



Quarterly Financial Report First Quarter 2026

Lake Whatcom Water and Sewer District
Bellingham, Washington

Summary

Entering the first quarter of 2026, Lake Whatcom Water and Sewer District (District) maintained its strong financial position, supported by stable beginning fund balances and its continued commitment to conservative financial management. The District entered the year well positioned to support ongoing operations and capital investments, reflecting prudent fiscal planning and multiyear financial oversight.

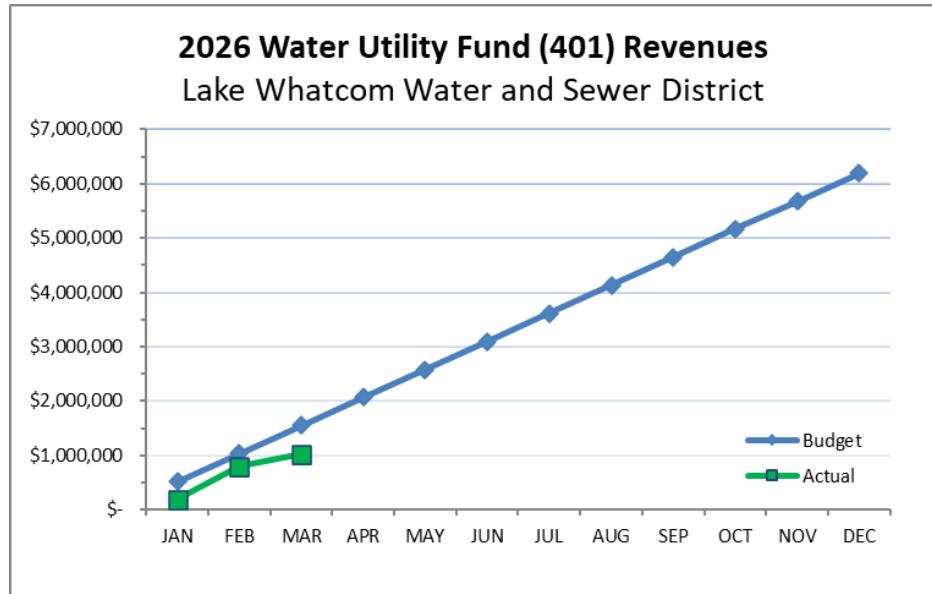
Notable first quarter financial activity included the receipt of \$220,000 in Environmental Protection Agency (EPA) funding within the Water Utility Fund. This receipt reflects continued progress in maintaining and upgrading critical water systems infrastructure and represents the final reimbursement associated with the Division 7 Reservoir Replacement Project. The District continues to have three active Hazard Mitigation Grants with Federal Emergency Management Agency (FEMA) supporting the replacement of the Division 22-1 Reservoir, replacement of the chlorine contact basin at the Sudden Valley Water Treatment Plant (SVWTP), and seismic upgrades to the Geneva Reservoir and SVWTP booster pump building. Collectively, these grants total approximately \$4.8 million for pre-design, design, and construction activities over the next few years. The District continues to monitor the status of FEMA grant funding as reimbursement timing remains uncertain due to federal-level administrative delays associated with the Department of Homeland Security which could impact project timelines.

The District's investment portfolio generated over \$100,000 in interest income in the first quarter of 2026, driven primarily by the maturity of prior investments. This income was recognized equally between the Water and Sewer Utility Funds. Investment performance remains consistent with expectations and reflects the District's strategy of balancing safety, liquidity, and yield. The District continues to monitor economic conditions, including interest rate trends and actions from the Federal Open Market Committee (FOMC), and will adjust its investment approach to optimize returns while maintaining compliance with its investment policy.

