

**SOUTH WALTON UTILITY COMPANY,
INC.**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2017 AND 2016

**SOUTH WALTON UTILITY COMPANY, INC.
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SEPTEMBER 30, 2017 AND 2016**

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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, 2017 and 2016, 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, 2017 and 2016, 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.

Supplementary 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 13, 2017

SOUTH WALTON UTILITY COMPANY, INC.
BALANCE SHEETS
SEPTEMBER 30, 2017 AND 2016

ASSETS	2017	2016
UTILITY PLANT IN SERVICE, NET (See Note 2)	\$ 58,181,842	\$ 57,699,607
RESTRICTED AND DESIGNATED ASSETS		
Cash and cash equivalents – designated (See Note 1)	1,574,006	-
Cash and cash equivalents – restricted (See Note 1)	632,042	389,503
Investments – designated (See Note 4)	2,414,828	3,836,337
Investments – restricted (See Note 4)	658,551	847,488
Total restricted and designated assets	5,279,427	5,073,328
CURRENT ASSETS		
Cash and cash equivalents	1,229,940	2,093,326
Accounts receivable, net	1,056,778	953,507
Other receivables	188,408	199,052
Other receivable WRP true-up	445	-
Due from other utility companies (See Note 6)	199,696	199,696
Prepaid expenses	139,211	133,945
Inventory	300,745	354,594
Total current assets	3,115,223	3,934,120
OTHER ASSETS		
Investments	-	219,098
Prepaid debt service cost	153,504	153,504
Investment in WRP, Inc. (See Note 5)	9,572,402	9,820,068
Due from other utility companies (See Note 6)	737,814	966,974
Total other assets	10,463,720	11,159,644
TOTAL ASSETS	\$ 77,040,212	\$ 77,866,699

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.
BALANCE SHEETS – CONTINUED
SEPTEMBER 30, 2017 AND 2016**

LIABILITIES AND MEMBERS' EQUITY	2017	2016
MEMBERS' EQUITY		
Contributions in aid of construction		
Designated for future expansion	\$ 682,665	\$ 273,453
Undesignated	55,392,827	54,795,827
Accumulated amortization	(24,427,917)	(23,008,420)
Retained earnings		
Undesignated	26,154,865	25,089,669
Total members' equity	57,802,440	57,150,529
LONG-TERM LIABILITIES		
Customer deposits	322,020	315,165
Loan deposits	383,687	381,417
Prepaid tap fees	550,257	551,357
Due to WRP, Inc. (See Note 5)	4,168,282	4,394,771
Notes payable, net (See Note 7)	2,579,579	3,207,483
RUA debt obligation, net (See Note 8)	8,714,883	9,340,674
Total long-term liabilities	16,718,708	18,190,867
CURRENT LIABILITIES		
Accounts payable	104,461	156,792
Contracts payable	74,242	195,784
Retainage payable	251,266	200,636
Other payable WRP true-up	-	57
Due to WRP, Inc. (See Note 5)	213,197	208,099
Accrued wages and benefits	113,232	109,670
Notes payable (See Note 7)	638,664	617,882
RUA debt obligation (See Note 8)	641,108	622,556
Accrued interest payable	482,894	413,827
Total current liabilities	2,519,064	2,525,303
TOTAL LIABILITIES	19,237,772	20,716,170
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 77,040,212	\$ 77,866,699

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017	2016
REVENUE FROM OPERATIONS	\$ 9,380,258	\$ 8,893,934
OPERATING EXPENSES		
Operating and maintenance	6,605,031	6,134,414
Depreciation and amortization	1,303,370	1,279,319
Total operating expenses	7,908,401	7,413,733
OPERATING INCOME	1,471,857	1,480,201
OTHER REVENUES (EXPENSES)		
Loss from investment in WRP, Inc.	(269,506)	(272,786)
Interest income	55,863	61,579
Interest expense	(485,768)	(521,904)
Miscellaneous income	277,914	227,758
Gain on disposal of assets	14,836	17,171
Total other revenues (expenses)	(406,661)	(488,182)
NET INCOME	\$ 1,065,196	\$ 992,019

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION		
Beginning balance	\$ 32,060,860	\$ 32,855,879
Tap contributions	1,006,213	593,385
Amortization	<u>(1,419,498)</u>	<u>(1,388,404)</u>
Ending balance	<u>31,647,575</u>	<u>32,060,860</u>
RETAINED EARNINGS		
Beginning of year	25,089,669	24,097,650
Net income	<u>1,065,196</u>	<u>992,019</u>
End of year	<u>26,154,865</u>	<u>25,089,669</u>
TOTAL MEMBERS' EQUITY	<u><u>\$ 57,802,440</u></u>	<u><u>\$ 57,150,529</u></u>

See notes to the financial statements.

