

**SOUTH WALTON UTILITY COMPANY,  
INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2016 AND 2015**

**SOUTH WALTON UTILITY COMPANY, INC.**  
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**SEPTEMBER 30, 2016 AND 2015**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
South Walton Utility Company, Inc.

We have audited the accompanying financial statements of South Walton Utility Company, Inc., which comprise the balance sheets as of September 30, 2016 and 2015, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Walton Utility Company, Inc. as of September 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Statement of Operations – Comparison of Budget to Actual on page 22 and the statistical information on pages 23-27 is presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for the portion marked unaudited, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Warren Averett, LLC*

Destin, Florida  
November 9, 2016

**SOUTH WALTON UTILITY COMPANY, INC.**  
**BALANCE SHEETS**  
**SEPTEMBER 30, 2016 AND 2015**

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
<b>UTILITY PLANT IN SERVICE, NET (See Note 2)</b>	\$ 57,699,607	\$ 56,734,606
<b>RESTRICTED AND DESIGNATED ASSETS</b>		
Cash and cash equivalents – designated (See Note 1)	-	565,183
Cash and cash equivalents – restricted (See Note 1)	389,503	144,859
Investments – designated (See Note 4)	3,836,337	4,265,518
Investments – restricted (See Note 4)	847,488	1,271,404
Total restricted and designated assets	5,073,328	6,246,964
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	2,093,326	2,980,242
Accounts receivable, net	953,507	854,342
Other receivables	199,052	20,492
Due from other utility companies (See Note 6)	199,696	199,696
Prepaid expenses	133,945	133,872
Inventory	354,594	208,038
Total current assets	3,934,120	4,396,682
<b>OTHER ASSETS</b>		
Investments	219,098	-
Debt issue costs, net (See Note 1)	241,601	265,660
Prepaid debt service cost	153,504	153,504
Investment in WRP, Inc. (See Note 5)	9,820,068	10,077,088
Due from other utility companies (See Note 6)	966,974	1,188,384
Total other assets	11,401,245	11,684,636
<b>TOTAL ASSETS</b>	<b>\$ 78,108,300</b>	<b>\$ 79,062,888</b>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.  
BALANCE SHEETS – CONTINUED  
SEPTEMBER 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>LIABILITES AND MEMBERS' EQUITY</b>		
<b>MEMBERS' EQUITY</b>		
Contributions in aid of construction		
Designated for future expansion	\$ 273,453	\$ 1,349,068
Undesignated	54,795,827	53,126,827
Accumulated amortization	(23,008,420)	(21,620,016)
Retained earnings		
Undesignated	25,089,669	24,097,650
Total members' equity	57,150,529	56,953,529
<b>LONG-TERM LIABILITIES</b>		
Customer deposits	315,165	329,707
Loan deposits	381,417	378,095
Prepaid tap fees	551,357	563,402
Due to WRP, Inc. (See Note 5)	4,394,771	4,615,701
Notes payable (See Note 7)	3,271,751	3,889,632
RUA debt obligation (See Note 8)	9,518,007	10,140,563
Total long-term liabilities	18,432,468	19,917,100
<b>CURRENT LIABILITIES</b>		
Accounts payable	156,792	86,469
Contracts payable	195,784	242,351
Retainage payable	200,636	-
Other payable WRP true-up	57	601
Due to WRP, Inc. (See Note 5)	208,099	203,127
Accrued wages and benefits	109,670	114,985
Notes payable (See Note 7)	617,882	597,780
RUA debt obligation (See Note 8)	622,556	602,478
Accrued interest payable	413,827	344,468
Total current liabilities	2,525,303	2,192,259
<b>TOTAL LIABILITIES</b>	<b>20,957,771</b>	<b>22,109,359</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 78,108,300</b>	<b>\$ 79,062,888</b>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.  
STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>REVENUE FROM OPERATIONS</b>	\$ 8,893,934	\$ 8,495,044
<b>OPERATING EXPENSES</b>		
Operating and maintenance	6,134,414	5,973,749
Depreciation and amortization	<u>1,279,319</u>	<u>1,243,420</u>
Total operating expenses	<u>7,413,733</u>	<u>7,217,169</u>
<b>OPERATING INCOME</b>	<u>1,480,201</u>	<u>1,277,875</u>
<b>OTHER REVENUES (EXPENSES)</b>		
Loss from investment in WRP, Inc.	(272,786)	(274,376)
Interest income	61,579	55,526
Interest expense	(521,904)	(556,975)
Miscellaneous income	227,758	215,313
Gain on disposal of assets	<u>17,171</u>	<u>14,996</u>
Total other revenues (expenses)	<u>(488,182)</u>	<u>(545,516)</u>
<b>NET INCOME</b>	<u>\$ 992,019</u>	<u>\$ 732,359</u>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.  
STATEMENTS OF MEMBERS' EQUITY  
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>		
Beginning balance	\$ 32,855,879	\$ 33,197,441
Tap contributions	593,385	1,052,984
Amortization	<u>(1,388,404)</u>	<u>(1,394,546)</u>
Ending balance	<u>32,060,860</u>	<u>32,855,879</u>
<b>RETAINED EARNINGS</b>		
Beginning of year	24,097,650	23,365,291
Net income	<u>992,019</u>	<u>732,359</u>
End of year	<u>25,089,669</u>	<u>24,097,650</u>
<b>TOTAL MEMBERS' EQUITY</b>	<u><u>\$ 57,150,529</u></u>	<u><u>\$ 56,953,529</u></u>

See notes to the financial statements.



**SOUTH WALTON UTILITY COMPANY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 8,829,425	\$ 8,660,777
Interest income	61,579	55,526
Cash paid to suppliers and customers	(6,216,579)	(5,910,477)
Interest expense	<u>(452,545)</u>	<u>(487,335)</u>
Net cash provided by operating activities	<u>2,221,880</u>	<u>2,318,491</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition and construction of utility plant in service	(3,437,426)	(1,904,577)
Loan deposits	3,322	3,217
Investment in WRP, Inc.	(231,724)	(247,269)
Proceeds from due from other utility companies	221,410	213,921
Proceeds from held-to-maturity investments	1,438,000	1,278,000
Purchase of held-to-maturity investments	<u>(804,000)</u>	<u>(1,125,000)</u>
Net cash flows used in investing activities	<u>(2,810,418)</u>	<u>(1,781,708)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on notes payable	(597,779)	(578,333)
Principal payments on RUA debt obligation	(602,478)	(584,944)
Capital contributed by members	<u>581,340</u>	<u>1,036,694</u>
Net cash used in financing activities	<u>(618,917)</u>	<u>(126,583)</u>
<b>NET CHANGE IN CASH</b>	<u>(1,207,455)</u>	<u>410,200</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>3,690,284</u>	<u>3,280,084</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 2,482,829</u>	<u>\$ 3,690,284</u>
<b>COMPOSITION OF CASH AND CASH EQUIVALENTS:</b>		
Restricted	\$ 389,503	\$ 144,859
Designated	-	565,183
Unrestricted	<u>2,093,326</u>	<u>2,980,242</u>
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u>\$ 2,482,829</u>	<u>\$ 3,690,284</u>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.  
STATEMENTS OF CASH FLOWS – CONTINUED  
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 992,019	\$ 732,359
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	1,279,319	1,243,420
Gain on disposal of assets	(17,171)	(14,996)
Loss from investment in WRP, Inc.	272,786	274,376
(Increase) decrease in operating assets:		
Accounts receivable	(99,165)	(58,399)
Other receivables	(178,560)	(1,341)
Prepaid expenses	(73)	6,135
Inventory	(146,556)	(16,167)
Increase (decrease) in operating liabilities:		
Accounts payable	70,323	69,230
Other payable – WRP true-up	(544)	(4,781)
Customer deposits	(14,542)	10,160
Accrued wages and benefits	(5,315)	8,855
Accrued interest payable	69,359	69,640
Net cash flows provided by operating activities	<u>\$ 2,221,880</u>	<u>\$ 2,318,491</u>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF BUSINESS**

**Background**

South Walton Utility Company, Inc. (hereinafter referred to as the Company) was organized on August 9, 1968, as a not-for-profit corporation to provide water and sewer services to the residents of South Walton County. The Company has qualified under Internal Revenue Code Section 501(c)(12) as an exempt organization and, as such, is not liable for income taxes. By Florida Statutes the Company is also exempt from sales tax and Ad Valorem taxes.

