



Quarterly Financial Report Fourth Quarter 2024

Lake Whatcom Water and Sewer District
Bellingham, Washington

Summary

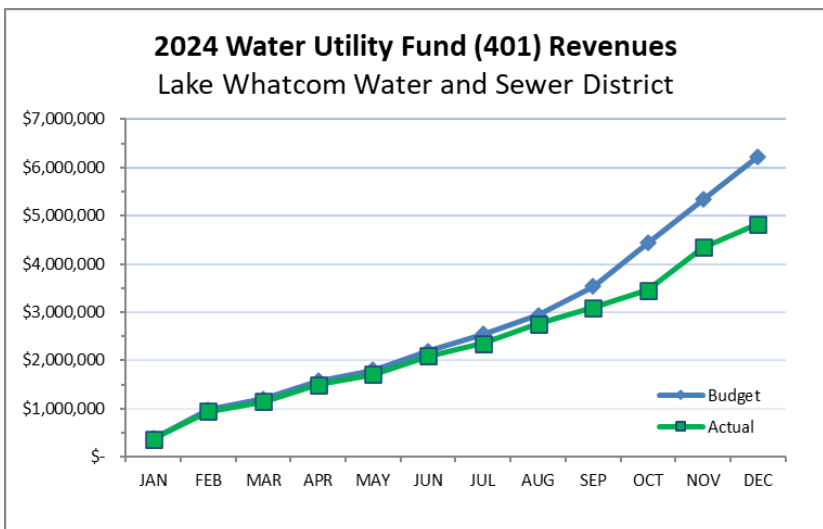
Lake Whatcom Water and Sewer District's (District) adherence to conservative and fiscally responsible financial practices allowed the District to successfully close 2024 with fund balances to support operations and capital needs in the new year. Noteworthy financial events during the fourth quarter of 2024 included the adoption of the 2025-2026 Biennial Budget and 6-Year Capital Improvement Plan, notice from S&P Global Ratings indicating the District's bond rating had been reinstated at AA- and receipt of all outstanding grant pay requests from the Department of Homeland Security (FEMA) for nearly \$900,000 supporting construction of the Division 7 Reservoirs.

The District has received three Hazard Mitigation Grants from FEMA to fund critical infrastructure projects: the replacement of Division 7 Reservoir, replacement of the chlorine contact basin at the Sudden Valley Water Treatment Plant (SVWTP), and seismic upgrades to the SVWTP booster station and Geneva Reservoir. In total, these grants account for approximately \$4.8 million dollars for design, permitting and construction in the upcoming biennium. Along with these grants, the District received FEMA approval in the fourth quarter for funding the replacement of Division 22-1 Reservoir.

The District's investment portfolio remained strong throughout the year, earning approximately \$219,000 in interest distributed equally between the Water and Sewer utility funds. However, it is anticipated that as the District continues work on the above cited capital projects, it will use these investment earnings to serve as a bridge between capital expenditures and receipt of grant reimbursements to limit impacts to the operating funds.

Water Utility Fund (Fund 401)

Revenues in the Water Utility Fund lagged projections (\$4,834,151 actual vs. \$6,228,613 budgeted) through the end of the year. This is attributable to outstanding grant funds and loan proceeds that were budgeted for but not received due to construction lagging budget expectations. As mentioned in the summary, the District has several grants that fund large capital projects whose



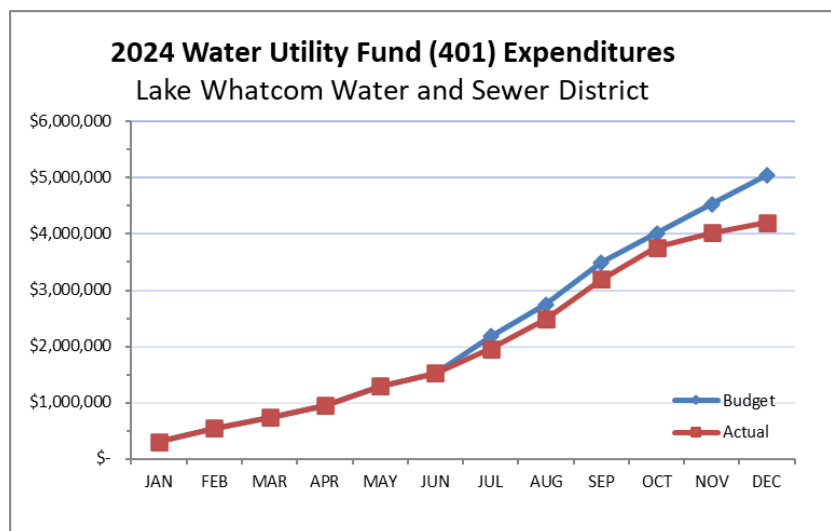
revenues won't be received until work is completed allowing for funds to be requested. This creates a lag in projections vs. actual. However, these funds have been planned for in the 2025-2026 Biennial Budget and will be used to complete the capital projects associated with these grants. Also mentioned in the summary, the District received approximately \$900,000 in the fourth quarter associated with

