



## **Quarterly Financial Report Fourth Quarter 2022**

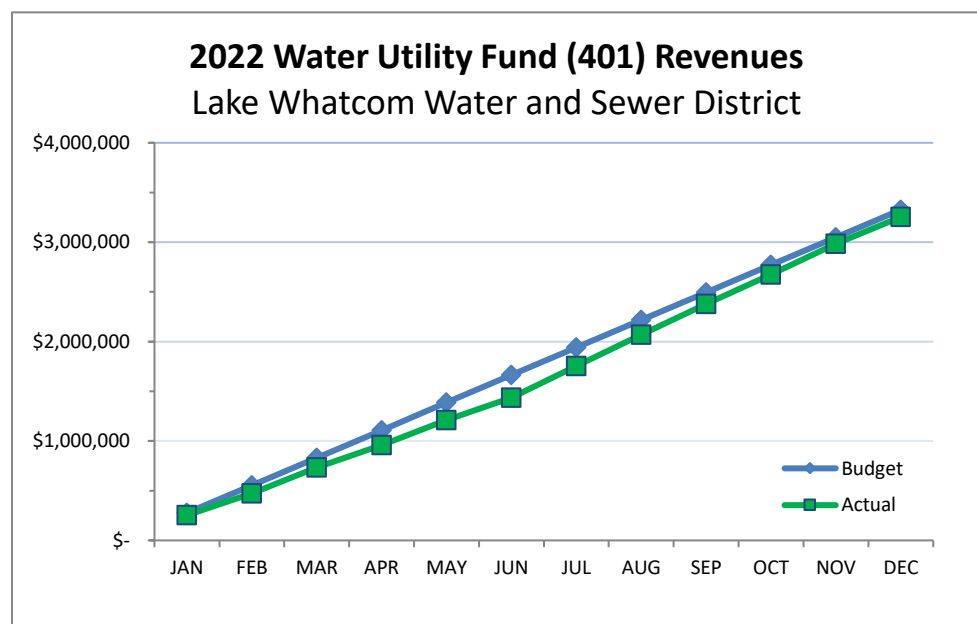
Lake Whatcom Water and Sewer District  
Bellingham, Washington

## 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 through year-end. Operating expenditures for both the Water and Sewer Utility funds finished the year slightly under budgeted projections and a large portion of the capital expenditure budget will be carried forward into 2023 as some capital projects weren't completed in 2022. During the fourth quarter the District received a portion of funding from FEMA grant funds with more anticipated in 2023 as a result of the November 2021 flood event. The District was able to make significant progress on recovery related to this event and costs are starting to slow. It should be noted that it is anticipated that most of these costs will be offset by insurance recovery and FEMA grant funds that should be received into 2023. It is also important to note that the District's service revenues remain relatively unaffected by the ongoing COVID-19 pandemic. With the Governor's emergency order for the COVID-19 pandemic lifted in October of this year, staff does not anticipate this to affect revenues but will continue to monitor cash flows closely. Collection processes have returned to pre-pandemic standards and customer arrearages have significantly decreased to pre-pandemic levels. The District continues to monitor the market closely as inflation costs continue to impact operating costs and exacerbate 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. As the market continues to change, the District will monitor options for both short-term and long-term investment strategies into 2023.

