Quarterly Financial Report
Second Quarter 2026

Lake Whatcom Water and Sewer District
Bellingham, Washington

Summary

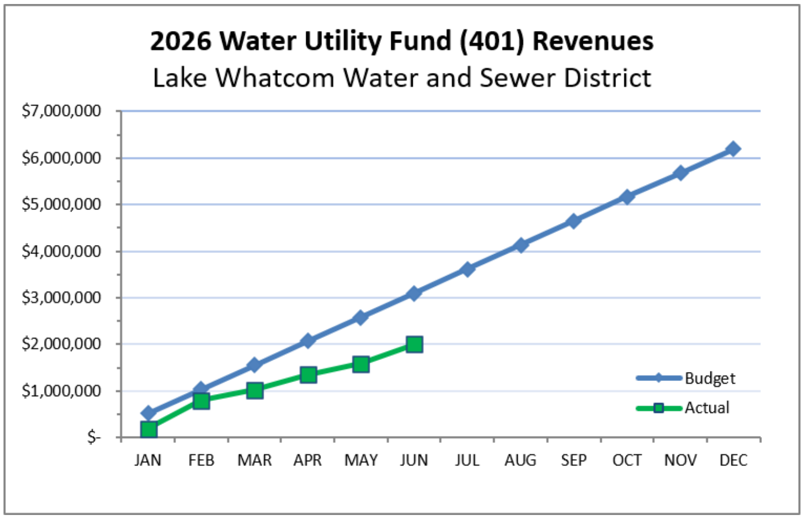
During the second quarter of 2026, Lake Whatcom Water and Sewer District (District) continued to maintain a strong financial position while advancing several key organizational initiatives. Most notably, the District completed all three audits conducted by the Washington State Auditor's Office for fiscal year 2025. These audits included the financial statement audit, the accountability audit, and the federal single audit. The District received an unmodified opinion ("clean") on its financial statements and no findings or deficiencies were identified in either the accountability audit or the federal single audit.

Each audit serves a distinct purpose in evaluating the District's financial stewardship and compliance. The financial statement audit provides independent assurance that the District's financial statements are presented fairly in accordance with Generally Accepted Accounting Principles (GAAP). The accountability audit evaluated the District's internal controls and compliance with applicable laws and regulations, with this year's review on payroll processes and related internal controls. The federal single audit examines the District's administration of federal grant funding for fiscal year 2025. This audit is conducted when funds exceed $1 million, ensuring grant funds are expended in compliance with applicable federal requirements. Collectively, these results demonstrate the District's continued commitment to strong internal controls, sound financial management, regulatory compliance, and responsible stewardship of public resources.

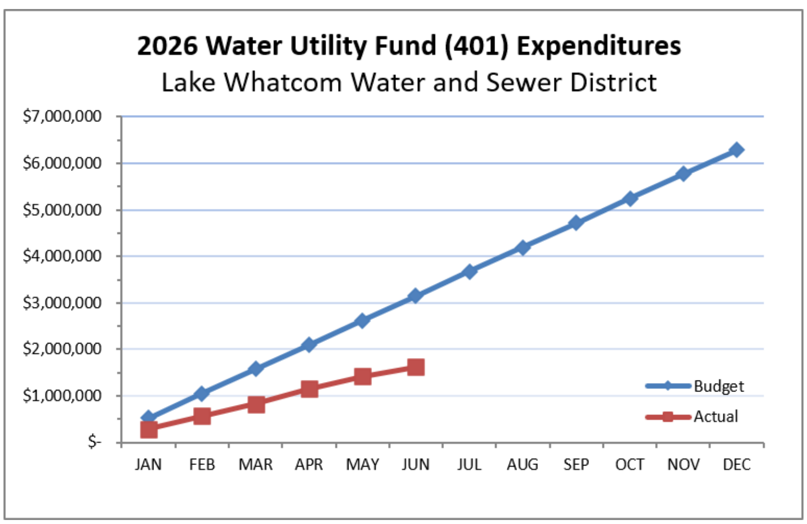
During the second quarter, the District also launched a comprehensive utility rate study and long-term financial plan review. The study evaluated projected operating costs, capital investment needs, debt obligations, reserve funding, and long-term revenue requirements to ensure continued financial sustainability of both utility systems. It is anticipated that the District will adopt a five-year financial plan that provides stable, predictable utility rates while supporting continued investment in critical infrastructure during the third quarter of 2026 paving the way for work to begin on the 2027-2028 Biennial Budget.

