



Quarterly Financial Report Third Quarter 2023

Lake Whatcom Water and Sewer District
Bellingham, Washington

Summary

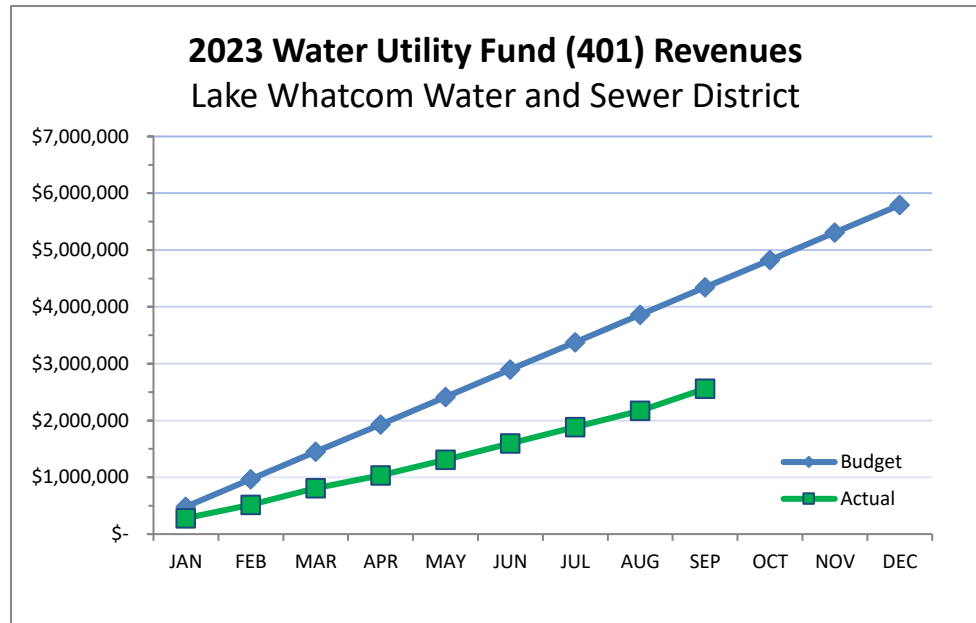
Lake Whatcom Water and Sewer District's (District) commitment to its conservative fiscal policies continued through the third quarter of 2023 allowing it to maintain stable fund balances and fully fund operations and contingency reserves. The District has two funds that serve as the primary operational funds for the District's water and sewer utilities. The Water Utility Fund (Fund 401) revenue lagged projections through the third quarter of 2023. This continues to be 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 exceeded financial projections reflected in the budget through the third quarter of 2023. This is in large part due to FEMA reimbursement received for the November 2021 flood event and increased General Facilities Charges collected in September. Expenditures in both the Water and Sewer Utility funds lagged budgeted projections as a result of capital projects budgeted for but not yet completed.

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 \$360,986 from FEMA in the second quarter of 2023, with total expenditures projected to be approximately \$1.1 million over the course of several years. Since the November 2021 flood event, the District has expended approximately \$430,000 in federal funds for recovery from the flood event. 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).

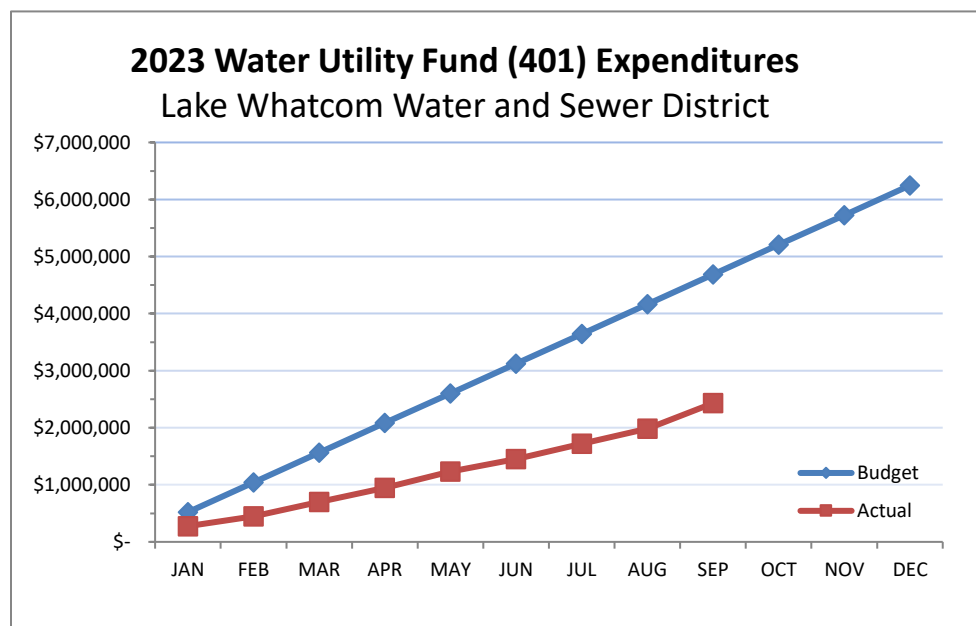
As inflation continues to be a concern, the District's staff remain diligent in monitoring rising costs to ensure the District maintains proper fund balances and operates within the approved 2023-2024 Biennial Budget. Along with monitoring inflation, the District has taken advantage of rising interest rates and strategically invested funds in both short-term liquid investments through Washington State's Local Government Investment Pool (LGIP) and long-term investments with Time Value Investments to maintain and maximize reserve funds that can be accessed if needed. During the third quarter of 2023, the District invested approximately \$1 million in US Treasury notes with maturity dates in 2025 earning over 4.75%. As it is unclear if the Federal Open Market Committee will raise rates again or begin cutting rates, the District made this shift through the transfer of \$750,000 from the LGIP and \$250,000 from the District's operating account to lock in those rates for the next two years. As the market continues to change, the District will monitor options for both short-term and long-term investment strategies through the remainder of 2023.