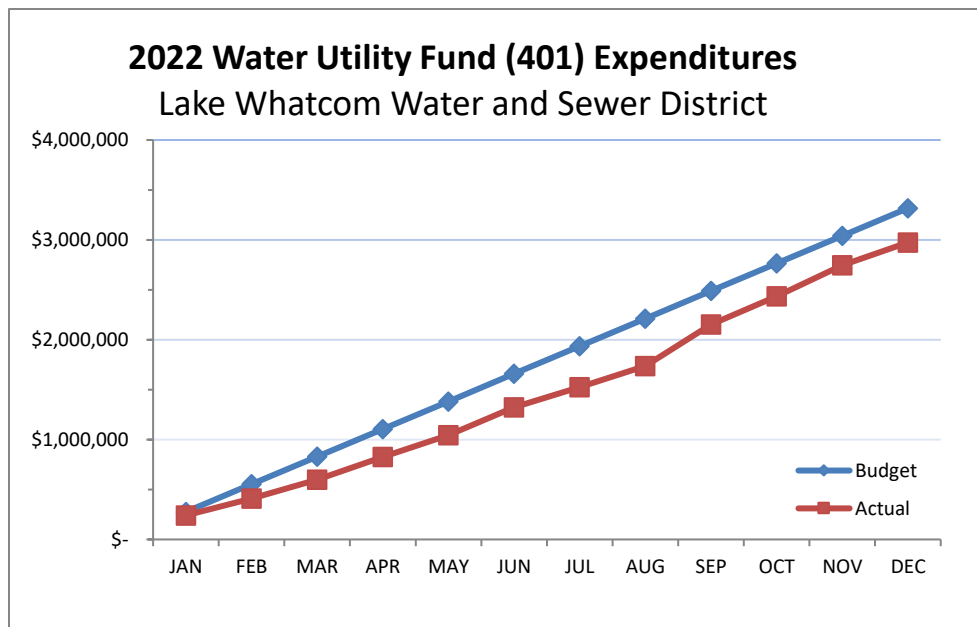
### Water Utility Fund (Fund 401)

As of December 31, 2022, Water Utility Fund revenues were \$3,253,426, which are slightly less than revenues projected for the year in the 2022 Budget (\$3,339,137). This is in large part due to grant revenue that hasn't been collected by year-end. However, it should be noted that



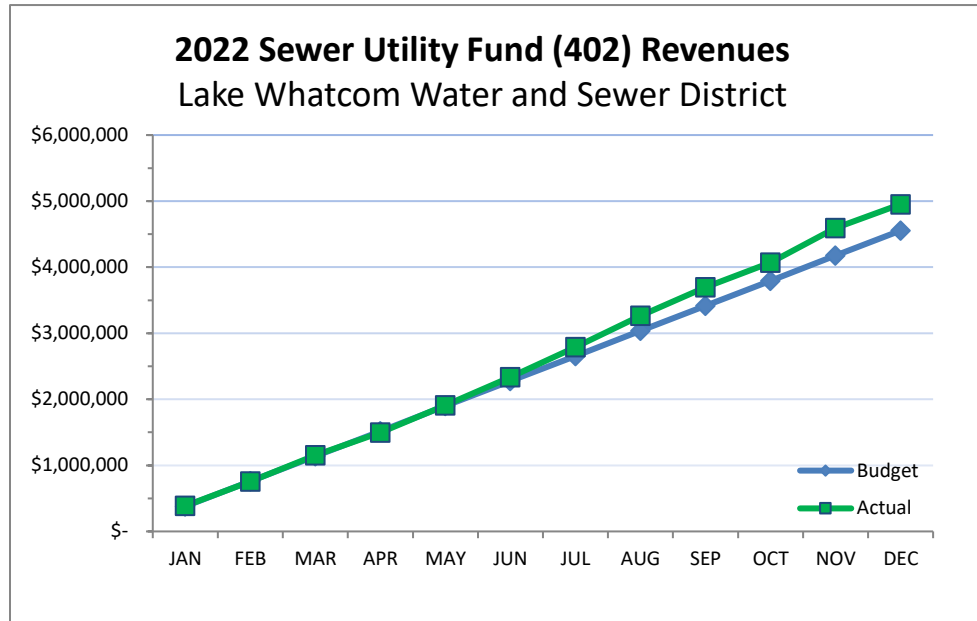
service revenue finished the year slightly above projections at \$2,914,297 (budgeted \$2,894,977). Another item of note, as a result of strategic investing, the District realized investment interest in the Water Utility fund of \$30,260 (budgeted \$20,000). Throughout 2022, the District invested an 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 an additional \$320,000 in Washington State’s Local Government Investment Pool during May. 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. The District also finished the year with revenues 158% higher than expected for General Facilities Charge (GFC) revenue. Revenue from GFC’s helps fund system reinvestment and allows the District to complete more projects and improvements to critical infrastructure.

Water Utility Fund expenditures were approximately \$356,100 under budget projections as of December 31, 2022 (89% of the budget expended). This remains a result of large capital improvement projects not being complete with 37% of the budget remaining at year-end. That said, the remaining budget for capital expenditures will be carried over into the 2023-2024 biennial budget to align with the District’s Capital Improvement Plan. Also worth noting is that operating expenditures finished the year 6% below projected budget. Also, in accordance with the District’s adopted 2021 rate study, District revenues will continue to outpace expenditures in the coming years as the District prepares for significant capital projects that will require reserves to be built up to mitigate reliance on debt financing.