SOUTH WALTON UTILITY COMPANY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 9,572,400	\$ 8,829,425
Interest income	55,863	61,579
Cash paid to suppliers and customers	(6,605,719)	(6,216,579)
Interest expense	(416,701)	(452,545)
Net cash provided by operating activities	<u>2,605,843</u>	<u>2,221,880</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of utility plant in service	(3,237,119)	(3,437,426)
Loan deposits	2,270	3,322
Investment in WRP, Inc.	(243,231)	(231,724)
Proceeds from due from other utility companies	229,160	221,410
Proceeds from held-to-maturity investments	2,053,000	1,438,000
Purchase of held-to-maturity investments	(223,457)	(804,000)
Net cash flows used in investing activities	<u>(1,419,377)</u>	<u>(2,810,418)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(38,164)	(597,779)
Principal payments on RUA debt obligation	(1,200,257)	(602,478)
Capital contributed by members	1,005,113	581,340
Net cash used in financing activities	<u>(233,307)</u>	<u>(618,917)</u>
NET CHANGE IN CASH	<u>953,159</u>	<u>(1,207,455)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,482,829</u>	<u>3,690,284</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,435,988</u>	<u>\$ 2,482,829</u>
COMPOSITION OF CASH AND CASH EQUIVALENTS:		
Restricted	\$ 632,042	\$ 389,503
Designated	1,574,006	-
Unrestricted	1,229,940	2,093,326
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 3,435,988</u>	<u>\$ 2,482,829</u>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.
STATEMENTS OF CASH FLOWS – CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,065,196	\$ 992,019
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	1,303,370	1,279,319
Gain on disposal of assets	(14,836)	(17,171)
Loss from investment in WRP, Inc.	269,506	272,786
(Increase) decrease in operating assets:		
Accounts receivable	(103,271)	(99,165)
Other receivables	10,644	(178,560)
Other receivable – WRP true-up	(445)	-
Prepaid expenses	(5,266)	(73)
Inventory	53,849	(146,556)
Increase (decrease) in operating liabilities:		
Accounts payable	(52,331)	70,323
Other payable – WRP true-up	(57)	(544)
Customer deposits	6,855	(14,542)
Accrued wages and benefits	3,562	(5,315)
Accrued interest payable	69,067	69,359
Net cash flows provided by operating activities	<u>\$ 2,605,843</u>	<u>\$ 2,221,880</u>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

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, 2017 and 2016 was \$1,574,006 and \$0, 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, 2017 AND 2016**

**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, 2017, there were 80 accounts written off totaling \$4,857. For the year ended September 30, 2016, there were 89 accounts written off totaling \$4,431.

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, 2017 and 2016.

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, 2017 AND 2016**

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 included as a reduction to reported debt, net of any accumulated amortization. Accumulated amortization of debt issue costs was \$263,640 and \$239,581 at September 30, 2017 and 2016, respectively.

The following is a summary of debt issue costs as of September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Debt issue costs	\$ 481,182	\$ 481,182
Less accumulated amortization	<u>(263,640)</u>	<u>(239,581)</u>
	<u>\$ 217,542</u>	<u>\$ 241,601</u>

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, 2017 AND 2016**

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, 2017, and November 13, 2017, 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 \$1,303,370 (depreciation of \$2,722,868 net of amortization of \$1,419,498) and \$1,279,319 (depreciation of \$2,667,723 net of amortization of \$1,388,404) for 2017 and 2016, respectively.

The following is a summary of Utility Plant in Service as of September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 2,266,624	\$ 2,266,624
Plant	80,824,073	80,469,339
Buildings	5,739,088	5,739,088
Computer equipment and software	509,579	498,881
Furniture and fixtures	84,646	84,646
Equipment	1,428,675	1,423,256
Vehicles	584,583	560,579
Construction in progress	<u>5,336,505</u>	<u>2,631,111</u>
	96,773,773	93,673,524
Less accumulated depreciation	<u>(38,591,931)</u>	<u>(35,973,917)</u>
	<u>\$ 58,181,842</u>	<u>\$ 57,699,607</u>

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

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 \$1,210,000 and \$980,000 were held in the sweep account at September 30, 2017 and 2016, 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, 2017, cash held within brokerage accounts totaled \$2,398,204.

