Quarterly Financial Report
Third Quarter 2026

Lake Whatcom Water and Sewer District
Bellingham, Washington

Summary

Throughout the third quarter of 2026, Lake Whatcom Water and Sewer District (District) continued to maintain a strong financial position while completing several significant financial planning initiatives. Most notably, in July the District completed its comprehensive utility rate study and long-term financial plan review, adopted a new Master Fees and Charges Schedule establishing rates through 2031, and began development of the 2027-2028 Biennial Budget. These efforts represent important steps in ensuring the long-term financial sustainability of both utility systems while providing a framework for future operating costs, capital investments, and financial obligations.

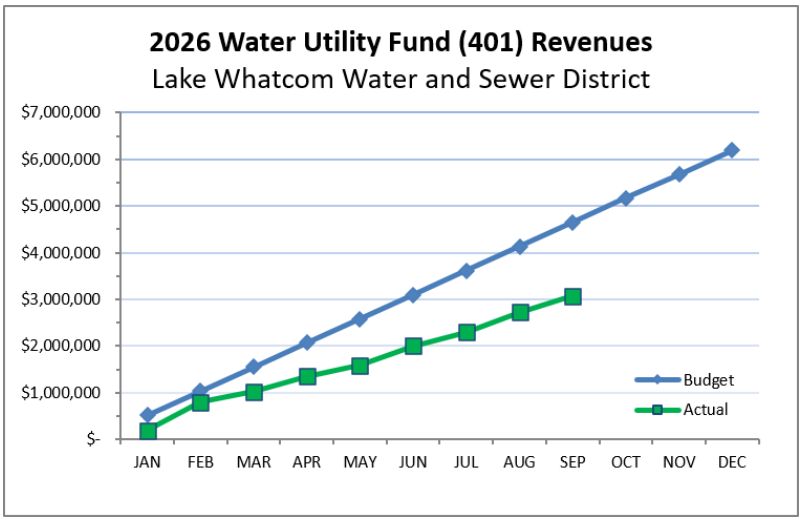
The utility rate study, initiated during the second quarter, evaluated projected operating expenses, capital investment needs, debt service obligations, reserve funding requirements, and long-term revenue projections. The resulting five-year financial plan balances the need for continued investment in critical infrastructure while maintaining stable and predictable utility rates to customers. It also establishes the financial framework for the upcoming biennial budget, allowing the District to better anticipate future funding requirements and plan for the long-term needs of both utility systems.

Work on the 2027-2028 Biennial Budget began in July with staff and the Board of Commissioners reviewing anticipated revenues, operating expenditures, personnel costs, and planned capital improvements. Throughout the third quarter, the proposed budget was presented by staff and reviewed by the Board of Commissioners during multiple regularly scheduled board meetings. With the majority of work on the budget completed, it is anticipated that the District will adopt the proposed 2027-2028 Biennial Budget early in the fourth quarter.

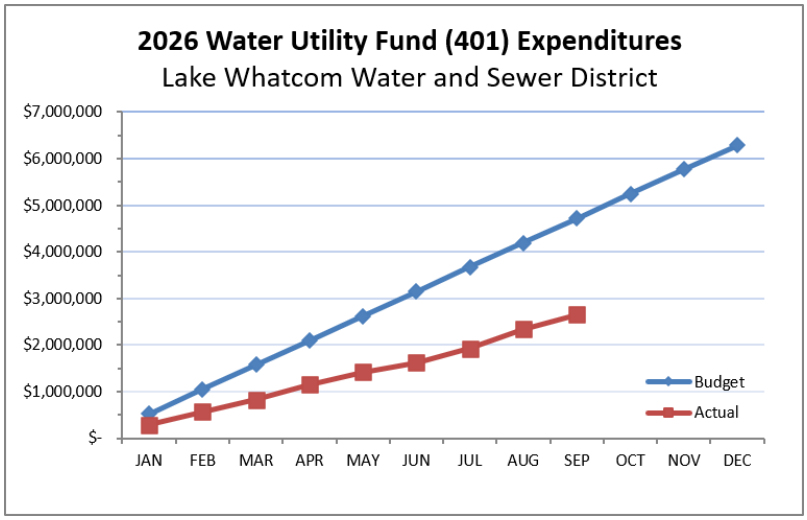
Financial performance through the end of the third quarter remained strong with utility service revenues generally tracking budgeted expectations. Development-related revenues increased significantly during the quarter, particularly in September, as permit activity and General Facility Charge (GFC) collections increased near the close of the Lake Whatcom Watershed land disturbance window. Investment earnings also continued to exceed budgeted expectations through the third quarter. Combined investment earnings for the Water and Sewer Utility Funds totaled approximately $249,600 through September, representing 178% of the combined budget. September generated the strongest monthly investment earnings of the third quarter and continued investment performance reflects favorable returns on the District's cash and investment holdings in the future with the recent interest rate hike by the Federal Open Market Committee (FOMC).

Overall, the District remains in a strong financial position entering the final quarter of 2026. Utility revenues continue to support ongoing operations, investment earnings remain above budgeted projections, and expenditures remain within available financial resources. These efforts discussed above combined with healthy fund balances position the District to meet its operational obligations while supporting long-term infrastructure investment and reliable utility services.