The Company's operations are located in South Walton County, Florida and its customers are located primarily in South Walton County and the surrounding areas. The Company's major source of revenue is derived from water and sewer services to customers in this area.

The Company has joint operations with Destin Water Users, Inc. (DWU) pertaining to water supply and water line capacity.

**Basis of Accounting**

The Company prepares its financial statements on the accrual basis of accounting. The Company recognizes revenue for services as they are billed monthly to members, connection fees are deferred and capitalized until they are used, and capital contributions are recorded as equity when received and are amortized over the life of the related improvement.

**Utility Plant in Service and Depreciation**

Property, plant, and equipment are recorded at cost when acquired by purchase, at estimated fair market value when donated, or at developer cost when contributed. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Useful lives range from six to forty-five years.

**Restricted and Designated Cash and Investments**

Cash and investments have been restricted pursuant to the requirements of the Florida Department of Environmental Protection Loan Fund, meter deposits held for customers, and by agreement for the Wellfield Project.

The Board has designated cash and investments for future water and sewer expansion needs, emergency reserves, operating reserves, and renewal and replacement reserves. Designated cash at September 30, 2016 and 2015 was \$0 and \$565,183, respectively. Investment securities designated for future expansion correspond to the amount of designated capital for future expansion in Members' Equity.

Investment restrictions and designations are detailed within Note 4.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Company considers all funds received and deposited in operating and money market bank accounts with original maturities of three months or less as cash or cash equivalents.

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF BUSINESS – CONTINUED**

**Investments**

Management determines the appropriate classification of investment securities at the time they are acquired and evaluates the appropriateness of such classifications at each balance sheet date. All of the investments held by the Company, which consist of certificates of deposit and money market funds, are classified as held-to-maturity and reported at cost.

**Equity Method Investment**

The Company maintains a 50% investment in WRP, Inc. which it accounts for using the equity method. The 50% interest is carried at cost and is adjusted for the Company's proportionate share of the undistributed earnings and losses, in accordance with the equity method of accounting for investments.

**Customer Receivables**

Customer receivables are due the first business day of the month following receipt of billings. If an account is not paid by the second business day of the month following billings, a late fee of 10% of the current unpaid water and sewer charges is assessed. If an account is 60 days in arrears, a door hanger is sent to contact the Company by a specified date, or the account is subject to disconnection. If not contacted, the meter is locked. If the account is not paid by six months after the meter is locked, the account is final billed. If the final bill is not paid, 30 day and 60 day letters are sent. Following the 60 day letter, the account is sent to a commercial collection agency.

For the year ended September 30, 2016, there were 89 accounts written off totaling \$4,431. For the year ended September 30, 2015, there were 104 accounts written off totaling \$5,301.

Management has determined the allowance for doubtful accounts by doing an analysis of prior period write-offs. Annually, the Board approves writing off accounts deemed uncollectible. The allowance for doubtful accounts was \$11,700 at September 30, 2016 and 2015.

**Inventory**

Inventories are priced at the lower of cost, or net realizable value using the first in, first out (FIFO) method. The inventory of operating supplies is reported using the consumption method under which operating supplies are expensed and additions to the system are recorded as the supplies are used.

**Contributed Capital**

This account represents the total amount or value of contributions received from customers and/or developers, including other utility companies in the form of money to be used for capital improvements and/or facilities to be used in operations of the water and sewer system. Contributed capital is reported net of the related cost and is amortized over the life of the improvement or the length of the related agreement. Amortization of contributed capital is credited to depreciation expense.

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF BUSINESS – CONTINUED**

**Debt Issue Costs**

Issue costs for the State of Florida revolving loans are deferred and amortized over the term of the debt using the straight line method. Issue costs are recorded as other assets, net of accumulated amortization. Accumulated amortization of debt issue costs was \$239,581 and \$215,522 at September 30, 2016 and 2015, respectively.

The following is a summary of debt issue costs as of September 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Debt issue costs	\$ 481,182	\$ 481,182
Less accumulated depreciation	(239,581)	(215,522)
	\$ 241,601	\$ 265,660

**Customer Deposits**

This account represents deposits made by customers utilizing water and sewer services provided by the Company. The liability is funded by restricted investments.

**Loan Deposits**

This account represents deposits made by Destin Water Users for their representative portion of the sinking fund required by the state loan from the Florida Department of Environmental Protection. The monies are held as restricted investments.

**Prepaid Tap Fees**

Prepaid tap fees consist of payments made by individuals, businesses, and developers for future water and/or sewer connection fees under the terms of contracts between the parties and the Company.

**Annual and Sick Leave**

Annual leave is earned from date of hire, but may not be utilized until the employee has completed one year of service. Employees earn annual leave at the rate of eight (8) hours per month of employment, up to 10 years. From 10 to 15 years, annual leave is accrued at fifteen (15) days per year. From 15 to 20 years of service, annual leave is accrued at twenty (20) days per year. After 20 years of service, employees earn twenty-five (25) days per year. An employee may not accrue more than one hundred sixty (160) hours earned annual leave into the next calendar year.

The policy of the Company is that full-time employees will accrue sick leave at a rate of eight (8) hours per month. Upon termination, no sick leave will be compensated; therefore, no accrual for sick leave has been recorded.

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF BUSINESS – CONTINUED**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Reclassifications**

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year presentation.

**Events Occurring after Reporting Date**

The Company has evaluated events and transactions that occurred between September 30, 2016, and November 9, 2016, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**2. UTILITY PLANT IN SERVICE**

Annual provisions for depreciation, net of amortization, of Utility Plant In Service total \$1,279,319 (depreciation of \$2,667,723 net of amortization of \$1,388,404) and \$1,243,420 (depreciation of \$2,637,966 net of amortization of \$1,394,546) for 2016 and 2015, respectively.

