



## **Quarterly Financial Report Third Quarter 2024**

Lake Whatcom Water and Sewer District  
Bellingham, Washington

## Summary

Throughout the year to-date, Lake Whatcom Water and Sewer District's (District) financials largely have followed budgeted revenue projections in both the Water Utility Fund and the Sewer Utility Fund. Noteworthy financial events during the third quarter of 2024 include the completion of the District's financial and accountability audits for fiscal years 2022 and 2023 by the Washington State Auditor's Office (SAO). Currently, the District is on a biennial audit cycle with the Washington State Auditor's office. The District received an unmodified opinion on the financial audit, which is the best an entity can receive. The accountability audit was focused on processes associated with utility billing, cash receipting, and adjustments. The District was found to be in compliance with all material aspects with no findings or material weaknesses. Furthermore, the District received no recommendations from the SAO. The completion of this audit cycle marked 17 consecutive years of clean audits from the State.

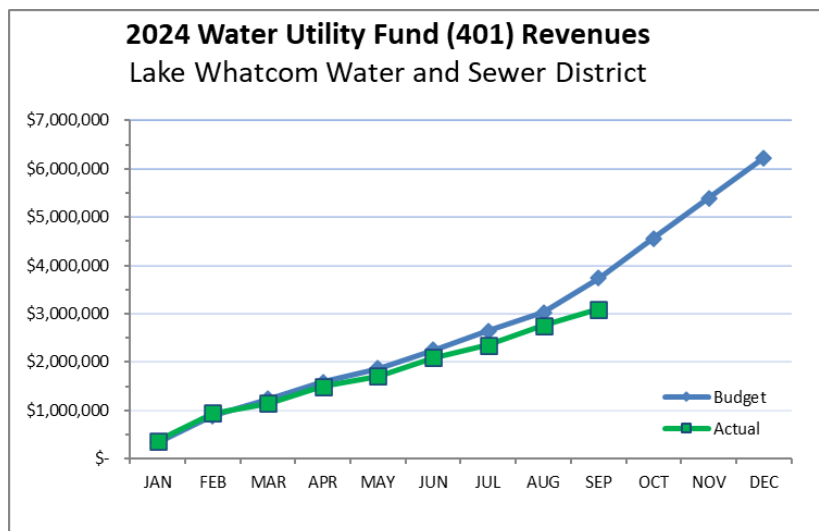
Throughout July and August, staff began preparation of the biennial budget for fiscal years 2025 and 2026. The development of this budget included rate increases in both the water and sewer utility funds that reflect adopted rates as outlined in the Master Fees and Charges schedule which has set rates through fiscal year 2026. Further, the budget established funds for operating expenses, debt service, and capital projects. The first draft of the 2025-2026 Biennial Budget was presented to the Board of Commissioners at the last meeting in September. It is anticipated that discussions will continue throughout the month of October and November with formal adoption of the budget anticipated at the first meeting in December.

In April, the District received notice from S&P Global Inc. that its credit rating had been withdrawn due to untimely audits by the SAO. The District is continuing to move forward with the assistance of bond counsel and underwriters to facilitate meetings with S&P Global to mitigate the long-term affects of this withdrawal and to have the District's bond rating reinstated. It is anticipated that these meetings will be completed early in the fourth quarter with S&P Global reinstating the rating.

Despite a rate cut in the third quarter, the District's investment portfolio remained strong, with approximately \$70,300 in investment earnings. The District has invested approximately \$3.5 million with Washington's Local Government Investment Pool. By maximizing investments in the LGIP, the District is ensuring that it has cash available for large capital expenditures and receives the highest return on funds. While the District has secured outside funding sources to pay for most of the Division 7 Reservoir replacement project costs and other large capital projects, these grant funds are only available as reimbursement. At the end of the third quarter, the District had approximately \$875,000 in grant funds that have been requested but have not yet been received. By maintaining the District's funds in the LGIP, we are afforded the safety, liquidity, and yield as we work towards completion of these projects. As the market continues to change, the District will monitor options for both short-term and long-term investment strategies that continue to ensure safety, liquidity, and yield.