those reimbursable capital expenses. With that being said, water sales revenue relatively aligned with budgeted projections at the end of the year (\$3,244,855 actual vs. \$3,161,387 budgeted). Other items of note related to the District’s water revenue include General Facilities Charges revenue, which closed the year above projections (\$246,173 actual vs. \$104,058 budgeted). It has been the practice of the District to conservatively plan for this revenue, which is associated with new system connections, due to the unknowns surrounding development within the District. Lastly, the District’s investment portfolio performed well throughout 2024 which resulted in greater interest earnings than anticipated (\$109,680 actual vs. \$64,091 budgeted).

The District continues to manage its investment portfolio strategically to take advantage of higher interest rates and ensure liquidity as capital expenses were significant in 2024 and will continue into the coming years. Investment earnings in the fourth quarter for the Water Utility Fund totaled approximately \$23,632, which is a decrease from the third quarter. It is projected that investment earnings will continue to decrease with anticipated rate cuts from the Federal Open Market Committee (FOMC) and the District’s need to use investment funding for capital projects. Ultimately, the District’s revenues remained sufficient to support operations, capital, and debt service obligations throughout 2024 while maintaining full funding of all reserves.

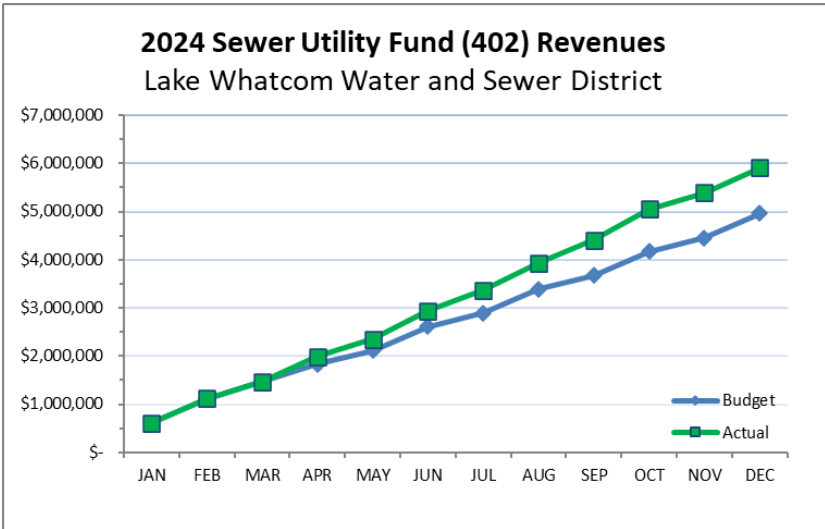
Expenditures in the Water Utility fund also lagged projections through the end of the year (\$4,207,572 actual vs. \$5,055,466). This is largely due to capital project costs that were budgeted for but have yet been expended due to project completion lagging. Budgeted capital costs for 2024 were \$1,978,138 and actual costs closed the year at \$1,344,489. However, the District’s operating costs remained under budget as well (\$2,648,044 actual vs. \$2,856,556 budgeted).

The District’s adherence and dedication to operating within budget constraints was reflected throughout the year. These savings weren’t attributed to one single line item but several line items within the operating budget. Lastly, the District met all debt service obligations in the Water Utility fund during the year paying both principal and interest on loans.