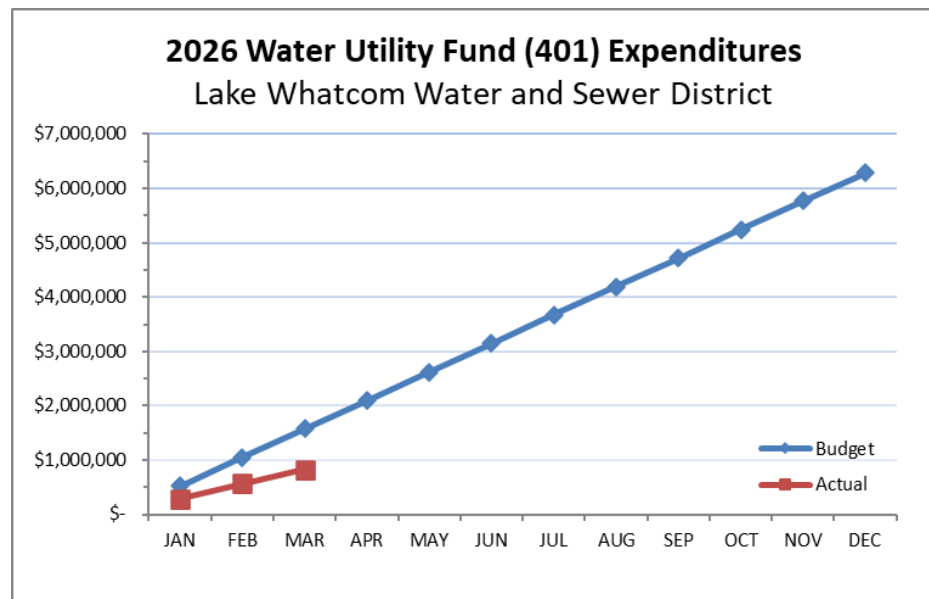
Overall, the District remains in a strong financial position as it progresses through the early part of 2026. Strong beginning fund balances, steady investment performance, and the continued closeout of major capital projects demonstrate the District's commitment to long-term financial sustainability. The District will continue to closely monitor revenues, expenditures, and broader economic conditions, including inflationary issues and interest rate changes, to ensure prudent management of both operating and capital resources in alignment with its long-term financial planning objectives.

Water Utility Fund (Fund 401)

Revenues in the Water Utility Fund as of March 31, 2026, totaled \$1,017,775, which is below the budgeted projection of \$1,548,862, which primarily is due to budgeted grant funding not yet received. Following past trends, service revenue lagged budgeted projections by approximately 4%. As the District moves into



warmer months, it anticipates this will align closer with budget as consumption increases through the second and third quarters. Also mentioned in the summary, the District realized approximately \$102,600 in interest earnings in the first quarter of which \$51,300 was appropriated to the Water Utility Fund. This brought investment earnings to 73% of budgeted investment revenue (\$70,000).

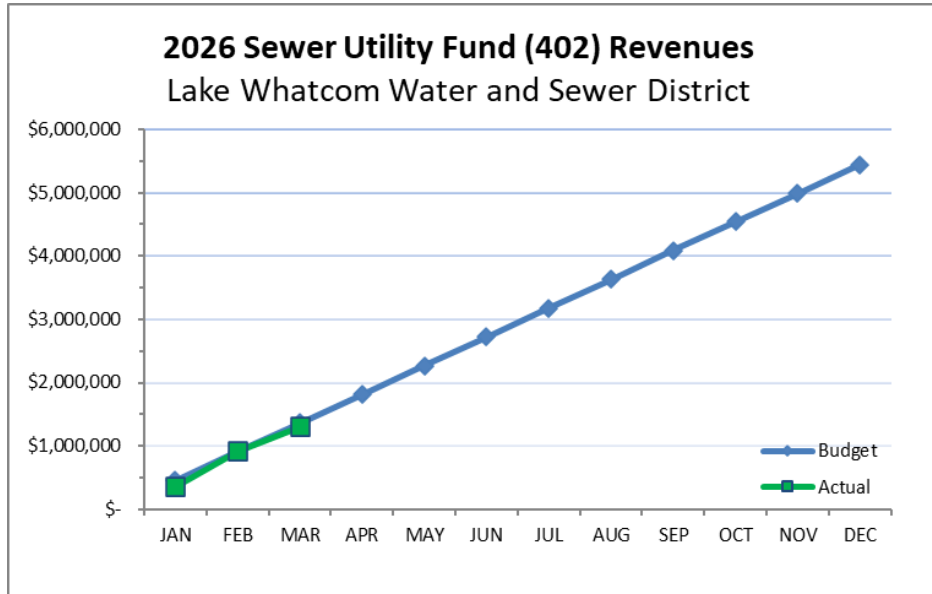


Operating expenses for the first quarter generally aligned with budgeted expectations. Total expenses, however, for the first quarter were below budgeted projections, primarily due to delays in the initiation and progress of major capital projects (\$828,213 actual vs. \$1,572,462 budgeted).