The following is a summary of Utility Plant in Service as of September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 2,266,624	\$ 2,266,624
Plant	80,469,339	77,647,754
Buildings	5,739,088	5,724,512
Computer equipment and software	498,881	498,051
Furniture and fixtures	84,646	84,646
Equipment	1,423,256	1,400,621
Vehicles	560,579	537,935
Construction in progress	<u>2,631,111</u>	<u>2,003,982</u>
	93,673,524	90,164,125
Less accumulated depreciation	<u>(35,973,917)</u>	<u>(33,429,519)</u>
	<u>\$ 57,699,607</u>	<u>\$ 56,734,606</u>

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

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**3. CONCENTRATIONS OF CREDIT RISK**

The Company has a sweep arrangement with a local financial institution in which its deposits are swept over night into a separate account, and are thus not exposed to credit risk for exceeding FDIC insured limits. A total of \$980,000 and \$2,940,000 were held in the sweep account at September 30, 2016 and 2015, respectively. There is credit risk associated with the arrangement; however, this risk is mitigated by all the securities under the arrangement consisting of fully collateralized federal agency securities and United States Treasury securities. In addition, investments under this arrangement are subject to interest rate risk, resulting from fluctuations in interest rates.

The Company maintains its restricted and designated cash and investments within brokerage accounts. Investments consist of certificates of deposit that are fully insured by the FDIC. Restricted and designated cash balances consist of money market funds. These funds are not necessarily insured by the FDIC, however they consist of repurchase agreements that are fully collateralized by U.S. Treasury securities or deposited in qualifying trust and/or cash accounts with major U.S. banks, as well as high quality, short-term securities that are issued or guaranteed by the U.S. government or by U.S. government agencies or instrumentalities which mitigates credit risk. As of September 30, 2016, cash held within brokerage accounts totaled \$1,410,267.

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

**4. INVESTMENTS**

Investments are recorded at cost, classified as held-to-maturity, and consist of the following at September 30:

	<u>2016</u>	<u>2015</u>
Due within one year	\$ 1,789,257	\$ 1,296,665
Due after one year through three years	2,756,696	3,654,461
Due after three years	<u>356,970</u>	<u>585,796</u>
Total held-to-maturity investments	<u>\$ 4,902,923</u>	<u>\$ 5,536,922</u>
Federal Agency Securities	\$ 285,908	\$ 423,965
Certificates of deposit	<u>4,617,015</u>	<u>5,112,957</u>
Total investments	<u>4,902,923</u>	<u>5,536,922</u>
Less amounts designated:		
Amount designated for operating reserves	(3,562,892)	(2,916,450)
Amount designated for future expansion	<u>(273,445)</u>	<u>(1,349,068)</u>
Total investments – designated	<u>(3,836,337)</u>	<u>(4,265,518)</u>
Less amounts restricted:		
Amount restricted for customer deposits	(315,165)	(329,707)
Amount restricted for loan repayment	(476,925)	(714,925)
Amount restricted for plant construction	<u>(55,398)</u>	<u>(226,772)</u>
Total investments – restricted	<u>(847,488)</u>	<u>(1,271,404)</u>
Total available investments – unrestricted	<u>\$ 219,098</u>	<u>\$ -</u>



**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

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**5. INVESTMENT IN WRP, INC. AND AMOUNT DUE TO WRP, INC.**

On August 13, 1996, the Company and DWU formed WRP, Inc. (WRP), a not-for-profit organization incorporated in the State of Florida, for the purpose of acquiring land and developing well fields and pipelines capable of providing potable water to the Company and DWU. The Company accounts for its 50% ownership interest in WRP using the equity method of accounting in accordance with generally accepted accounting principles. In 2011, WRP began the Phase IV Water System Improvements, General Brown Wellfield Transmission Main Project (hereinafter referred to as the Phase IV Project). The Phase IV Project was completed and placed into service during 2013. The cost of the Phase IV Project was being shared equally between the Company and DWU.

The construction costs associated with the Phase IV Project were funded through a State Revolving Funds Loan (SRF Loan) through the Florida Department of Environmental Protection (FDEP) in the amount of \$16,000,000 obtained by WRP, as well as contributions from the Company and DWU. The SRF loan bears interest at 2.5% and is payable in semiannual principal and interest payments of \$449,742, beginning February 15, 2014. The SRF loan is secured by pledged revenues of the Company and DWU. As of September 30, 2016, WRP had total principal outstanding of \$12,395,109 on the SRF loan, of which \$4,602,870 is the responsibility of the Company.

The Company's 50% share of costs incurred on the Phase IV Project, including its share of the balances of the SRF Loan and line of credit, are recognized as an increase to the Company's investment in WRP. As of September 30, 2016, the Company owed WRP \$4,602,870 which includes the Company's share of the SRF loan and accrued interest. As of September 30, 2015, the Company owed WRP \$4,818,828 for costs associated with the Phase IV Project, which included the Company's share of WRP's SRF loan, loan service fees, and accrued interest for the project. The amounts due to WRP by the Company are tied to the related debt on WRP's books and accordingly, have corresponding maturities which are summarized as follows at September 30, 2016:

	<b>Amount</b>
2017	\$ 208,099
2018	226,500
2019	232,198
2020	238,039
2021	244,027
Thereafter	3,454,007
Total due to WRP, Inc.	\$ 4,602,870

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

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**5. INVESTMENT IN WRP, INC. AND AMOUNT DUE TO WRP, INC. – CONTINUED**

During the year ended September 30, 2016, the Company contributed \$16,565 to WRP related to the costs of the Phase IV project and recognized its share of WRP's net loss of \$272,786. During the year ended September 30, 2015, the Company contributed \$35,029 to WRP related to the costs of the Phase IV project and recognized its 50% share of WRP's net loss of \$274,376. The Company's investment in WRP totaled \$9,820,068 and \$10,077,088 at September 30, 2016 and 2015, respectively.

The following is a summary of the Company's investment in WRP, Inc. as of September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 10,077,088	\$ 10,314,854
Contributions to WRP, Inc.	16,565	35,029
Amortization of contributed capital	(233,858)	(229,789)
WRP, Inc. net income	<u>(39,727)</u>	<u>(43,007)</u>
SWUCI Investment in WRP, Inc.	<u>\$ 9,820,068</u>	<u>\$ 10,077,088</u>

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

**5. INVESTMENT IN WRP, INC. AND AMOUNT DUE TO WRP, INC. – CONTINUED**

The Company's investment in WRP is accounted for under the equity method of accounting. Pertinent financial information for WRP, Inc. as of September 30 is as follows:

**Balance Sheet**

	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Cash	\$ 204,566	\$ 170,674
Other receivable – SWU true-up	57	601
Due from SWUCI	4,602,870	4,818,828
Due from DWU	7,757,780	8,121,762
Property and equipment, net	19,294,982	19,825,198
Other assets	286,097	303,051
Total assets	\$ 32,146,352	\$ 33,240,114
<b>LIABILITIES</b>		
Accounts payable	\$ 763	\$ 3
Accrued interest payable	40,499	41,705
Other payable – DWU true-up	57	601
SRF loan payable	12,395,109	12,973,841
Contributed Capital – DWU	9,450,078	9,668,171
Contributed capital – SWU	9,385,073	9,601,566
Retained earnings	874,773	954,227
Total liabilities and equity	\$ 32,146,352	\$ 33,240,114

**Statement of Operations and Gains**

	<b>Year ended 2016</b>	<b>Year ended 2015</b>
Revenue	\$ 15,455	\$ 20,696
Expenses	(94,909)	(106,709)
Excess of revenues over expenses	(79,454)	(86,013)
Company's share of excess of WRP, Inc. (50%)		
Net loss	\$ (39,727)	\$ (43,007)
Less amortization of contributed capital	(233,059)	(231,369)
Company's recognized loss on investment in WRP, Inc.	\$ (272,786)	\$ (274,376)

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

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**6. DUE TO/FROM OTHER UTILITY COMPANIES**

The Company has recorded amounts due from DWU for their share of the Florida Department of Environmental Protection loan (see Note 7) acquired by the Company for the Phase I Water Supply Project. The debt bears interest ranging from 3.05% to 3.52%. Interest payments received by the Company from DWU are netted with the interest expense paid by the Company on the debt for income statement presentation. Additionally, there is a long term and short term amount.