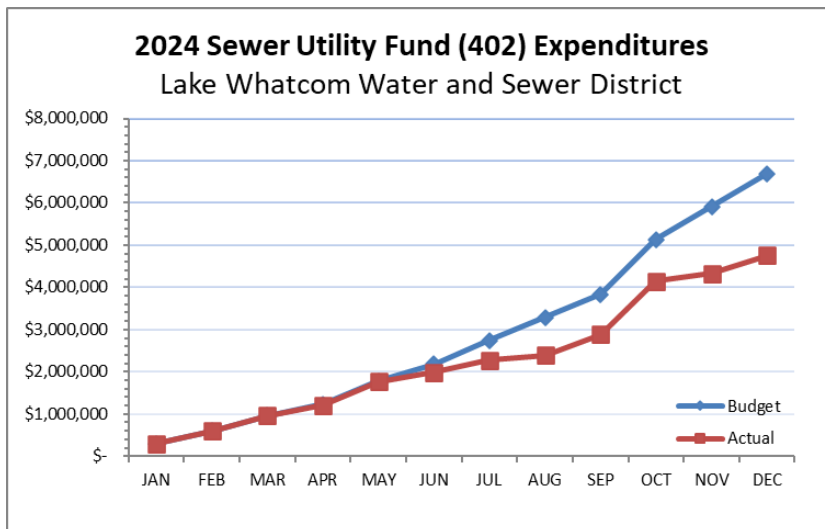


Sewer Utility Fund (Fund 402)

Sewer Utility Fund revenues outpaced projections in the second half of the year. Actual revenue for 2024 was \$5,909,424 vs. \$4,961,533 budgeted. Sewer revenue was significantly higher than budgeted projections due to several factors. First, the District had been slightly underbudgeting sewer service revenue in the past. However, in the future, this will track more closely as adjustments were



made to 2025-2026 Biennial Budget to account for this. Due to a shift in the District's billing cycle beginning in 2024, the District also collected more revenue in the first two months of the year due to overlaps in the billing due dates. Also, similar to the Water Utility Fund, the Sewer Utility Fund recognized more revenue generated from General Facility Charges than what was budgeted. General Facility Charge revenue totaled \$308,699 vs. \$122,324 budgeted. Interest revenue in the Sewer Utility Fund also outpaced budgeted projections (\$109,680 actual vs. \$64,091 budgeted). Lastly, the District was able to transfer \$126,209 from the Bond Reserve fund into the Sewer Utility Fund in October which went toward making the October debt service payment on the outstanding 2016 bond. This is discussed further in the District Fund Balance section of this report.



Sewer Utility Fund expenditures lagged projections at the close of the year by approximately 25%. This is largely due to capital projects that were budgeted as part of the District's capital improvement plan but were not completed (\$1,409,512 actual vs. \$2,729,500). Significant costs associated with Rocky Ridge and Lakewood lift station improvements are anticipated to

be realized in the first quarter of 2025 the project is completed. As mentioned in the Water Utility Fund, operating expenditures in the Sewer Utility Fund also lagged projections (\$3,032,178 actual vs. \$3,317,988 budgeted). This again is attributed to cost savings within multiple lines of the budget rather

than a single line item. Lastly, the District issued its annual debt service payment on the outstanding bonds in the fourth quarter in the amount of \$562,463. Total debt service for 2024 was \$644,925.

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 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 increased to \$2,167,817 by the end of the year. This increase in fund balance was anticipated through the receipt of grant revenue in the fourth quarter. However, the District anticipates the balance to decrease in the coming years as large capital projects are completed and fund balances are expended.

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 \$4,835,293 through the end of the year. 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)

