



Quarterly Financial Report First Quarter 2025

Lake Whatcom Water and Sewer District
Bellingham, Washington

Summary

As Lake Whatcom Water and Sewer District (District) ushers in a new fiscal year, its commitment to prudent and fiscally sound financial management has enabled it to enter 2025 with solid fund balances. Despite some anticipated reductions, the District has positioned itself to weather the challenges of financing major infrastructure projects in the coming months. Early in the year, the Water Utility Fund experienced a slightly higher-than-expected balance, largely due to ongoing construction work on the Division 7 Reservoir Replacement project. However, as the project nears substantial completion, the District forecasts a decrease in these balances.

Key financial highlights from the first quarter include the receipt of \$530,000 in federal and state reimbursements tied to the Division 7 Reservoir Project's Hazard Mitigation Grant. In addition, the District initiated its first draw from the Public Works Board Construction loan, securing \$157,093 in proceeds. These financial inflows have provided an early cushion against the heavy capital expenditures anticipated in the coming quarters. The District currently manages four open Hazard Mitigation Grants with FEMA, collectively totaling \$4.8 million. These funds support the replacement of critical water infrastructure, including the Division 7 and Division 22-1 Reservoirs, as well as vital seismic upgrades for key assets. These grants, dedicated to pre-design, design, and construction activities, are integral to the District's long-term strategic infrastructure improvements.

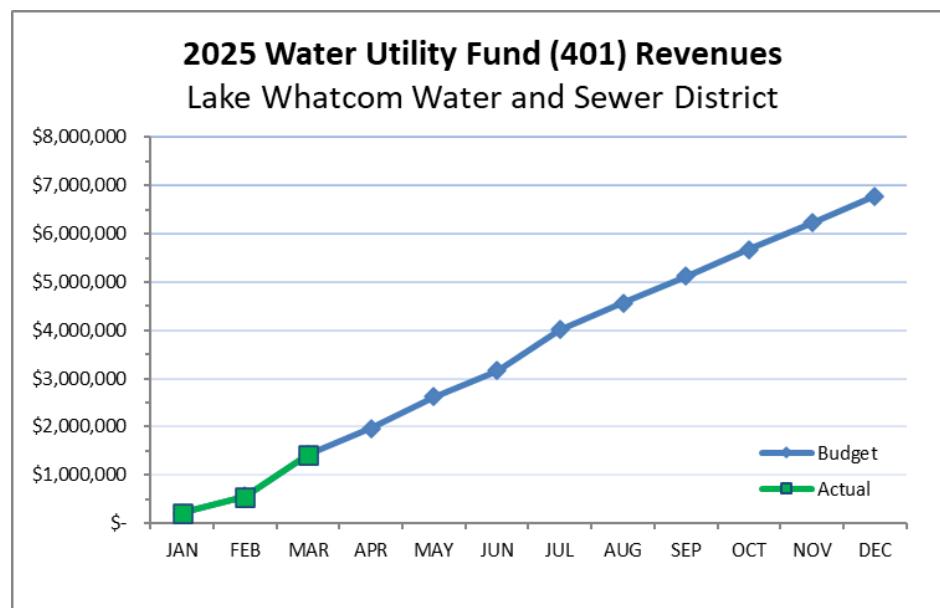
Another milestone in the first quarter was the completion of the District's 2024 financial reporting. Working closely with Clark Nuber, PS, the District met its submission deadline to the Washington State Auditor's Office (SAO) on March 14th, well ahead of the May 29th filing deadline. In tandem, preparations began for the required financial and Federal Single Audit for FY 2024, driven by the Division 7 Reservoir project's federal funding exceeding \$750,000. The audit, which commenced on March 17, is slated for completion in the second quarter, ensuring timely compliance with the Municipal Securities Rulemaking Board (MSRB) filing deadline of September 30, 2025.

In line with its disciplined investment approach, the District's investment portfolio earned approximately \$50,410 in interest during the first quarter, slightly surpassing last year's results for the same quarter. However, as capital projects ramp up, the District expects to tap into its investment funds, potentially curtailing interest earnings over the biennium. Despite this, the District remains focused on optimizing the safety, liquidity, and yield of its resources.

The District's ability to manage expenditures across both the Water Utility Fund and the Sewer Utility Fund demonstrates its strategic focus on cost containment and operational efficiency. While there have been some delays in capital projects, these are expected to resolve as construction progresses through 2025. Overall, the District has displayed fiscal discipline, ensuring that expenditures remain largely within budget while continuing to advance vital infrastructure projects. This strong financial stewardship allows the District to continue its commitment to providing the District's customers with safe and reliable services through infrastructure improvements, capital project execution, and fiscal sustainability.

