with District financial policies at one percent of the water utility infrastructure replacement cost (\$460,000). This fund provides for paying for unanticipated costs that may be incurred by the Water Utility. The Water Contingency Reserve was fully funded throughout the first half of 2022.

#### Bond Reserve Fund (Fund 460)

The District's Bond Reserve Fund is a restricted fund associated with covenants of the 2016 bond sale. It remained fully funded at \$772,334 through the first half of the year with no revenues or expenditures anticipated through yearend.

#### District Investments

In accordance with its financial policies, the District invests its funds in a manner that provides the highest return with maximum security while meeting daily cash flow demands. Attached is the Investment/Cash Summary as of June 30, 2022.