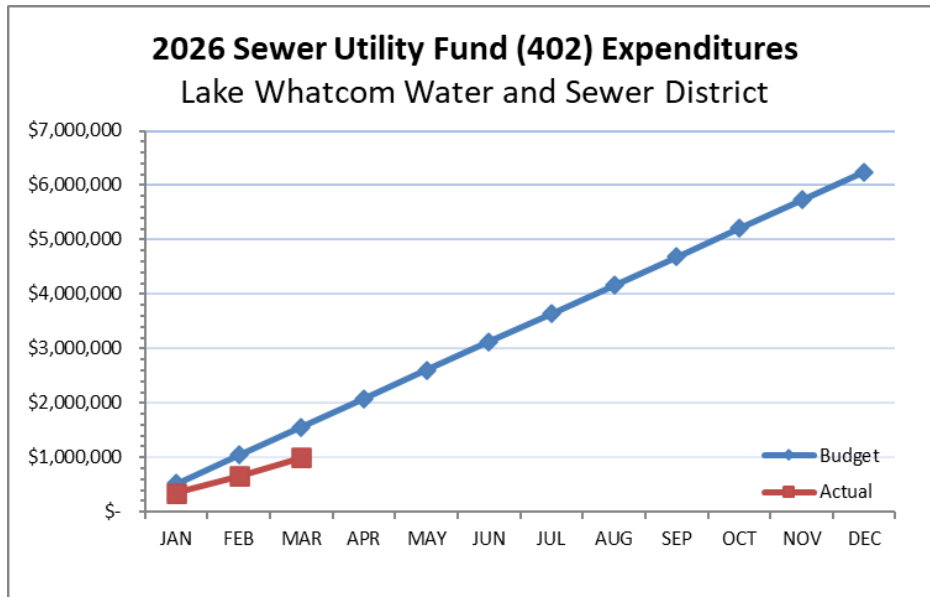
As a significant portion of funding for these projects is dependent upon federal reimbursement, the District anticipates expense will continue to lag until funding availability and reimbursement timing is more certain. As noted above, the District is actively monitoring federal developments and will advance these projects as funding confirmation is received.

Sewer Utility Fund (Fund 402)

Revenues in the Sewer Utility Fund largely followed budgeted projections (\$1,307,231 actual vs. \$1,361,616). The District anticipates this trend will continue throughout the year as sewer revenues are stable and predictable due to their fixed rate structure. Unlike water revenues, which fluctuate based on seasonal demand and



consumption patterns, sewer revenues provide a consistent and reliable source of funding to support ongoing operational and capital needs.



Sewer Utility Fund expenses were below budgeted projections through the first quarter (\$1,001,788 actual vs. \$1,562,061 budgeted) primarily due to the timing of major capital projects that have been budgeted but not yet initiated. However, unlike the Water Utility Fund, the sewer fund does not anticipate reliance on

outside funding for these projects. It is worth noting that approximately \$1.1 million has been budgeted for improvements at the City of Bellingham's Post Point Wastewater Treatment Plant. The District conveys all wastewater to the City for treatment and is responsible for 4.8% of the capital costs associated with capital improvements at the facility. Operating expenses within the Sewer Utility Fund tracked with budgeted projections through the first 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 through the first quarter of 2026.

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 (\$742,450). The fund entered 2026 with a balance of \$2,163,016 and closed the quarter with a balance of \$2,352,079.

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 (\$571,778). The fund entered 2026 with a balance of \$5,531,395 and closed the quarter with a balance of \$5,836,839.

Sewer Contingency Reserve (Fund 425)