Water Utility Fund (Fund 401)

As of September 30, 2023, Water Utility Fund revenues were approximately \$2.6 million, which is less than projected for the third quarter (\$4.3 million). As discussed in the summary, this is a direct result of grant funding that hasn't been received through FEMA to date but is anticipated



throughout 2023 and into 2024. However, it should be noted that service revenue in the Water Utility fund exceeded budgeted projections by approximately 4%. This is in large part due to revenue from the General Facilities Charges during the month of September (\$205,911 actual vs. \$101,520) and the District's investment interest outperforming projections (\$54,436 vs \$31,713). It is anticipated that the LGIP will continue to perform well with potential higher interest rates to be announced in the fourth quarter of 2023 before rates stabilize and ultimately fall. As stated in the Summary above, the District continues to monitor these changes closely in an effort to maximize return on investments.



Overall, the District's revenues remain sufficient to support operations, capital, and debt service obligations throughout 2023.

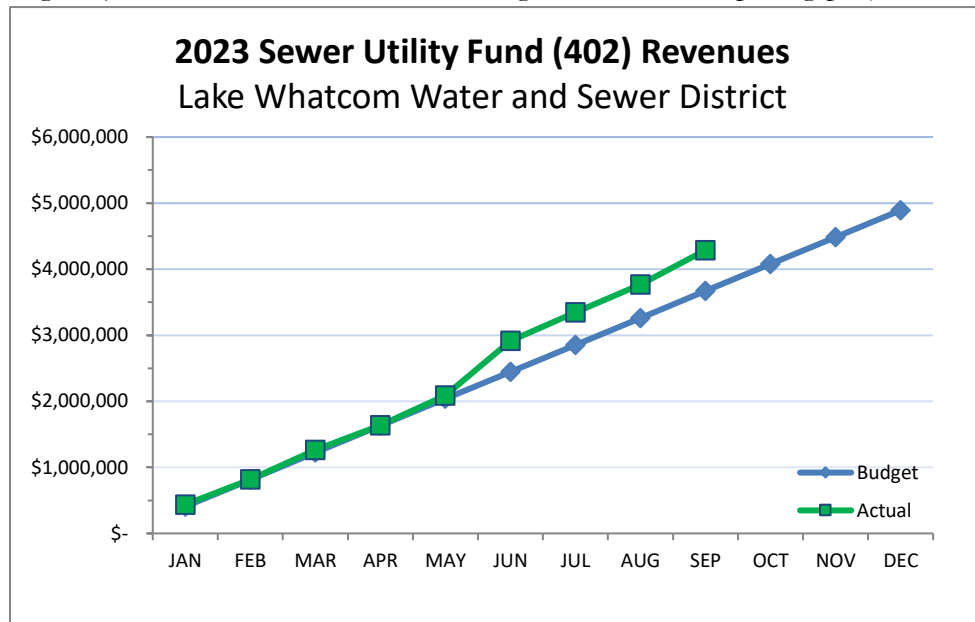
Water Utility Fund expenditures lagged budgeted projections as of September 30, 2023 (\$2,429,760 actual vs. \$4,685,535

budget). This follows past trends and remains largely a result of capital improvement projects scheduled to be completed in 2023 and into 2024. That said, operating expenditures in the Water Utility Fund were approximately \$200,000 less than budgeted projection (\$1,794,521 actual vs. \$1,991,750 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 that are paid in the last quarter. 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.