	<u>2016</u> <u>Short term</u>	<u>2015</u> <u>Short term</u>	<u>2016</u> <u>Long term</u>	<u>2015</u> <u>Long term</u>
Due from DWU for Phase I	\$ 199,696	\$ 199,696	\$ 966,974	\$ 1,188,384
Total due from other utility companies	<u>\$ 199,696</u>	<u>\$ 199,696</u>	<u>\$ 966,974</u>	<u>\$ 1,188,384</u>

**7. NOTES PAYABLE**

*Capitalization Grants for Drinking Water State Revolving Fund*

The Company obtained a \$6,302,378 twenty-year revolving note in September 2000 from the Florida Department of Environmental Protection ("FDEP") to fund the majority of the Phase I Water Supply Project. The note bears interest at a rate of 3.52% and is secured by pledged revenues. In October 2001, the company amended the note, providing additional funding for the Water Supply Project in the amount of \$1,251,087. The note amendment bears interest at a rate of 3.05%. The total amount of the note from the FDEP was \$7,553,465. The Company began repaying the note on December 15, 2001. Principal and interest payments of \$267,525 are due semiannually on June 15 and December 15, with a final installment equal to the remaining principal and interest balance due on June 15, 2021. The loan agreement requires that the Company maintain a loan repayment reserve account in the amount of \$498,519. As of September 30, 2016, the balance of the reserve account was \$763,773 and is included in restricted cash and investments on the balance sheet. The outstanding note balances at September 30, 2016 and 2015, were \$2,436,646 and \$2,875,656, respectively.

The Company obtained a \$3,021,280 twenty-year revolving note in December 2003 from the Florida Department of Environmental Protection ("FDEP") to fund the Company's share of the Phase II Water Supply Project. The note bears interest at a rate of 2.96% and is secured by pledged revenues. The Company began repaying the note on February 15, 2005. Principal and interest payments of \$102,655 are due semiannually on August 15 and February 15, with a final installment equal to the remaining principal and interest balance due on August 15, 2024. The loan agreement requires that the Company maintain a loan repayment reserve account in the amount of \$102,655. As of September 30, 2016, the balance of the reserve account was \$102,655 which is included in restricted investments on the balance sheet. The outstanding note balances at September 30, 2016 and 2015, were \$1,452,987 and \$1,611,756, respectively.

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

**7. NOTES PAYABLE – CONTINUED**

	<u>2016</u> <u>Short term</u>	<u>2015</u> <u>Short term</u>	<u>2016</u> <u>Long term</u>	<u>2015</u> <u>Long term</u>
SRL Phase I	\$ 454,378	\$ 439,012	\$ 1,982,267	\$ 2,436,644
SRL Phase II	163,503	158,768	1,289,484	1,452,988
Total note payable for SRL	<u>\$ 617,881</u>	<u>\$ 597,780</u>	<u>\$ 3,271,751</u>	<u>\$ 3,889,632</u>

Combined maturities of the FDEP notes are as follows:

2017	617,881
2018	638,664
2019	660,151
2020	682,364
2021	705,329
Thereafter	585,243
	<u>\$ 3,889,632</u>

**8. RUA DEBT OBLIGATION**

In May 2009, the Company obtained a \$10,000,000, twenty-year revolving note from the FDEP to fund the majority of the Wastewater Treatment Facility Project. The loan was obtained by Regional Utility Authority (RUA) on the Company's behalf in exchange for the Company's deeding of the land and the facility over to RUA. The Company will lease the land and facility back from RUA in what has been deemed to be a capital lease transaction, since the assets revert back to the Company at the end of the lease term. Therefore, the land and buildings have not been removed from the financial statements of the Company. In December 2009, the RUA loan agreement with FDEP was amended to increase the funding to \$13,300,000.

The \$10,000,000 portion of the note bears interest at a rate of 3.01% and the \$3,300,000 portion bears interest at a rate of 2.87%, and is secured by pledged revenues. Principal and interest payments of \$457,308 are due semiannually on February 15 and August 15, with a final installment equal to the remaining principal and interest balance due on February 15, 2030. The outstanding note balances at September 30, 2016 and 2015, were \$10,140,563 and \$10,743,041, respectively.

	<u>2016</u> <u>Short term</u>	<u>2015</u> <u>Short term</u>	<u>2016</u> <u>Long term</u>	<u>2015</u> <u>Long term</u>
Note payable for RUA	<u>\$ 622,556</u>	<u>\$ 602,478</u>	<u>\$ 9,518,007</u>	<u>\$10,140,563</u>

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

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**8. RUA DEBT OBLIGATION – CONTINUED**

Maturities of the RUA debt obligation are as follows:

	<b>Amount</b>
2017	622,556
2018	641,108
2019	660,212
2020	679,886
2021	700,147
Thereafter	6,836,654
	<b>\$10,140,563</b>

**9. RETIREMENT PLAN**

The Company adopted a 401(k) retirement plan effective April 18, 1997. The plan covers all employees who have completed one year of service or was a participant in the previous retirement plan prior to the effective date of the new plan. The Company matches employee contributions up to 8%.

Effective October 1, 2007, the Company adopted an amendment to the plan, which provides that the Company may contribute a discretionary amount, which amount if any, shall be deemed an Employer Non-Elective Contribution based on three groups of participants. The participant groups are based on the individual employee's length of service with the Company and are as follows:

<b>Group</b>	<b>Years of Service</b>
A	1-10
B	10-20
C	more than 20

The Company's contributions for the years ended September 30, 2016 and 2015, were \$176,250 and \$161,522, respectively.

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015**

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**9. RETIREMENT PLAN – CONTINUED**

The following table represents the vesting schedule of the Company's contributions:

<u>Years of service</u>	<u>Vesting Percentages</u>
Less than 2 years	0%
2 years	20%
3 years	40%
4 years	60%
5 years	80%
6 years	100%

Forfeitures under the plan are used to reduce the Company's contribution in the succeeding year.

**10. COMMITMENTS**

Meter Upgrade Project

During November 2015, the Company entered into a contract for the purpose of upgrading meters for a total contract amount of \$1,595,123. As of September 30, 2016 the Company had open contract commitments in the amount of \$1,475,493. The project is expected to be completed during the 2022 fiscal year.

Six Lane Utility Relocation Project

During November 2015, the Company entered into a contract for the purpose of the US Highway 98 widening project for a total contract amount of \$3,720,976. As of September 30, 2016 the Company had open contract commitments in the amount of \$1,276,055. The project is expected to be completed during the 2017 fiscal year.