## Water Utility Fund (Fund 401)

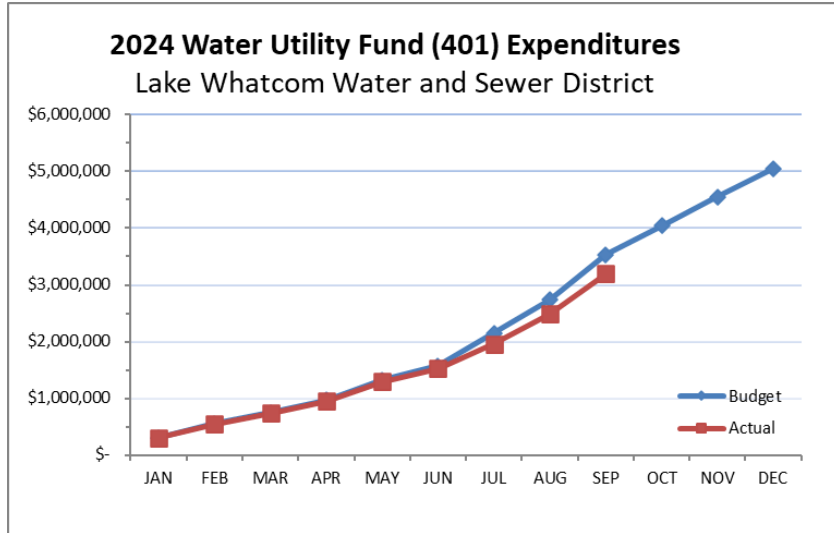
Revenues in the Water Utility Fund slightly lagged projections at the end of the third quarter. This is a direct correlation to outstanding grant funds that were budgeted for and have not yet been received. As mentioned in the summary above, the District currently has approximately \$875,000 in outstanding grant funds. It is anticipated that of the \$875,000, the District will



receive an estimated \$696,000 before the close of the year. With that being said, water service revenues are tracking with budgeted projections through the end of the third quarter. Lastly, it has been the practice of the District to conservatively budget for 10 new connections and the association water and sewer General Facilities Charges (GFCs) each year at the rate approved through the Master Fees and Charges Schedule; however, the District's GFC revenues are tracking higher than anticipated with over 20 new connections year-to-date.

As noted in the summary, the District continues to manage its investment portfolio strategically to take advantage of higher interest rates and ensure liquidity throughout the year as capital costs were anticipated to be significant in 2024. Investment earnings in the third quarter for the Water Utility Fund totaled approximately \$35,150, an increase from the second quarter. It is anticipated that investment earnings will taper off towards the end of the year with anticipated rate cuts from the Federal Open Market Committee (FOMC) and the District's need to use investment funding for capital projects. Further, the District had a \$500,000 bond that matured in September, which allowed for the payment of a half million-dollar construction invoice related to the Division 7 Reservoir project. At this time, the District doesn't plan on reinvesting additional money into its long-term investment portfolio as capital cost payment obligations continue to be significant. Ultimately, the District's revenues remained sufficient to support operations, capital, and debt service obligations throughout the quarter while maintaining full funding of all reserves.

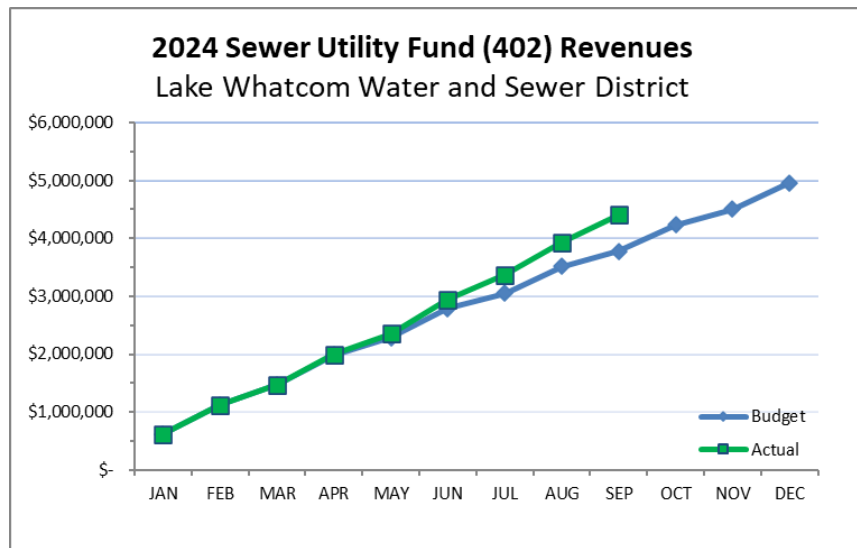
Expenditures in the Water Utility fund also slightly lagged projections through the third quarter. This is largely due to capital project costs that have been budgeted for but have not yet been expended. However, the District's operating costs are also under budget for the year by approximately ten percent. As the year end approaches, the District anticipates there to be higher costs associated with



