



## **Quarterly Financial Report First Quarter 2023**

Lake Whatcom Water and Sewer District  
Bellingham, Washington

## Summary

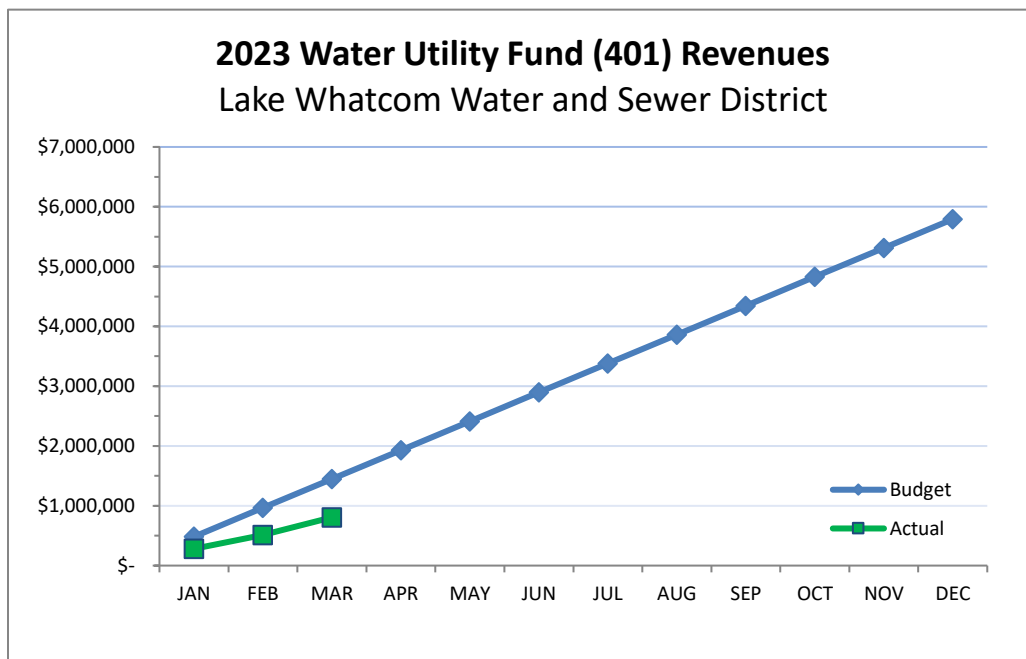
Lake Whatcom Water and Sewer District's (District) adherence to its conservative fiscal policies has allowed it to enter 2023 with stable fund balances and revenue projections that are anticipated to fully fund operations and contingency reserves throughout 2023. The District has two funds that serve as the primary operational funds for the District's water and sewer utilities. The Water Utility Fund (Fund 401) revenue lagged projections in the first quarter of 2023. This is largely due to revenue budgeted for federal awards through the Department of Homeland Security (FEMA) that hasn't been received or requested but have been approved through the adopted 2023-2024 Biennial Budget (budget). Sewer Utility Fund (Fund 402) revenue largely followed financial projections reflected in the budget through the first quarter of 2023. Operating expenditures for both the Water and Sewer Utility funds largely followed budgeted projections while overall expenditures lagged slightly due to capital expenditures not yet realized associated with budgeted projects that will take place later in the year.

The District currently has two active grants with FEMA, one for disaster recovery from the November 2021 flood event and one for the Division 7 reservoir replacement. The District received \$123,000 from FEMA in the last quarter of 2022 with more anticipated in 2023 as a result of the November 2021 flood event, which is projected to be approximately \$1.1 million in total. Revenue associated with the hazard mitigation grant for the Division 7 reservoir replacement is expected to be \$337,000 for the first phase and approximately \$1.6 million for the second phase. As such, the District is anticipating a single audit for 2023 (required when more than \$750,000 is expended in federal award funds). Since the November 2021 flood event, the District has expended approximately \$430,000 in federal funds for recovery from the flood event.