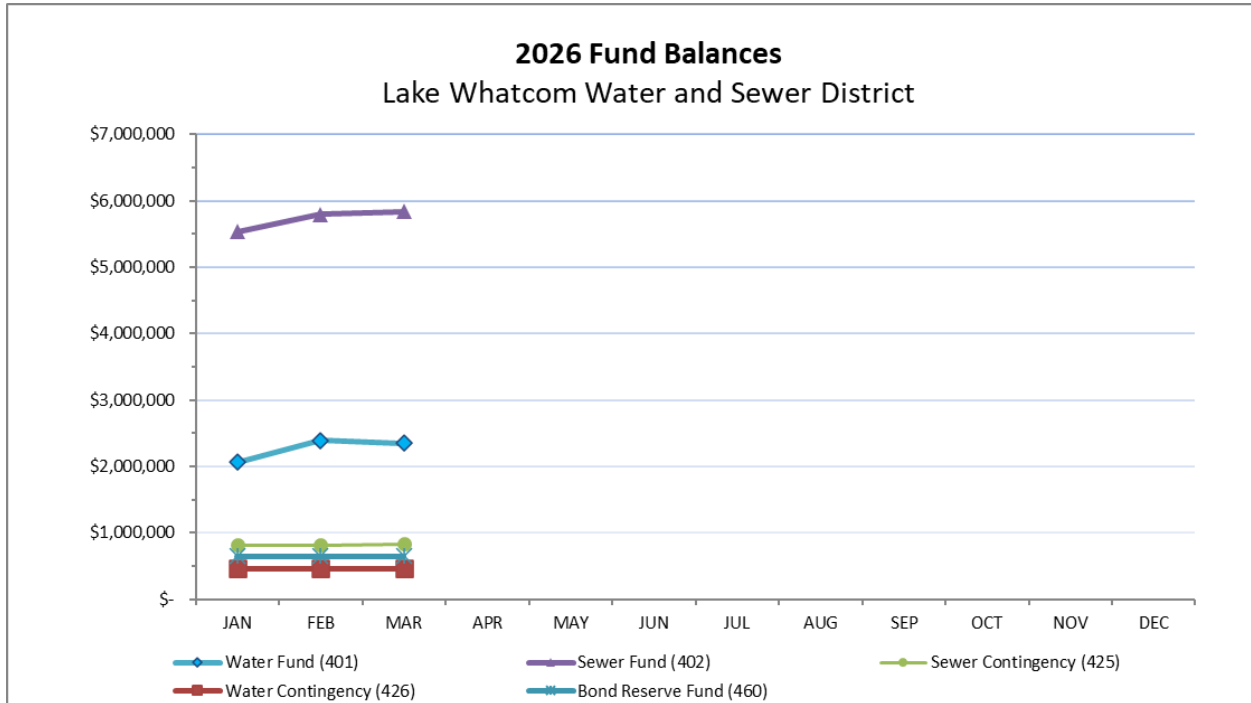
A sewer contingency reserve is maintained in accordance with District financial policies at one percent of the sewer utility infrastructure replacement cost (\$836,500). This fund provides for paying for unanticipated costs that may be incurred by the Sewer Utility. The Sewer Contingency Reserve was fully funded through the end of the 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 through the end of the 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 \$646,125 through the end of the quarter. As the District moves closer to paying this debt in full, the balance within this fund will be reduced in the coming years to maintain the Maximum Amount Due (MAD).



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. The following is a summary of the District's cash and investments through March 31, 2026.

INVESTMENTS/CASH AS OF 3/31/2026

| | | | |
|------------------------------------|-----------|------------------|--------|
| Petty Cash | \$ | 1,600 | |
| Cash | \$ | 1,032,628 | |
| Debt Service Account | \$ | 646,125 | |
| Public Funds Account | \$ | <u>32,004</u> | 2.940% |
| WA Federal | \$ | 1,712,357 | |
| Local Gov't Investment Pool | \$ | 4,178,089 | 3.710% |

| | | PRINCIPAL COST | MARKET VALUE | MATURITY DATE | YIELD |
|---------------------------------|-----------------|----------------------------|---------------------|------------------|--------|
| US Treasury Note | Non-callable | \$ 467,667 | \$ 500,000 | Jun-26 | 4.500% |
| US Treasury Note | Non-callable | \$ 499,508 | \$ 510,000 | Oct-26 | 3.707% |
| US Treasury Note | Non-callable | \$ 497,683 | \$ 515,000 | Feb-27 | 3.470% |
| US Treasury Note | Non-callable | \$ 534,034 | \$ 515,000 | Jun-27 | 3.724% |
| US Treasury Note | Non-callable | \$ 496,879 | \$ 525,000 | Sep-27 | 3.410% |
| US Treasury Note | Non-callable | \$ 950,654 | \$ 1,000,000 | Dec-27 | 3.290% |
| US Treasury Note | Non-callable | \$ 479,300 | \$ 500,000 | Feb-28 | 3.280% |
| US Bank Short-Term Money Market | Holding Account | \$ 315,872 | | | 3.360% |
| US Bank Trust | | \$ 4,241,596 | \$ 4,065,000 | | |
| TOTAL | | <u>\$10,132,042</u> | | | |

USE OF FUNDS:

| | | |
|---------------------------|----|----------------------------|
| Bond Reserve - Restricted | \$ | 646,125 |
| Contingency - Assigned | \$ | 1,298,355 |
| Operating Reserves | \$ | 1,185,000 |
| Operating Assigned | \$ | 7,002,562 |
| | | <u>\$10,132,042</u> |

Fund Balance Summary

| | | |
|------------------------------|----|----------------------------|
| Water Utility Fund (401) | \$ | 2,352,579 |
| Sewer Utility Fund (402) | \$ | 5,836,838 |
| Sewer Contingency Fund (425) | \$ | 836,500 |
| Water Contingency Fund (426) | \$ | 460,000 |
| Bond Reserve Fund (460) | \$ | <u>646,125</u> |
| | | <u>\$10,132,042</u> |