Water Utility Fund (Fund 401)

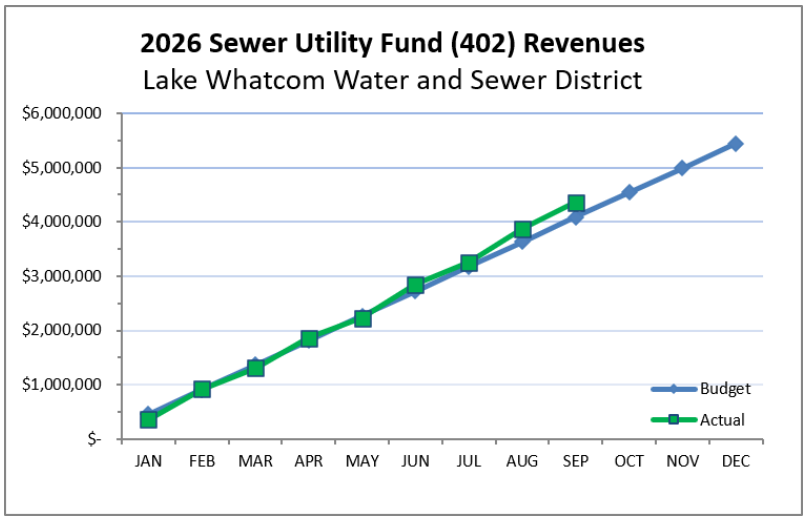


Through the third quarter of 2026, revenues in the Water Utility Fund totaled approximately $3.07 million. Water sales continued to follow expected seasonal treands, with year-to-date revenues totaling approximately $2.43 million or 72% of the annual budget. Overall, water sales remain consistent with budgeted projections entering the final quarter of 2026. As mentioned above, General Facility Charge (GFC) revenues increased significantly during the quarter reflecting increased development activity prior to the September 30 close of the land disturbance window in the Lake Whatcom Watershed. Through September, GFC revenues totaled approximately $203,300, which is 89% above budget. With that being said, the District takes a conservative approach when budgeting for these revenues due to their unpredictability. Overall, actual revenues remain below budgeted projections primarily due to the timing of receipt of anticpated federal grant funding. These funds are expeted to be carried forward into the 2027-2028 Biennial Budget to align with the revised schedules of the capital projects they support.

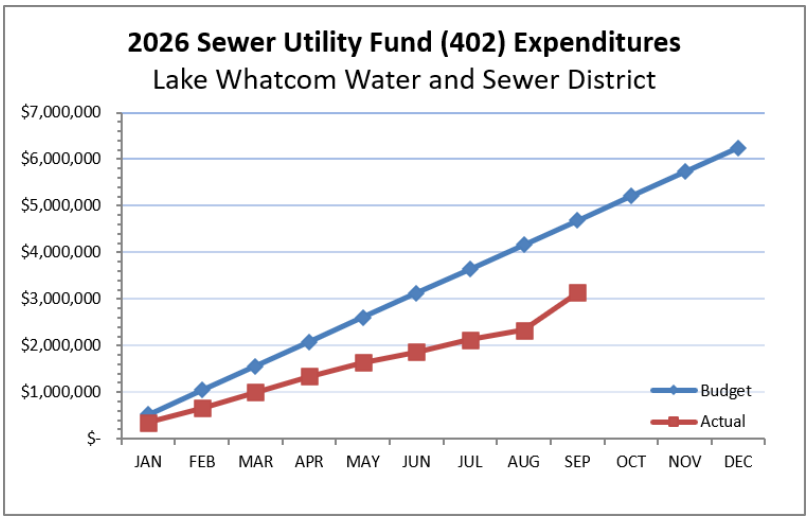


Water Utility Fund expenditures totaled approximately $2.62 million through September, representing 42% of the budget. Operating expenditures generally remained consistent with anticipated spending, while captial expenditures continued to fall below budgeted projections. Capital expenditures totaled approximiately $290,600, or 10% of the capital budget. This variance continues to reflect the timing of planned capital projects. Several projects remain in various stages of design, permitting, and procurement, with anticipated expenditures and funding requirements now being integrated into the 2027-2028 Biennial Budget. Debt service obligations remained consistent with scheduled repayment requirements and the District continues to maintain adequate liquidity to meet its financial obligations.

Sewer Utility Fund (Fund 402)



Revenues in the Sewer Utility Fund totaled approximately $4.34 million through the end of the third quarter. Sewer service revenues continued to follow budgeted projections totaling approximately $3.95 million or 75% of the total budget. Because sewer rates are fixed charges, service revenues continue to provide a stable and predictable funding source throughout the year. Similar to the Water Utility Fund, GFC revenue increased significantly during the third quarter which resulted in actual revenue exceeding budgeted projections in the third quarter. Through September, GFC revenues totaled approximately $258,400, representing 201% of the budget. This increase exceeded anticipated development related revenues and contributed positively to the Sewer Utility Fund's overall financial performance.