## **SUPPLEMENTARY INFORMATION**



**SOUTH WALTON UTILITY COMPANY, INC.**  
**STATEMENT OF OPERATIONS – COMPARISON OF BUDGET TO ACTUAL**

	(Unaudited) Budget	Actual	Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>			
Water	\$ 4,233,600	\$ 4,251,392	\$ 17,792
Sewer	4,242,186	4,225,637	(16,549)
Wholesale water	325,000	344,630	19,630
Other	141,500	72,275	(69,225)
Total operating revenues	<u>8,942,286</u>	<u>8,893,934</u>	<u>(48,352)</u>
<b>OPERATING EXPENSES</b>			
Bad debts	20,000	3,436	16,564
Chemicals	193,000	179,526	13,474
Contributions	14,000	12,250	1,750
Depreciation and amortization	1,313,000	1,279,319	33,681
Education and travel	40,000	45,656	(5,656)
Engineering and fees	6,900	9,175	(2,275)
G and A expense	36,000	36,000	-
Insurance – employees and other	772,000	635,222	136,778
Lab supplies	58,000	56,749	1,251
Legal and accounting	76,500	56,100	20,400
License and fees	78,400	94,371	(15,971)
Miscellaneous	112,907	87,678	25,229
Office expenses	26,500	23,330	3,170
Operating supplies	150,200	168,180	(17,980)
Payroll taxes	154,000	164,637	(10,637)
Professional fees	250,350	256,817	(6,467)
Repairs and maintenance	935,000	1,129,195	(194,195)
Retirement plans	161,350	176,250	(14,900)
Salaries	2,208,500	2,215,145	(6,645)
Telephone and sanitation	74,300	68,637	5,663
Uniforms	29,200	27,506	1,694
Utilities	711,000	680,713	30,287
WRP operating expenses	-	7,841	(7,841)
Total operating expenses	<u>7,421,107</u>	<u>7,413,733</u>	<u>7,374</u>
<b>OPERATING INCOME</b>	<u>1,521,179</u>	<u>1,480,201</u>	<u>(40,978)</u>
<b>OTHER REVENUES (EXPENSES)</b>			
Gain on disposal of assets	9,500	17,171	7,671
Loss from investment in WRP, Inc.	20,000	(272,786)	(292,786)
Interest income	53,000	61,579	8,579
Interest expense	(522,539)	(521,904)	635
Miscellaneous income	168,104	227,758	59,654
Total other revenues (expenses)	<u>(271,935)</u>	<u>(488,182)</u>	<u>(216,247)</u>
<b>NET INCOME</b>	<u>\$ 1,249,244</u>	<u>\$ 992,019</u>	<u>\$ (257,225)</u>

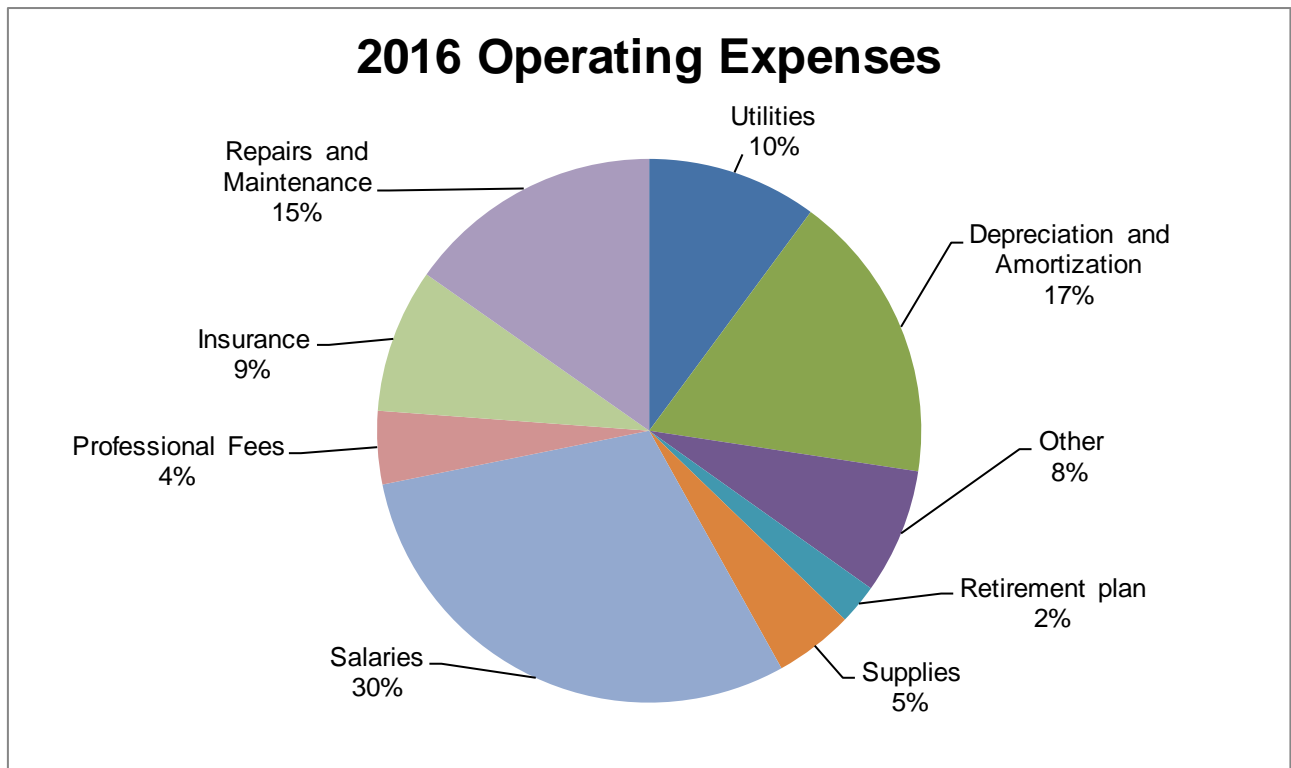
See independent auditors' report.