Water Utility Fund (Fund 401)

The Water Utility Fund's revenue performance for the first quarter was largely in line with projections, totaling \$1.43 million, marginally above the \$1.42 million forecast. Significant financial contributions included FEMA reimbursements and loan proceeds, which played a pivotal role in maintaining these projections. The District also noted quicker-than-usual processing times for federal reimbursements. Water sales revenues, however, showed a slight dip of approximately 3%, consistent with seasonal

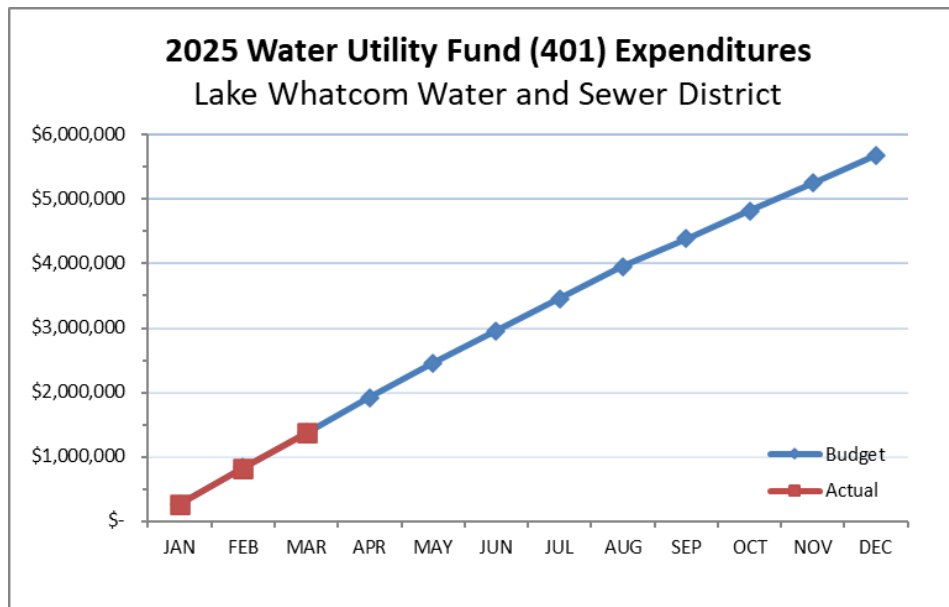


trends. The District anticipates this shortfall will be rectified in the summer months, aligning with higher water usage patterns during the warmer quarters. Further strengthening the District's financial position, a \$600,000 transfer was made to the Local Government Investment Pool (LGIP) in January,

which boosted monthly investment earnings from \$14,000 to \$15,500. These returns are split between the Water and Sewer Utility Funds. Looking ahead, the Federal Open Market Committee's (FOMC) interest rate decisions will remain a key factor in guiding investment strategies. With interest rates expected to hold relatively steady through the end of 2025, the LGIP remains a strong investment option, offering high returns and liquidity, particularly in light of the District's significant capital outlays.

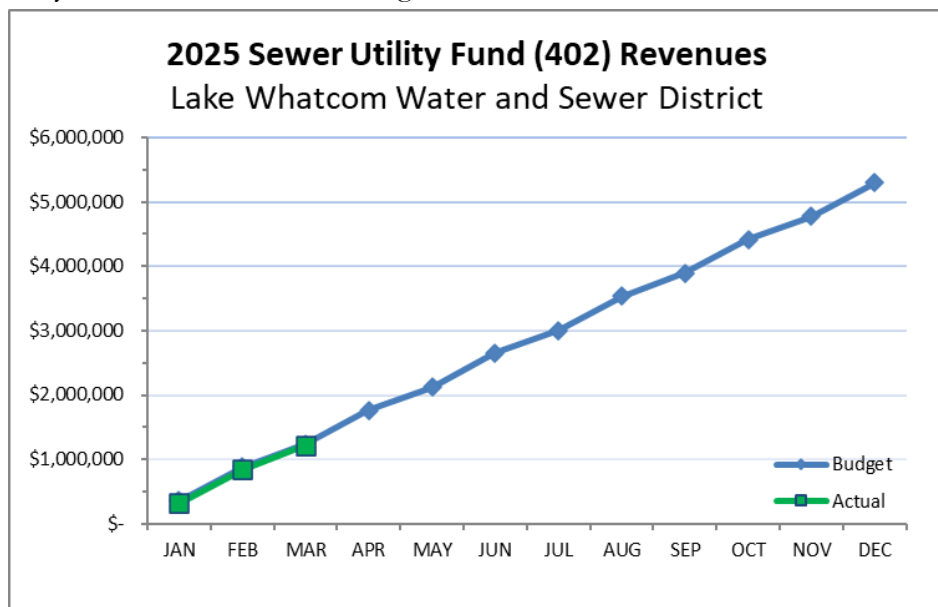
Expenditures in the Water Utility Fund during the first quarter of 2025 were in line with budget expectations of \$1.37 million. This alignment is largely attributed to the progress of significant capital projects, most notably the Division 7 Reservoir Replacement project, which is currently the focal point of the District's water infrastructure upgrades. As of the end of the first quarter, both reservoir structures have been fully erected, marking a critical milestone in the project's timeline. The District anticipates that by the second quarter of 2025, this project will reach substantial completion, with final work focusing on the demolition of the outdated reservoir.