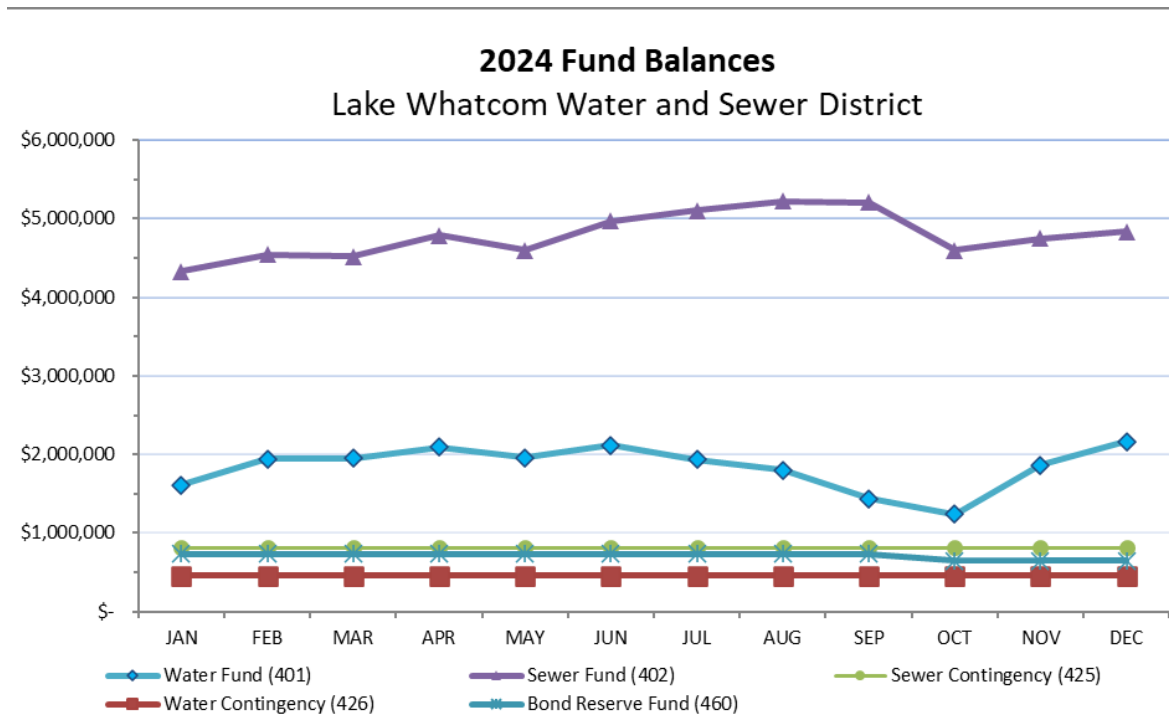
A sewer contingency reserve is maintained in accordance with District financial policies at one percent of the sewer utility infrastructure replacement cost (\$815,000). This fund provides for paying for unanticipated costs that may be incurred by the Sewer Utility. The Sewer Contingency Reserve was fully funded throughout 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 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 \$646,125 at the end of 2024. As mentioned in the Sewer Utility Fund section of this report, in October the District reduced this fund by \$126,209 to use allowed funds to make the debt service payment. The District is required to maintain the Maximum Amount Due (MAD) for the remainder of the bond. As the District moves closer to paying this debt in full, the balance within this fund will be reduced in the coming years. Lastly, in the fourth quarter the District set up a designated account with Washington Federal to hold funds associated with this fund balance. This was done to create transparency and accountability of funds associated with the bond.



District Cash and Investments

In accordance with its financial policies, the District invests its funds in a manner that meets the primary objectives of safety, liquidity, and yield. As of the close of 2024, the District's long-term and short-term investments were relatively equal with approximately \$3.54 million invested in short-term accounts (LGIP & Public Funds Account) and approximately \$3.50 million invested in long-term holdings (US Bank Safekeeping). This strategy allows the District's investment portfolio to obtain the highest rate of return in budgetary and economic cycles while maintaining the necessary liquidity to meet operating and capital needs. The following contains a summary of the District's cash and investments through December 31, 2024.

INVESTMENTS/CASH AS OF 12/31/2024

| | | | | |
|----------------------|----|-----------|--|--------|
| Petty Cash | \$ | 1,600 | | |
| Cash | \$ | 1,218,130 | | |
| Debt Service Account | \$ | 646,125 | | |
| Public Funds Account | \$ | 30,953 | | 2.940% |

WA Federal **\$ 1,896,808**

Local Gov't Investment Pool **\$ 3,517,918** 4.602%

| | | 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% |
| US Bank Safekeeping | | \$ 3,509,509 | \$3,744,000 | | |

TOTAL **\$8,924,235**

USE OF FUNDS:

| | | | |
|---------------------------|----|----------------------------------|--|
| Bond Reserve - Restricted | \$ | 646,125 | |
| Contingency - Assigned | \$ | 1,275,000 | |
| Operating Reserves | \$ | 1,185,000 | |
| Operating Assigned | \$ | 5,818,110 | |
| | | <u><u>\$8,924,235</u></u> | |

Fund Balance Summary

| | | | |
|------------------------------|----|----------------------------------|--|
| Water Utility Fund (401) | \$ | 2,167,817 | |
| Sewer Utility Fund (402) | \$ | 4,835,293 | |
| Sewer Contingency Fund (425) | \$ | 815,000 | |
| Water Contingency Fund (426) | \$ | 460,000 | |
| Bond Reserve Fund (460) | \$ | 646,125 | |
| | | <u><u>\$8,924,235</u></u> | |