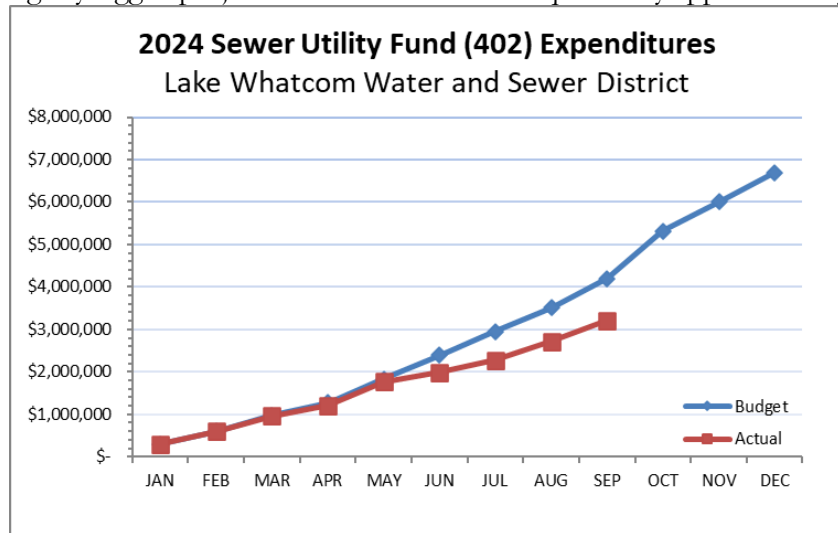
capital projects as the Division 7 Reservoir construction continues. Lastly, the District met all debt service obligations in the Water Utility fund during the third quarter, paying both principal and interest on loans associated with Geneva Mains and Division 22 Reservoir projects. Debt service in the third quarter accounted for approximately \$221,000 of total expenses.

### Sewer Utility Fund (Fund 402)

Sewer Utility Fund revenues outpaced projected revenues in the third quarter. Similar to the Water Utility Fund, the GFC revenue in the third quarter was more than projected. This resulted in the fund recording higher revenues than anticipated. However, with the land disturbance window now closed in the Lake Whatcom Watershed, the District doesn't anticipate significant GFC revenue in the fourth quarter. With that being said, the District's service revenue in the Sewer Utility Fund also outpaced budgeted projections as did investment interest. The District's revenues remained sufficient to support operations, capital and debt service obligations throughout the quarter while maintaining full funding of all reserves.



Sewer Utility Fund expenditures slightly lagged projections at the close of the quarter by approximately 25%. This is largely due to capital projects that are budgeted as part of the District’s capital improvement plan but have yet to be completed. Significant costs associated with Rocky Ridge and Lakewood lift stations are anticipated to be realized in the fourth quarter as well as substantial completion. Lastly, the District will issue its annual debt service payment



(\$563,000) on the outstanding bonds in the fourth quarter. With major capital costs and debt service payments in the fourth quarter, it is anticipated that the expenditures in the Sewer Utility Fund will track more closely with budgeted projections as the year comes to an end.

### 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 through the third quarter of 2024.

#### 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 2024 with a balance of \$1,541,238 and decreased to \$1,437,177 through the third quarter. This decrease in fund balance was anticipated due to the delay in receiving grant revenue associated with the Division 7 Reservoir project. As grant funds are received, the District anticipates that the fund balance will once again increase.

#### 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 2024 with a balance of \$4,012,484 and increased to \$5,211,342 through the third quarter. The overall fund balance is anticipated to increase in an effort to build fund balances for significant future capital projects in the coming months and years.