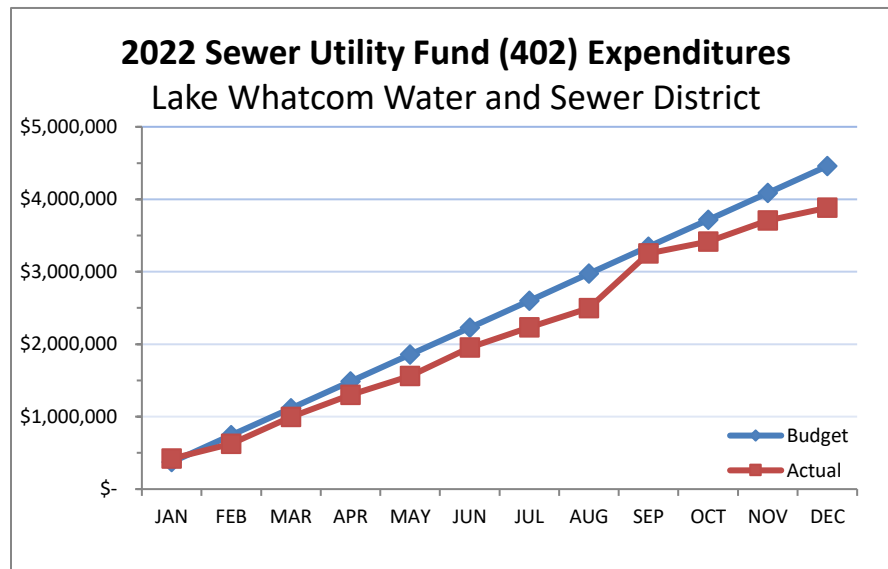


## Sewer Utility Fund (Fund 402)

Sewer Utility Fund revenues were \$4,952,736 which was higher than projections in the 2022 Budget (\$4,749,886). This is largely due to increased General Facilities Charge (GFC) revenue being 162% more than budget projections in the 2022 Budget. Along



with increased GFC revenue, the District also received \$123,691 in FEMA grant money in the last quarter of the year. 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 throughout the year. Along with this, as the District continues to follow the adopted 2021 rate study, revenues will outpace expenditures in an effort to build reserves for large capital projects in the coming years associated mainly with the City of Bellingham’s wastewater treatment plant capital improvements. The District may be required to pay for part of these costs as the City of Bellingham treats the waste from the District through an interlocal agreement.