Financial performance through the first six months of 2026 remained strong. Utility operating revenues generally tracked budgeted expectations, with seasonal increases anticipated in the third quarter. Investment earnings remained strong through June, exceeding annual budget projections due to favorable interest rates and continued performance of the District's long-term investment portfolio. Capital expenditures remained below budgeted levels, primarily reflecting timing of planned capital projects and timing of funding from FEMA Hazard Mitigation Grants. Overall, the District remains in a strong financial position entering the second half of 2026. Healthy fund balances, positive operating performance, successful completion of the annual audit process, and the work completed on the utility rate study and long-term financial plan position the District to continue providing reliable utility services.

Water Utility Fund (Fund 401)

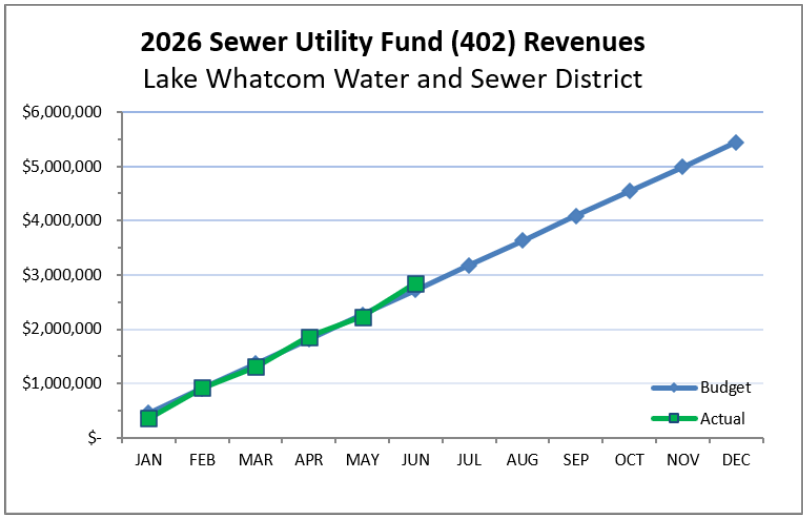


Through the second quarter of 2026, revneues in the Water Utility Fund totaled approximately $2 million. Water sales continued to follow expected seasonal trends, with customer demand anticipated to increase during the warmer months to allow for service revenue to align more closely with budgeted projections. Year-to-date water sales totaled approximately $1.56 million or 46% of the annual budget. General Facilities Charges (GFC) revenue also remained consistent with development acticity through the first half of the year and is anticipated to slightly increase during the Lake Whatcom Watershed land disturbance window which closes September 30, 2026. Miscellaneous revenues exceeded budgeted projections due primarily to strong investment performance. Investement earnings totaled approximately $98,300 through June, representing 140% of the annual budget. Due to a revised implementation schedule of several federally funded capital projects, the District no longer expects to receive revenue associated with those projects. It is antipated that the related grant revenue and capital expense budget for those projects will be carried forward into the 2027-2028 biennium through the District's budget process.