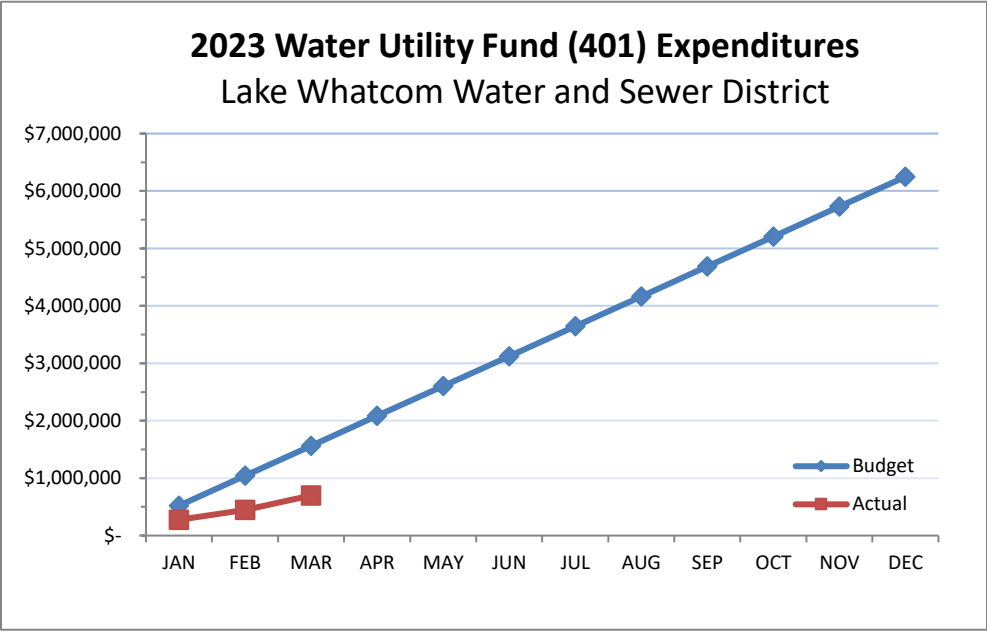
As inflation continues to be at the highest it's been in decades, the District remains diligent in monitoring the market closely as rising costs continue to impact the District's operating costs and exacerbate supply chain issues. Along with monitoring inflation, the District has taken advantage of rising 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. During the first quarter of 2023, the District invested an additional \$500,000 in LGIP along with investing \$1 million from the maturity of a long-term investment. As the market continues to change, the District will monitor options for both short-term and long-term investment strategies throughout 2023.

## Water Utility Fund (Fund 401)

As of March 31, 2023, Water Utility Fund revenues were approximately \$806,000, which is less than projected for the first quarter (\$1.4 million). This is a result of grant funding that hasn't been received through FEMA to date but is anticipated throughout 2023. It should be noted that service revenue in the water fund is tracking with projections (\$778,929 actual vs. \$781,693 budget). Another item of note, as a result of strategic investing, the District earned investment interest in the Water Utility fund of nearly \$23,000 in the first quarter of 2023. However, due to a long-term investment maturing in the first quarter that was bought at a premium, the offsetting interest revenue lagged projections in the first quarter. Nevertheless, it is anticipated that by year-end the District's investment interest will far exceed the annual budgeted amount of \$31,713 and the District will be able to recoup the costs within the second quarter of 2023. The revenue from these investments and premium cost of the long-term investment 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 also under budgeted projections as of March 31, 2023 (\$697,993 actual vs. \$1,561,845 budget). This follows past trends and remains a result of large capital improvement projects scheduled to be completed later in the year and debt service obligations that are also paid later in the year. That said, operating expenditures in the Water Utility Fund were approximately \$67,000 less than budgeted (\$597,130 actual vs. \$663,917 budgeted). However, as the