Additionally, operating expenditures under the Water Utility Fund showed minor savings relative to budget. These savings were not tied to any single line item, but instead reflect efficiencies across several categories of the operating budget. The District's ability to contain costs in this area demonstrates its commitment to fiscal responsibility as it manages both routine operations and major capital projects.



Sewer Utility Fund (Fund 402)

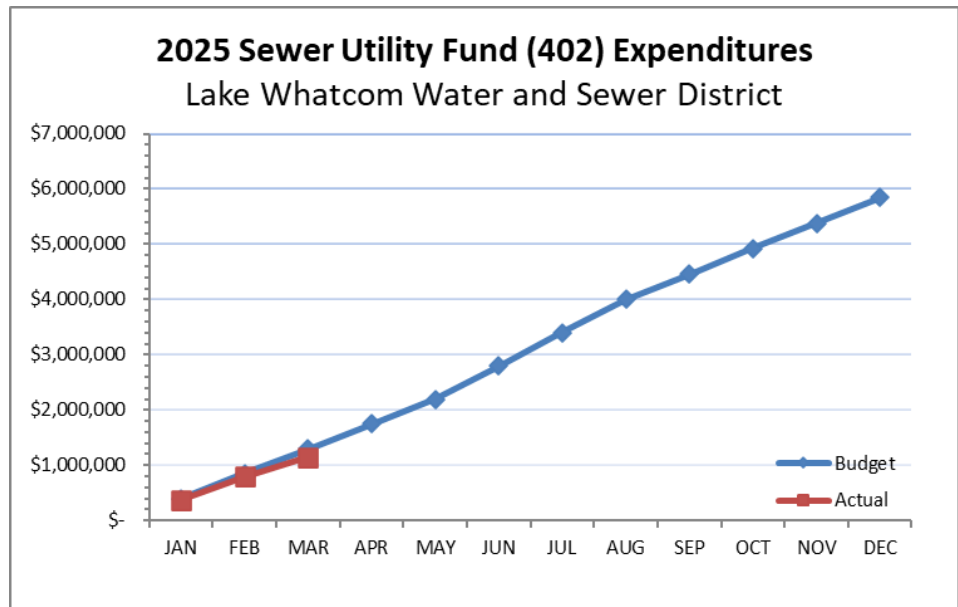
The Sewer Utility Fund's revenue performance in the first quarter was slightly below expectations, totaling \$1.22 million compared to a budgeted \$1.24 million. This variance stems primarily from delayed General Facilities Charges, which are tied to construction windows in the Lake Whatcom



Watershed, scheduled to open in the summer months. As in previous years, the District anticipates a stronger revenue performance in the latter half of the year. Despite this, sewer service revenues tracked closely to projections. Similar to the Water Utility Fund, the Sewer Utility Fund also

benefited from increased investment earnings due to the additional funds placed in the LGIP.

Expenditures in the Sewer Utility Fund during the first quarter were also below budget projections, totaling \$1.14 million against a budgeted \$1.3 million. This variance was primarily due to delays in completing various capital projects that are integral to the District's long-term sewer system improvements. Key projects currently in progress include the Rocky Ridge and Lakewood lift stations, which have faced delays that have pushed some expenditures into 2025. The District



expects these projects to incur more significant costs over the first half of the year, with both lift stations nearing completion. These expenditures are anticipated to ramp up as construction activity accelerates and these essential infrastructure projects move toward full operational status.

Operating expenditures within the Sewer Utility Fund also showed positive results in the first quarter, reflecting minor savings across multiple budget categories. The savings were not concentrated in any one particular area but were instead spread across various operational cost lines, further demonstrating the District's efficiency in managing its day-to-day operations while working within the constraints of its budget. With that being said, a notable expenditure during the quarter was the District's first debt service payment on its outstanding bonds, which totaled \$72,863. This payment, though significant, is part of the District's ongoing commitment to managing long-term financial obligations and ensuring continued compliance with its debt covenants.