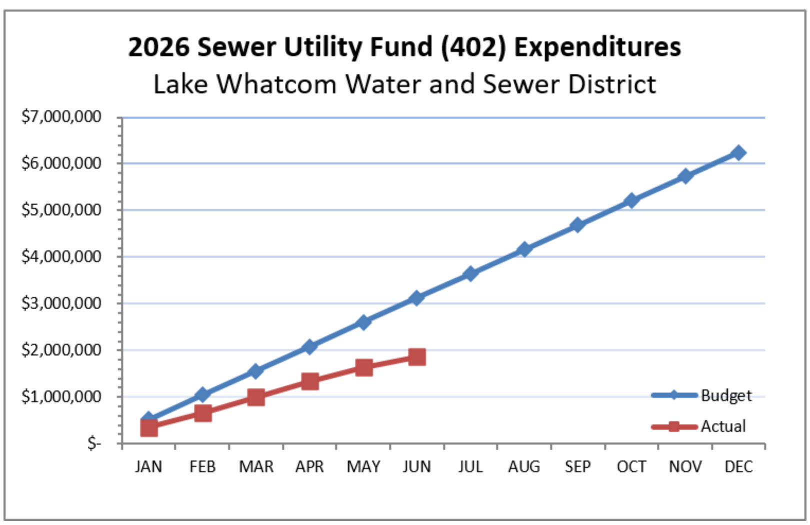


Water Utility Fund expneses totaled approximately $1.62 million through the second quarter. This represents approximately 26% of the annual budget. Operating expenses fell slightly below budgeted projections while capital expenditures were significantly below budget. This variance is primarily due to the timing of capital construction due to grant funding. Serveral captial projects remain in various stages of design, permitting, and procurement and are expected to continue progress. Debt service obligations remained consistent with scheduled repayment requiremenets and the District continues to maintain enough liquidity to meet those financial obligations.

Sewer Utility Fund (Fund 402)



Revenues in the Sewer Utility Fund totaled approximately $2.84 million through the second quarter which followed budgeted projections closely. Because sewer rates are fixed charges, sewer service revenues continue to provide a stable and predictable funding source through the year. General Facilities Charge revneue continued to reflect ongoing development activity, while investment earnings significantly exceeded budget through June. Like the Water Utility Fund, the Sewer Utility Fund benefited from favorable interest rates, generating approximately $98,300 in investment earnings through the first six months of the year. These earnings continue to strengthen the District's financial position while helping offset operating costs. Overall, the Sewer Utility Fund revenues remain consistent with the District's fianncial plan and continue to provide reliable funding for ongoing oepraitons, capital investment, and debt obligations.



Through June 30, 2026, Sewer Utility Fund expenses remained below budgeted projections while continuing to support normal utility operations. Operating expenses generally tracked anticipated spending levels across personnel maintenance, utilities, and contractual obligations. Similar to the Water Utility Fund, capital expenses remained below budget primarily due to project timing. Several planned capital improvements are expected to occur later in the construction season. With that being said, Sewer Utility Fund expenses remain well within budget while mainting the District's long-term commitment to system reliability and infrastructure revinvestement.

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 second 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 $2,539,987.