**Sewer Contingency Reserve (Fund 425)**

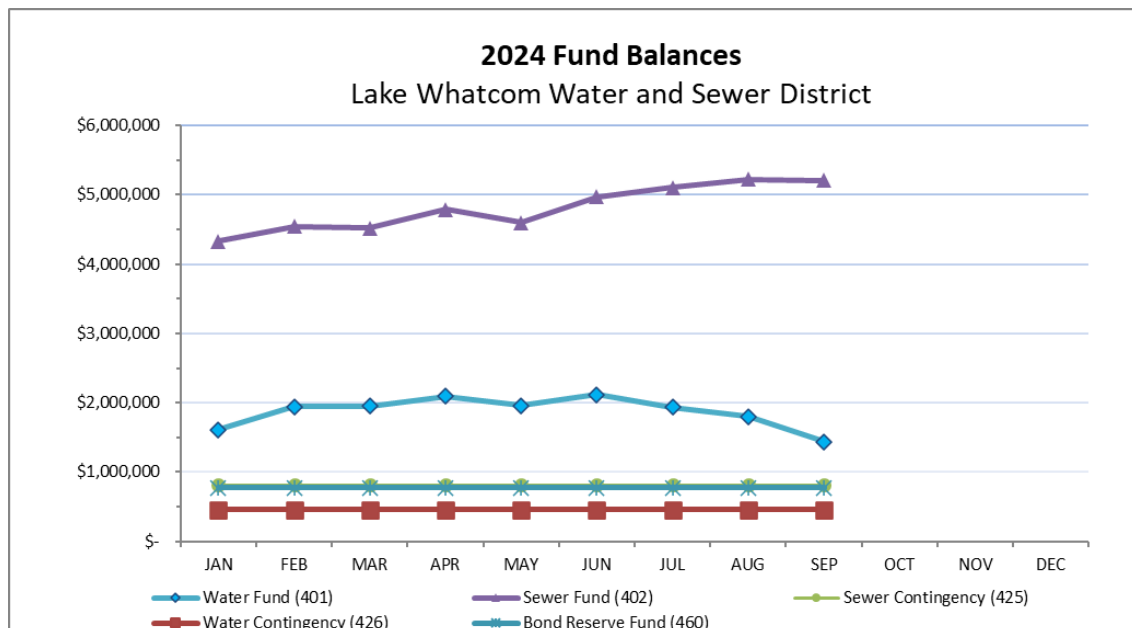
A sewer contingency reserve is maintained in accordance with District financial policies at one percent of the sewer utility infrastructure replacement cost (\$815,000). This fund provides for paying for unanticipated costs that may be incurred by the Sewer Utility. The Sewer Contingency Reserve was fully funded throughout the third quarter of 2024.

**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 of 2024.

**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 throughout the third quarter of 2024.



## District Cash and 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. Below is a summary of the District's cash and investments through September 30, 2024.

Petty Cash	\$	1,600	
Cash	\$	1,078,458	
Public Funds Account	\$	<u>280,565</u>	2.940%
<b>WA Federal</b>	\$	<b>1,360,623</b>	
<b>Local Gov't Investment Pool</b>	\$	<b>3,825,721</b>	5.230%

		PRINCIPAL COST	MARKET VALUE	MATURITY DATE	YIELD
US Treasury Note	Non-callable	\$ 498,359	\$ 500,000	Jan-25	1.125%
US Treasury Note	Non-callable	\$ 499,082	\$ 536,000	Apr-25	4.921%
US Treasury Note	Non-callable	\$ 499,512	\$ 543,000	Jul-25	4.783%
US Treasury Note	Non-callable	\$ 747,615	\$ 810,000	Dec-25	4.440%
US Treasury Note	Non-callable	\$ 797,274	\$ 855,000	Jan-26	3.950%
US Treasury Note	Non-callable	\$ 467,667	\$ 500,000	Jun-26	4.500%
<b>US Bank Safekeeping</b>		<b>\$ 3,509,509</b>	<b>\$3,744,000</b>		
<b>TOTAL</b>		<b><u>\$8,695,853</u></b>			

### USE OF FUNDS:

Bond Reserve - Restricted	\$ 772,334
Contingency - Assigned	\$ 1,275,000
Operating Reserves	\$ 1,185,000
Operating Assigned	\$ 5,463,519
	<b><u>\$8,695,853</u></b>

### Fund Balance Summary

Water Utility Fund (401)	\$ 1,437,177
Sewer Utility Fund (402)	\$ 5,211,342
Sewer Contingency Fund (425)	\$ 815,000
Water Contingency Fund (426)	\$ 460,000
Bond Reserve Fund (460)	<u>\$ 772,334</u>
	<b><u>\$8,695,853</u></b>