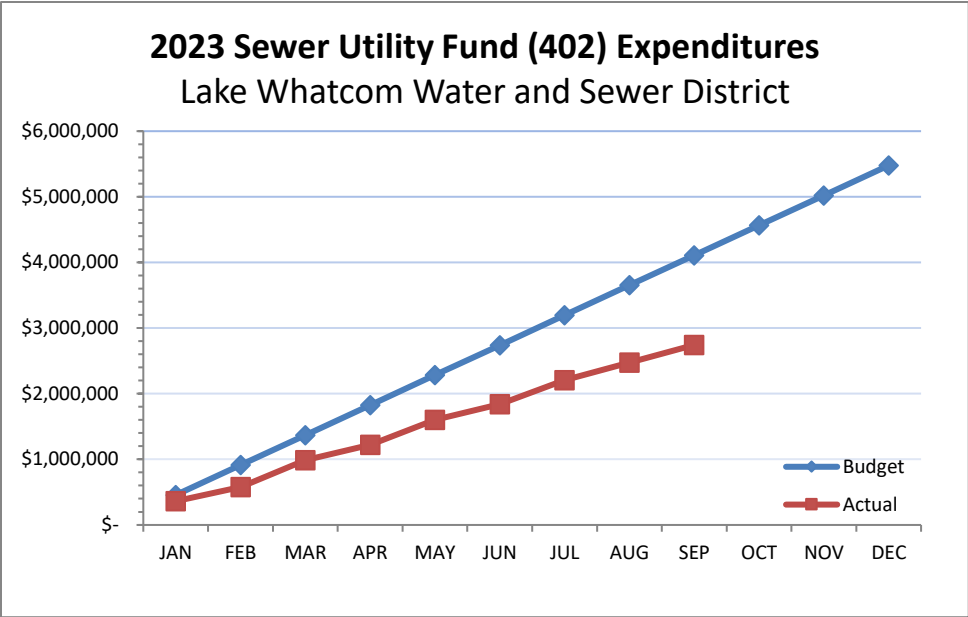
Sewer Utility Fund (Fund 402)

Sewer Utility Fund revenues exceeded budget expectations in the through the third quarter (\$4,287,796 actual vs. \$3,668,832 budgeted). Various factors are contributing to revenues outpacing projections.

During the second quarter of 2023, the District received reimbursement from FEMA for disaster recovery associated with the November 2021 flood event in the amount of approximately \$361,000. Another contributing factor is similar to the Water Utility fund, the District collected a



significant amount of General Facilities Charges within the month of September. Lastly, like the Water Utility Fund, investment interest also outpaced projections. That being said, operating revenues followed budgeted projections closely. 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.

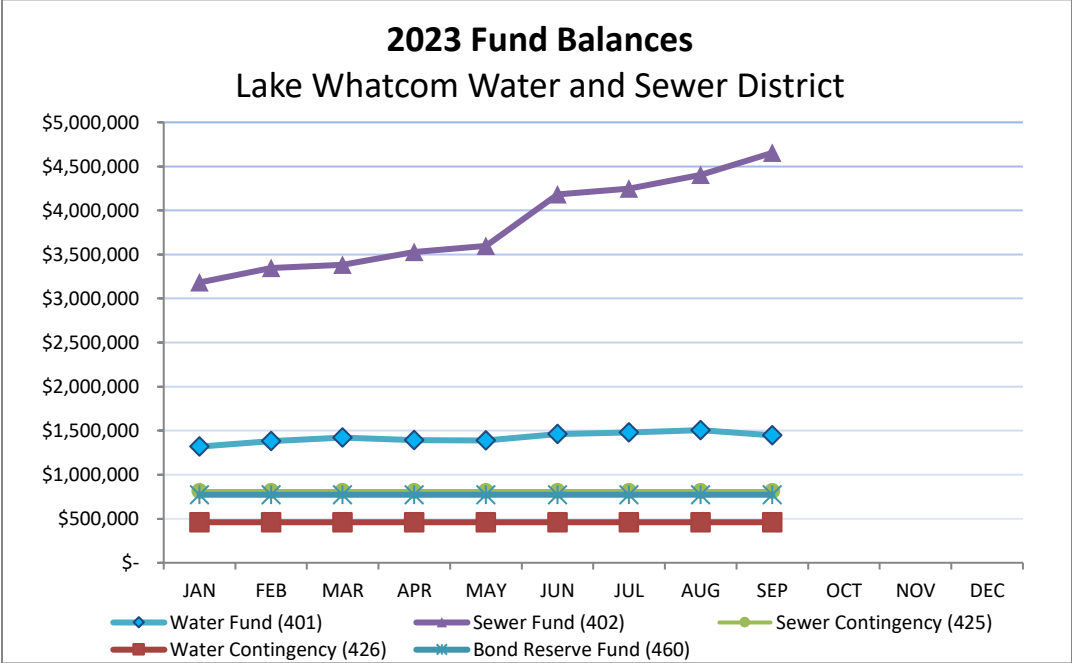


Similar to past trends, Sewer Utility Fund expenditures continued to lagged projections in the third quarter (\$2,742,495 actual vs. \$4,108,879 budgeted). This is, again, in large part due to capital projects that are budgeted as part of the District's capital improvement plan

but have yet to be started and debt service obligations that will be paid later in the fourth quarter. It is worth noting that operating expenditures lagged projections as well. Similar to the Water Utility Fund, this lag in operating expenditures is largely a result of one-time expenditures such as the District's general liability insurance, dues, and software subscriptions that will be paid in the forth quarter.

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 half 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. To date, the fund balance has increased to \$1,445,304. 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. To date, the fund balance has increased to \$4,654,025. 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 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 year-end.

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 September 30, 2023.