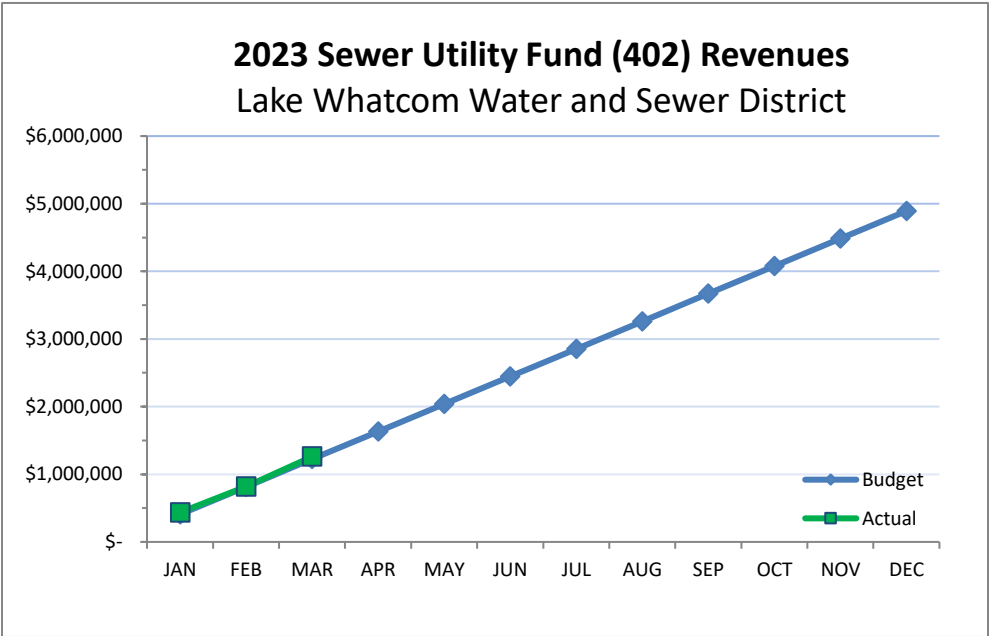


year progresses, it is anticipated that operating expenditures will track more closely with budgeted projections as a result of one-time expenditures such as the District's general liability insurance, dues, and software subscriptions. Also, in accordance with the District's

adopted 2021 rate schedule, 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)

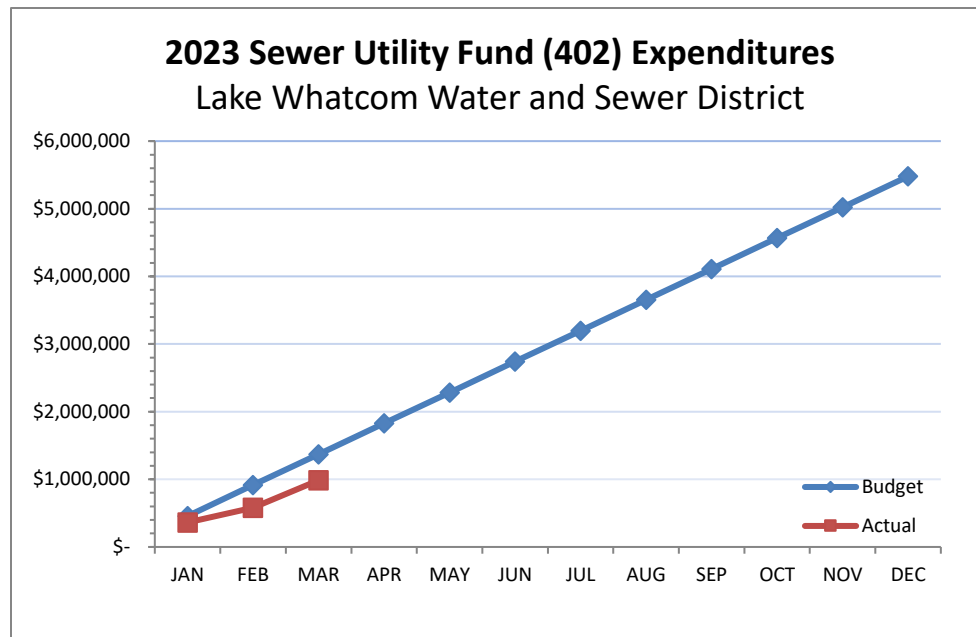
Sewer Utility Fund revenues largely followed first quarter budgeted projections (\$1,261,278 actual vs. \$1,222,944 budgeted). This remains consistent with prior years as revenues within the Sewer Utility Fund don't generally fluctuate and are easily projected through the



adopted rate schedule. As stated in the Water Utility Fund, as the District continues to follow the adopted 2021 rate schedule, 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 wastewater from the District through an interlocal agreement.

Similar to the Water Utility Fund and past trends, Sewer Utility Fund expenditures lagged projections in the first quarter (\$985,487 actual vs. \$1,369,626 budgeted). This is in large part due to capital projects scheduled to begin later in the year and debt service obligations that will be paid later in the year. It is worth noting that operating expenditures followed projections (\$777,473 actual vs. \$788,724 budgeted).



It should also be noted that one-half of annual interest payment for the District's 2016 Bond (\$89,513) was paid in the first quarter. The remaining interest and principal will be due in the fourth quarter of 2023 which equates to \$559,513.

## District Fund Balances

The District manages its monies within five 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 during the first quarter of 2023.