**SOUTH WALTON UTILITY COMPANY, INC.  
STATISTICAL INFORMATION**

**Water and Sewer Consumption Analysis  
(Unaudited)**

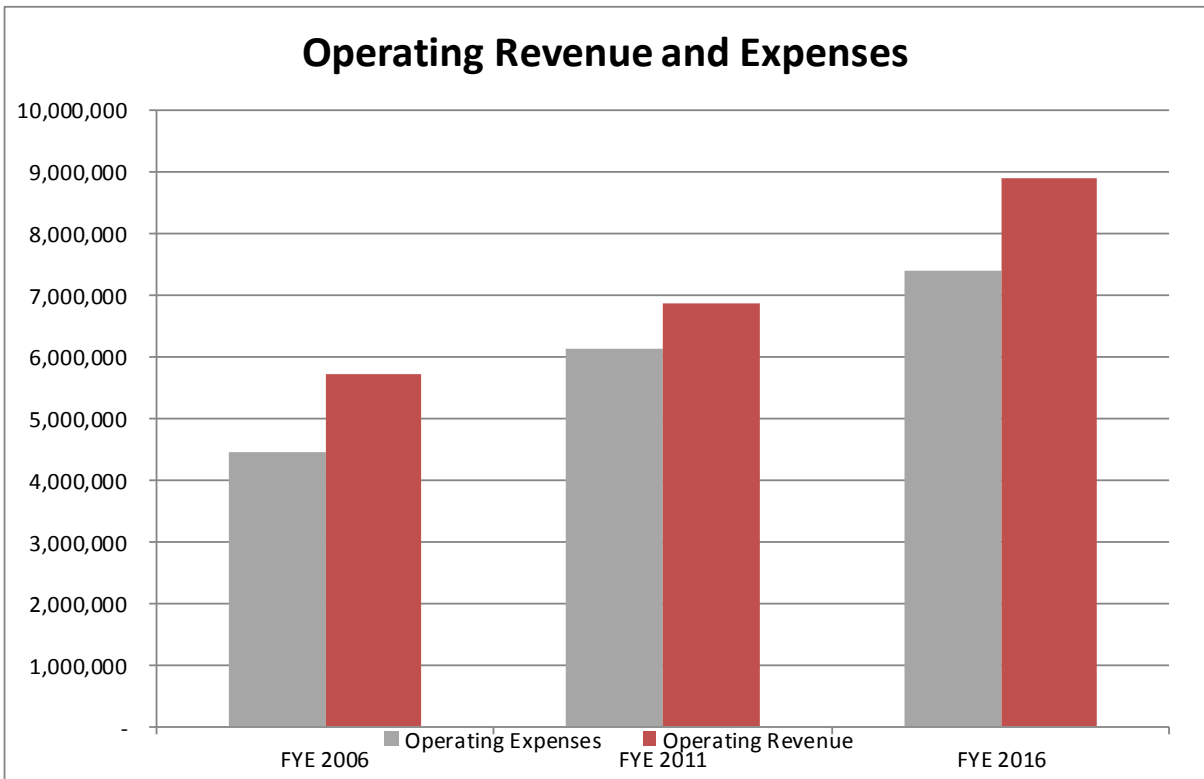
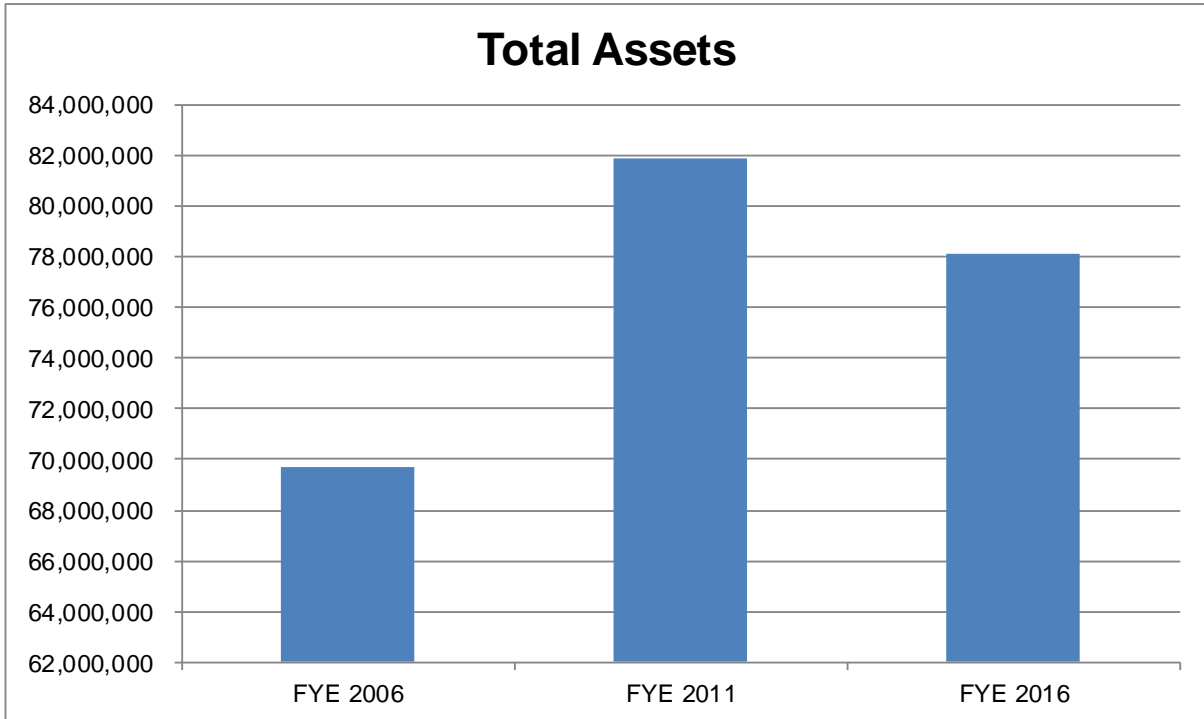
The table below compares total water consumption for fiscal years 2016 and 2015.

	<u>Fiscal Year 2016</u>	<u>Fiscal Year 2015</u>
Water consumption	1,053,774,000	1,046,346,000
Wholesale water	812,966,000	682,920,000
Number of units – water	17,471	17,256
Number of units – sewer	9,410	9,332
Number of members	9,446	9,244