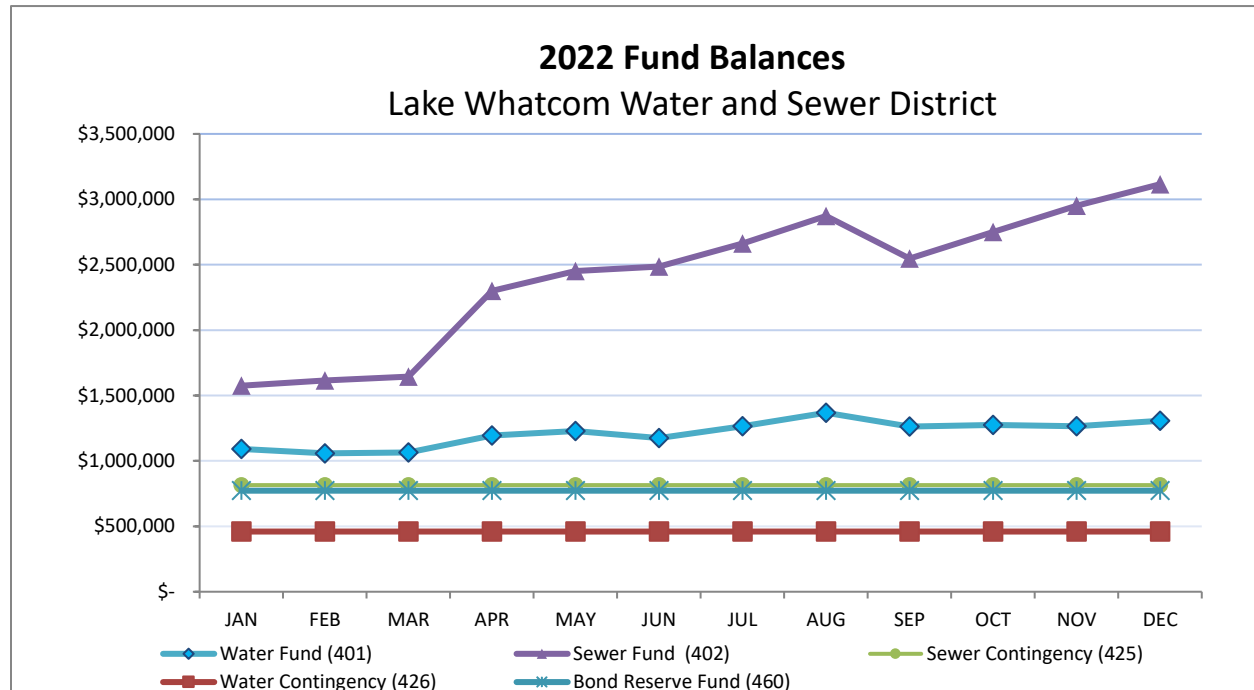


Sewer Utility Fund expenditures lagged projections by year-end (\$3,949,888 in actual expenditures relative to \$4,654,517 budgeted). This is in large part due to capital projects not being completed in 2022 that will carryover to 2023 similar to what was presented in the Water Utility Fund. It is worth noting that operating expenditures at

year-end were 8% below projected operating expenditures (\$2,798,348 actual vs. \$3,028,861 budgeted). Some areas of cost savings include payroll, benefits, professional services, and taxes.

## 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). 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 through the end 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 course of the year, the fund balance has increased to \$1,307,449. As discussed earlier, the overall fund balance is anticipated to continue to increase in an effort to build fund balances for significant future capital projects in the coming years. This surplus is identified 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 course of the year, the fund balance has increased to \$3,115,053. As discussed earlier in the Water Utility Fund, the overall fund balance is anticipated to increase in an effort to build fund balances for significant future capital projects in the coming years. This surplus is identified 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 third quarter.

#### 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 third quarter.

#### Bond Reserve Fund (Fund 460)

The District's Bond Reserve Fund is a restricted fund associated with covenants of the 2016 bond sale. It was fully funded at \$772,334 through the third quarter 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 December 31, 2022.



LAKE WHATCOM WATER AND SEWER

INVESTMENTS/CASH AS OF 12/31/2022

Petty Cash	\$	1,600	
Cash	\$	1,065,709	
Public Funds Account	\$	<u>508,737</u>	2.245%
WA Federal	\$	1,576,046	
Local Gov't Investment Pool	\$	1,066,687	4.167%

		PAR VALUE		YIELD
FNMA-Pro Equity	Non-callable	\$ 1,039,976	Jan-23	0.13%
US Treasury Note	Non-callable	\$ 498,242	Jun-23	0.25%
FFCB - Pro Equity	Callable	\$ 799,999	Jan-24	0.19%
FANNIE MAE - Pro Equity	Callable	\$ 500,823	Jun-24	0.21%
US Treasury Note	Non-callable	\$ 491,836	Sep-24	0.375%
US Treasury Note	Non-callable	\$ 500,664	Jan-25	1.125%
Discounts, Accrued Interest		<u>(\$4,438)</u>		
US Bank Safekeeping		\$ 3,827,102		
TOTAL		<u>\$ 6,469,835</u>		

USE OF FUNDS:

Bond Reserve - Restricted	\$	772,334
Contingency - Assigned	\$	1,275,000
Operating Reserves	\$	1,060,000
Unassigned	\$	3,362,501
		<u>\$ 6,469,835</u>

Fund Balance Summary

Water Utility Fund (401)	\$	1,307,448
Sewer Utility Fund (402)	\$	3,115,053
Sewer Contingency Fund (425)	\$	815,000
Water Contingency Fund (426)	\$	460,000
Bond Reserve Fund (460)	\$	<u>772,334</u>
		<u>\$ 6,469,835</u>