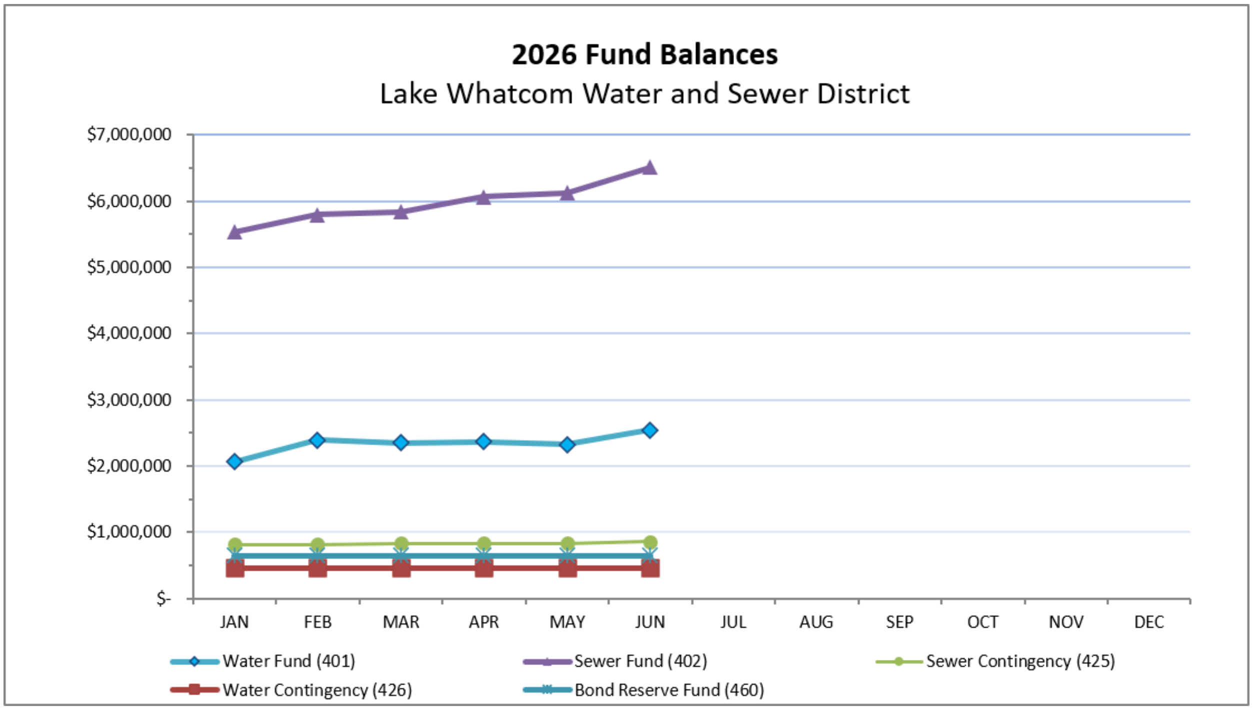
Sewer Utility Fund (Fund 402)
Like the Water Utility Fund, the Sewer Utility Fund serves as the primary operating fund for the District's sewer utility. Revenues are comprised primarily of rates charged to sewer customers, and expenditures consist of general operating expenses (personnel salary and benefits, 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 $6,513,295.

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 ($858,000). 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. As illustrated in the following cash and investment summary, the District remains well positioned to meet its current financial obligations while maintaining adequate resources for future capital and unforeseen needs. The following is a summary of the District's cash and investments through June 30, 2026

LAKE WHATCOM WATER AND SEWER

INVESTMENTS/CASH AS OF 6/30/2026

Petty Cash	$	1,600	
Cash	$	1,524,293	
Debt Service Account	$	646,125	
Public Funds Account	$	32,166	2.030%
WA Federal	**$**	**2,204,184**	
Local Gov't Investment Pool	**$**	**4,216,614**	3.670%

		PRINCIPAL COST		MARKET VALUE	MATURITY DATE	YIELD
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 Treasury Note	Non-callable	$	471,309	$ 500,000	Jul-28	4.000%
US Treasury Note	Non-callable	$	470,925	$ 500,000	Nov-28	4.020%
US Bank Short-Term Money Market	Holding Account	$	196,319			3.360%
US Bank Trust		**$**	**4,596,610**	**$ 4,565,000**		
TOTAL			**$11,017,408**			

USE OF FUNDS:

Bond Reserve - Restricted	$	646,125	
Contingency - Assigned	$	1,296,500	
Operating Reserves	$	1,185,000	
Operating Assigned	$	7,889,783	
			$11,017,408

Fund Balance Summary

Water Utility Fund (401)	$	2,539,987	
Sewer Utility Fund (402)	$	6,513,296	
Sewer Contingency Fund (425)	$	858,000	
Water Contingency Fund (426)	$	460,000	
Bond Reserve Fund (460)	$	646,125	
			$11,017,408