Sewer Utility Fund expenditures totaled approximately $3.17 million through September, representing 51% of the budget. Operating expenditures generally remained consistent with anticipated spending levels across personnel, maintenance, utilities, and contractual obligations. Capital expenditures continued to fall below budgeted projections, primarily due to the timing of planned capital improvements. Similar to the Water Utilty Fund, several projects remain in various stages and anticipated expenditures are now being integrated into the 2027-2028 Biennail Budget. All debt service obligations were met during the third quarter with no outstanding payments remaining throughout the fiscal year. Overall, expenditures remain within budgeted expecations while supporting continued utiltiy operations and infrastructure reinvestment.

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 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 $2,611,492.

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 $6,728,725.

Sewer Contingency Reserve (Fund 425)

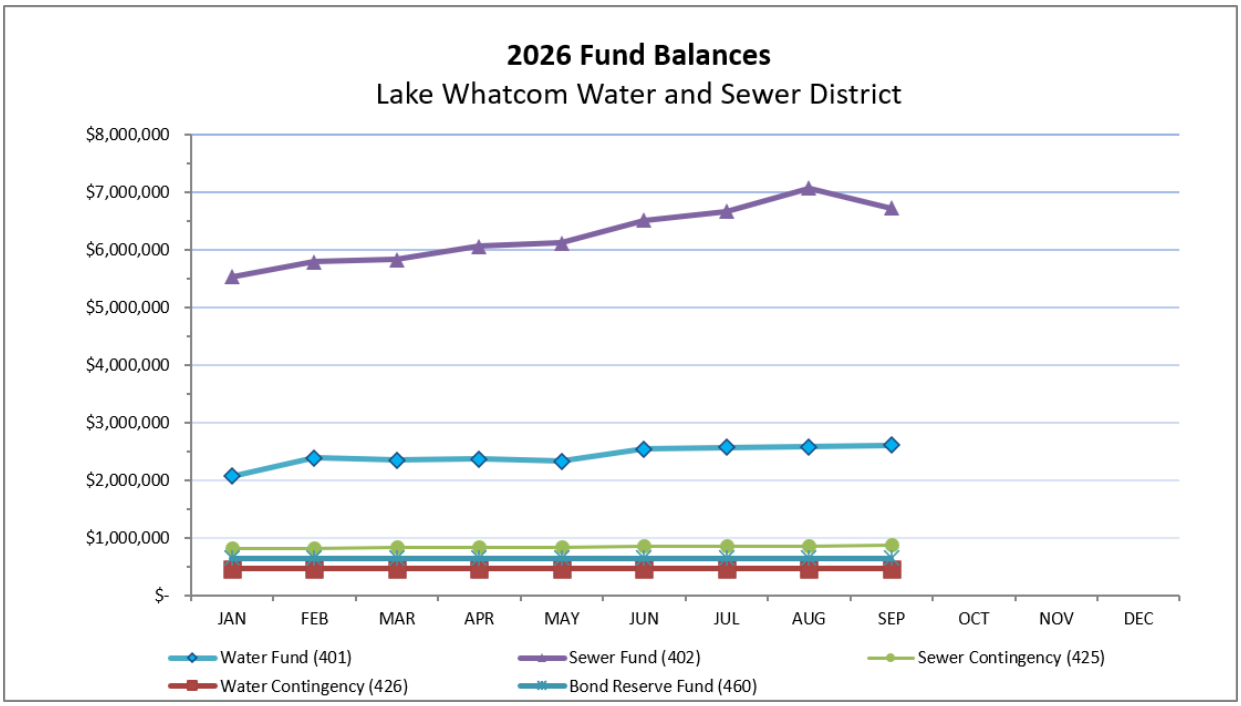
A sewer contingency reserve is maintained in accordance with District financial policies at one percent of the sewer utility infrastructure replacement cost ($879,500). This fund provides for paying for unanticipated costs that may be incurred by the Sewer Utility. The Sewer Contingency Reserve was fully 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. 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 September 30, 2026

LAKE WHATCOM WATER AND SEWER

INVESTMENTS/CASH AS OF 9/30/2026

Petty Cash	$	1,600	
Cash	$	1,430,140	
Debt Service Account	$	646,125	
Public Funds Account	$	32,331	2.050%
WA Federal	**$**	**2,110,196**	
Local Gov't Investment Pool	**$**	**4,256,646**	3.820%

		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 Treasury Note	Non-callable	$ 525,000	$ 525,000	Mar-29	4.050%
US Bank Short-Term Money Market	Holding Account	$ 33,709			3.360%
US Bank Trust		**$ 4,959,000**	**$ 5,090,000**		
TOTAL		**$11,325,842**			

USE OF FUNDS:		
Bond Reserve - Restricted	$	646,125
Contingency - Assigned	$	1,318,000
Operating Reserves	$	1,185,000
Operating Assigned	$	8,176,717
		$11,325,842

Fund Balance Summary		
Water Utility Fund (401)	$	2,611,492
Sewer Utility Fund (402)	$	6,728,725
Sewer Contingency Fund (425)	$	879,500
Water Contingency Fund (426)	$	460,000
Bond Reserve Fund (460)	$	646,125
		$11,325,842