District Fund Balances

The District maintains a well-structured approach to managing its funds, with a focus on fiscal prudence and long-term sustainability. The District operates five main funds—Water Utility Fund (401), Sewer Utility Fund (402), Sewer Contingency Reserve Fund (425), Water Contingency Reserve Fund (426), and the Bond Reserve Fund (460)—each serving distinct purposes. These funds include system reinvestment accounts dedicated to capital projects and debt service reserves designed to meet the District's ongoing financial obligations. The following discussion summarizes the activity associated with each fund through the first quarter of 2025.

Water Utility Fund (Fund 401)

The Water Utility Fund, the primary operating fund for the District's water utility, derives its revenues mainly from customer rates. This fund covers a broad spectrum of expenses, including general operating costs (personnel salaries, professional services, utilities), debt service payments for previous capital projects, and capital expenditures related to water system reinvestment projects. The fund also holds an operating reserve, which is earmarked to cover 90 days of operational costs for the water utility, amounting to \$735,519. As of March 31, 2025, the Water Utility Fund had a balance of \$2,231,350.

Sewer Utility Fund (Fund 402)

Similar to the Water Utility Fund, the Sewer Utility Fund, which serves as the operating fund for the District's sewer services and generates revenue from customer rates. Expenditures within this fund include general operating costs, debt service related to past capital projects, and reinvestment in sewer system infrastructure. Like the Water Utility Fund, it also includes an operating reserve designed to cover 60 days of sewer utility operating costs, which stands at \$562,836. At the close of the first quarter, the Sewer Utility Fund had a balance of \$4,915,249 closely in line with projections for the year.

Sewer Contingency Reserve (Fund 425)

In accordance with the District's financial policies, a sewer contingency reserve is maintained at one percent of the sewer utility's infrastructure replacement cost. This reserve is specifically designed to cover unforeseen costs that might arise within the sewer utility, such as emergency repairs or unexpected capital needs. The Sewer Contingency Reserve was fully funded at \$815,000 at the close of first quarter.

Water Contingency Reserve (Fund 426)

Similarly, a water contingency reserve is maintained at one percent of the water utility's infrastructure replacement cost. This reserve serves as a buffer to address any emergency water system needs or unforeseen operational challenges. The Water Contingency Reserve stood fully funded at \$460,000 through the first quarter. Like the Sewer Contingency Reserve, this fund provides financial stability, ensuring the District is prepared to respond to any unplanned needs within the water utility infrastructure.

Bond Reserve Fund (Fund 460)

The Bond Reserve Fund is a restricted account associated with the District's 2016 bond sale and is governed by specific covenants that require the District to maintain a certain level of reserves. As of the end of March 31, 2025, the Bond Reserve Fund remained fully funded at \$646,125, in compliance with the bond agreement. This reserve will be maintained until the debt is paid off but the balance will gradually decrease in accordance with the Maximum Amount Due (MAD) schedule outlined in the bond covenants.

District Cash and Investments

In line with its commitment to maintaining a healthy financial position and adhering to its financial policies, the District has adopted a conservative investment strategy focused on safety, liquidity, and yield. As of March 31, 2025, the District had approximately \$4.2 million in short-term investments, primarily held in the Local Government Investment Pool (LGIP) and Public Funds Accounts. Additionally, the District held approximately \$3 million in long-term investments with US Bank Safekeeping. The following is a summary of the District's investments and cash as of March 31, 2025.

Petty Cash	\$	1,600	
Cash	\$	1,216,273	
Debt Service Account	\$	646,125	
Public Funds Account	\$	31,178	2.940%

WA Federal **\$ 1,895,176**

Local Gov't Investment Pool **\$ 4,161,397** 4.399%

		PRINCIPAL COST	MARKET VALUE	MATURITY DATE	YIELD
US Treasury Note	Non-callable	\$ 499,083	\$ 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		\$ 3,011,151	\$ 3,244,000		

TOTAL **\$ 9,067,724**

USE OF FUNDS:

Bond Reserve - Restricted	\$ 646,125
Contingency - Assigned	\$ 1,298,355
Operating Reserves	\$ 1,185,000
Operating Assigned	\$ 5,938,244

\$ 9,067,724

Fund Balance Summary

Water Utility Fund (401)	\$ 2,231,350
Sewer Utility Fund (402)	\$ 4,915,249
Sewer Contingency Fund (425)	\$ 815,000
Water Contingency Fund (426)	\$ 460,000
Bond Reserve Fund (460)	\$ 646,125

\$ 9,067,724