### 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 (\$664,000). The fund entered 2023 with a balance of \$1,313,778. During the first quarter of the year, the fund balance has increased to \$1,422,218. As discussed earlier, the overall fund

balance is anticipated to continue to increase 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 (\$521,000). The fund entered 2023 with a balance of \$3,108,723. During the first quarter of the year, the fund balance has increased to \$3,384,515. Similar to 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)

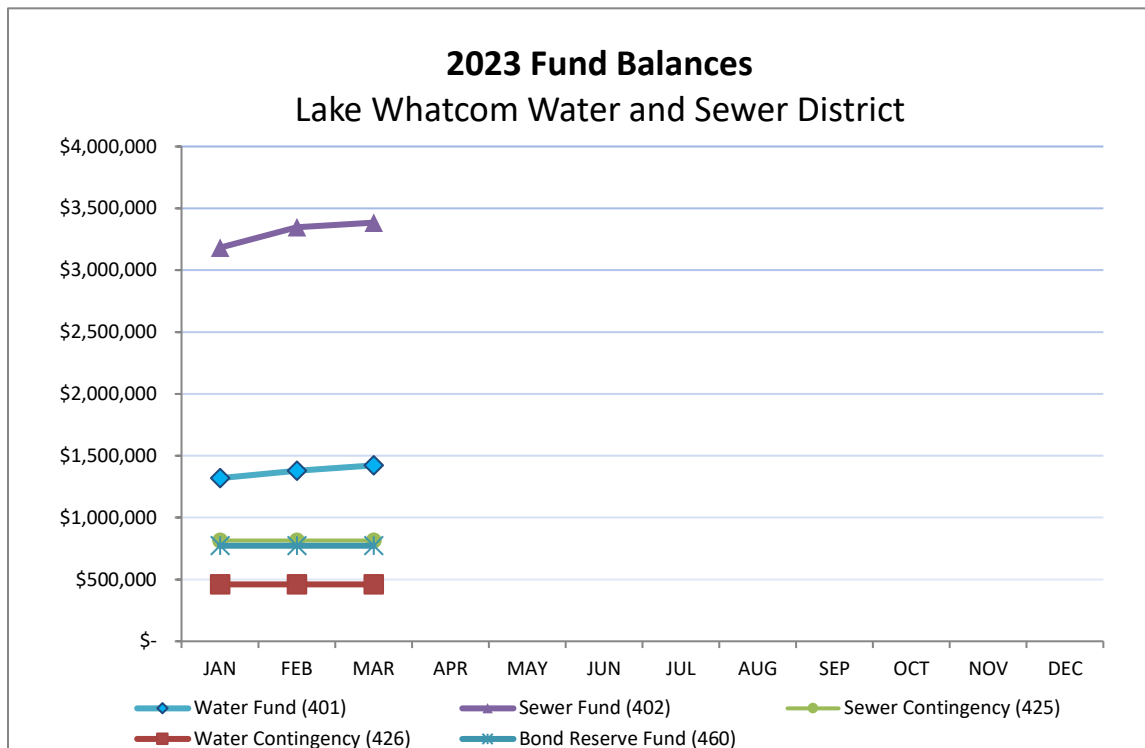
A sewer contingency reserve is maintained in accordance with District financial policies at one percent of the sewer utility infrastructure replacement cost (\$815,000). This fund provides for paying for unanticipated costs that may be incurred by the Sewer Utility. The Sewer Contingency Reserve was fully funded throughout the first 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 first 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 first 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 March 31, 2023.



## LAKE WHATCOM WATER AND SEWER

### INVESTMENTS/CASH AS OF 4.30.23

Petty Cash	\$	1,600	
Cash	\$	812,136	
Public Funds Account	\$	514,079	2.940%
WA Federal	\$	1,327,815	
Local Gov't Investment Pool	\$	2,852,244	4.930%

		PRINCIPAL COST		YIELD
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		(\$4,437)		
US Bank Safekeeping		\$ 2,787,127		

TOTAL \$ 6,967,186

#### USE OF FUNDS:

Bond Reserve - Restricted	\$ 772,334
Contingency - Assigned	\$ 1,275,000
Operating Reserves	\$ 1,185,000
Operating Assigned	\$ 3,734,852
	<u><u>\$ 6,967,186</u></u>

#### Fund Balance Summary

Water Utility Fund (401)	\$ 1,392,560
Sewer Utility Fund (402)	\$ 3,527,292
Sewer Contingency Fund (425)	\$ 815,000
Water Contingency Fund (426)	\$ 460,000
Bond Reserve Fund (460)	\$ 772,334
	<u><u>\$ 6,967,186</u></u>