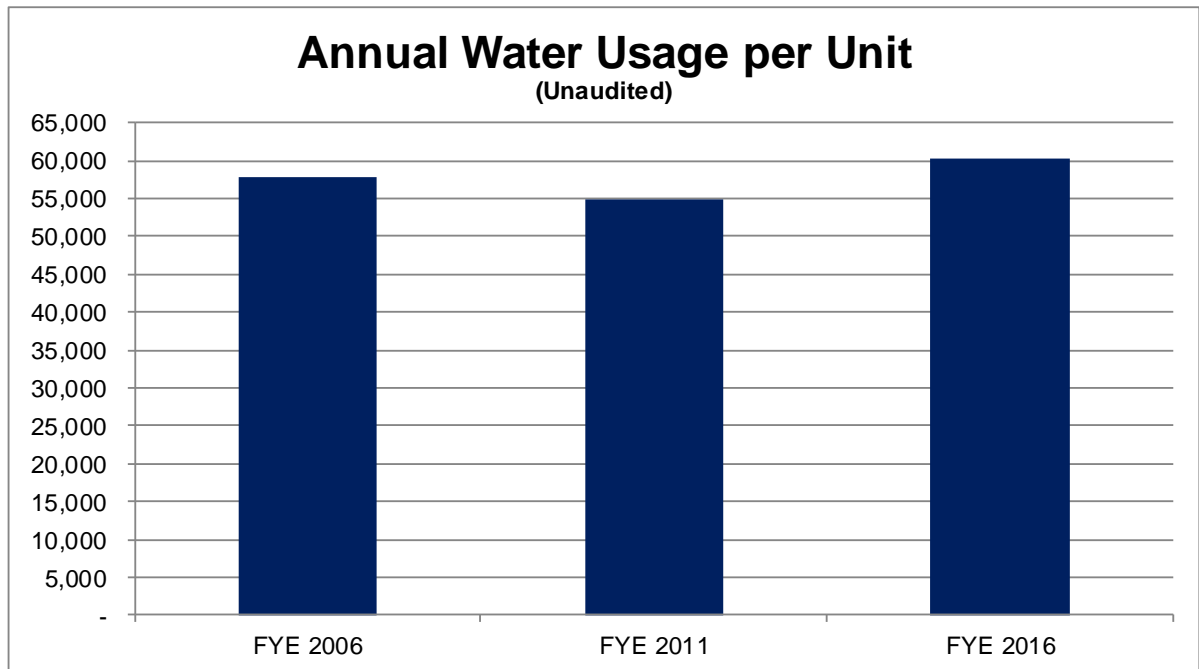
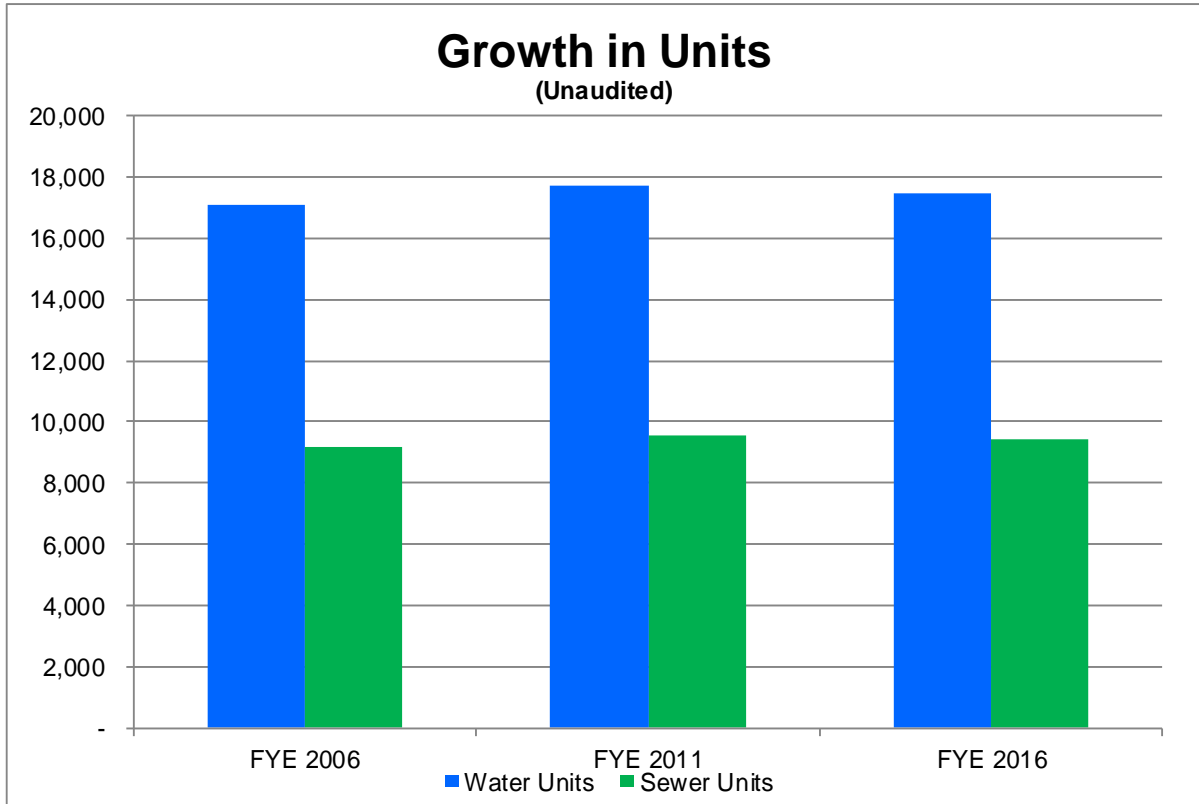
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**SOUTH WALTON UTILITY COMPANY, INC.  
STATISTICAL INFORMATION**



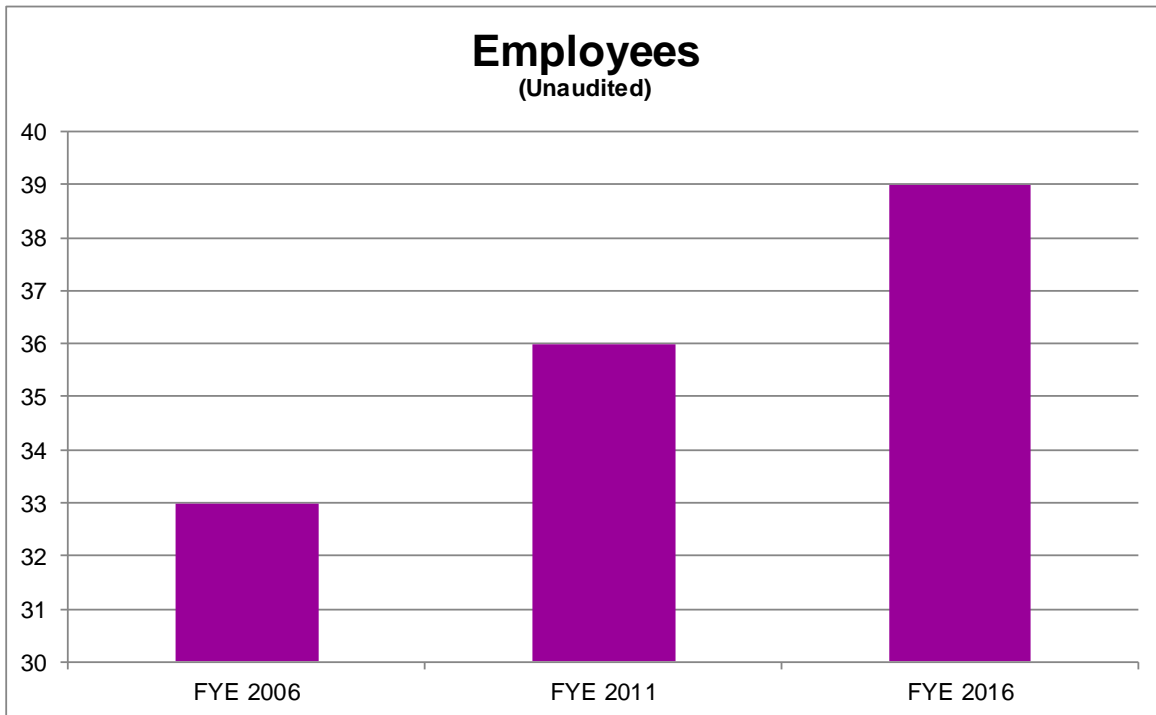
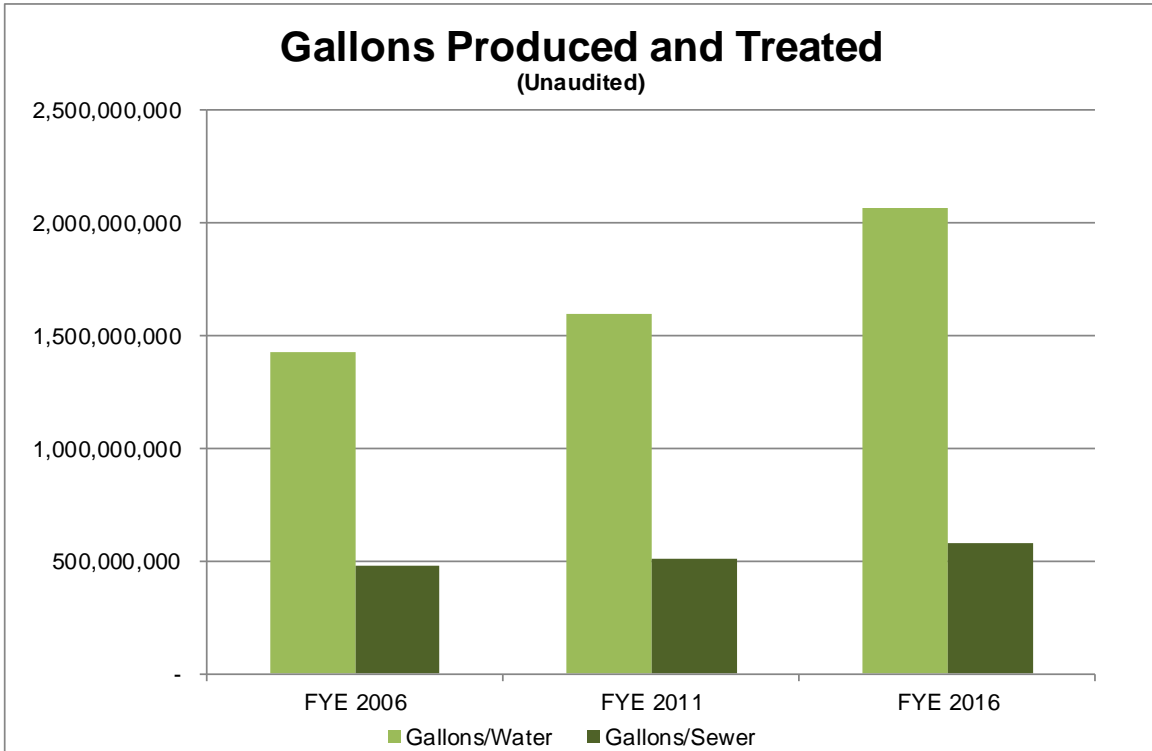
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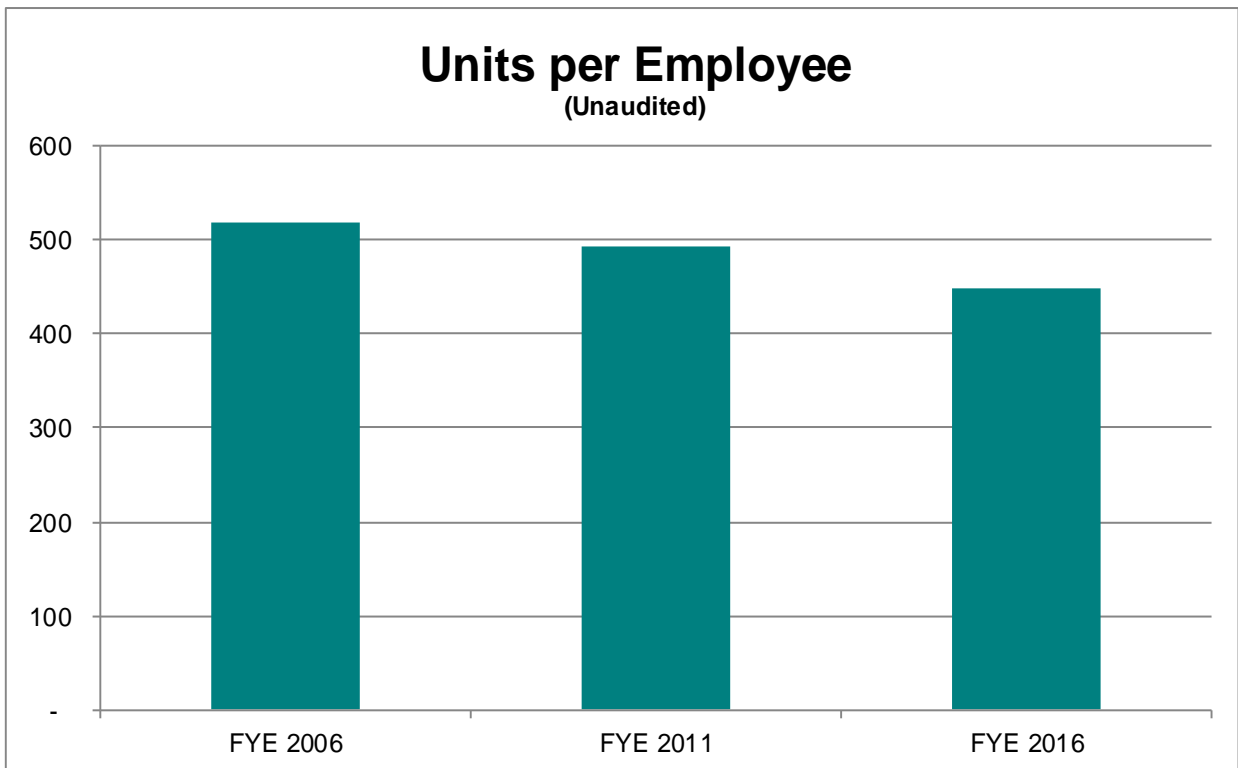
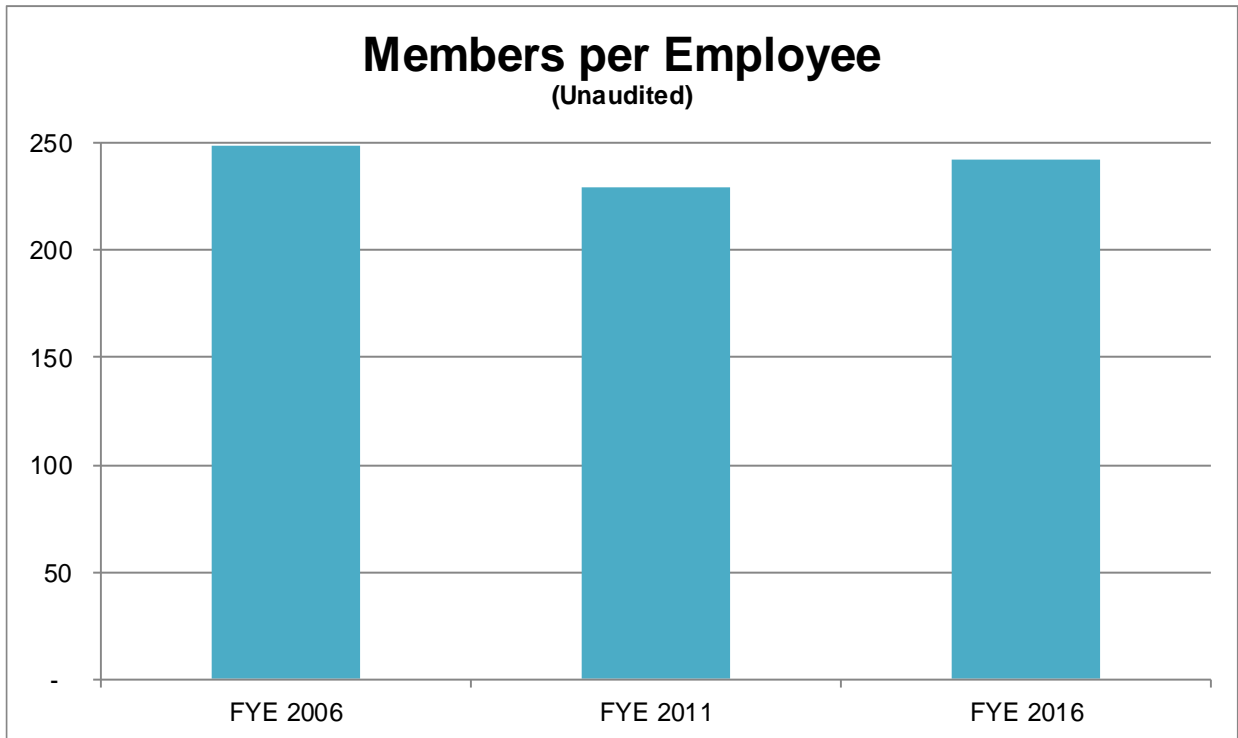
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