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

4. INVESTMENTS

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

	<u>2017</u>	<u>2016</u>
Due within one year	\$ 2,175,912	\$ 1,789,257
Due after one year through three years	897,467	2,756,696
Due after three years	-	356,970
Total held-to-maturity investments	<u>\$ 3,073,379</u>	<u>\$ 4,902,923</u>
Federal Agency Securities	\$ 897,467	\$ 285,908
Certificates of deposit	2,175,912	4,617,015
Total investments	<u>3,073,379</u>	<u>4,902,923</u>
Less amounts designated:		
Amount designated for operating reserves	(1,732,171)	(3,562,892)
Amount designated for future expansion	<u>(682,657)</u>	<u>(273,445)</u>
Total investments – designated	<u>(2,414,828)</u>	<u>(3,836,337)</u>
Less amounts restricted:		
Amount restricted for customer deposits	(322,020)	(315,165)
Amount restricted for loan repayment	(238,925)	(476,925)
Amount restricted for plant construction	<u>(97,606)</u>	<u>(55,398)</u>
Total investments – restricted	<u>(658,551)</u>	<u>(847,488)</u>
Total available investments – unrestricted	<u>\$ -</u>	<u>\$ 219,098</u>

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

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, 2017, WRP had total principal outstanding of \$11,532,673 on the SRF loan, of which \$4,381,479 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, 2017, the Company owed WRP \$4,381,479 which includes the Company's share of the SRF loan and accrued interest. As of September 30, 2016, the Company owed WRP \$4,602,870 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, 2017:

	Amount
2018	\$ 213,197
2019	232,198
2020	238,039
2021	244,027
2022	250,166
Thereafter	3,203,852
Total due to WRP, Inc.	\$ 4,381,479

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

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

During the year ended September 30, 2017, the Company contributed \$22,639 to WRP related to the costs of the Phase IV project and recognized its share of WRP's net loss of \$269,506. 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 50% share of WRP's net loss of \$272,786. The Company's investment in WRP totaled \$9,572,402 and \$9,820,068 at September 30, 2017 and 2016, respectively.

The following is a summary of the Company's investment in WRP, Inc. as of September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 9,820,068	\$ 10,077,088
Contributions to WRP, Inc.	22,639	16,565
Amortization of contributed capital	(233,858)	(233,858)
WRP, Inc. net income	<u>(36,447)</u>	<u>(39,727)</u>
SWUCI Investment in WRP, Inc.	<u>\$ 9,572,402</u>	<u>\$ 9,820,068</u>

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

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

	2017	2016
ASSETS		
Cash	\$ 249,083	\$ 204,566
Other receivable – SWU true-up	-	57
Other receivable – DWU true-up	445	-
Due from SWUCI	4,381,479	4,602,870
Due from DWU	7,384,643	7,757,780
Property and equipment, net	18,771,324	19,294,982
Total assets	\$ 30,786,974	\$ 31,860,255
LIABILITIES		
Accounts payable	\$ -	\$ 763
Accrued interest payable	39,264	40,499
Other payable – SWUCI true-up	445	-
Other payable – DWU true-up	-	57
SRF loan payable	11,532,673	12,109,012
Contributed Capital – DWU	9,238,061	9,450,078
Contributed capital – SWU	9,174,653	9,385,073
Retained earnings	801,878	874,773
Total liabilities and equity	\$ 30,786,974	\$ 31,860,255

Statement of Operations and Gains

	Year ended 2017	Year ended 2016
Revenue	\$ 14,830	\$ 15,455
Expenses	(87,724)	(94,909)
Excess of revenues over expenses	(72,894)	(79,454)
Company's share of excess of WRP, Inc. (50%)		
Net loss	\$ (36,447)	\$ (39,727)
Less amortization of contributed capital	(233,059)	(233,059)
Company's recognized loss on investment in WRP, Inc.	\$ (269,506)	\$ (272,786)

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

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>2017</u> <u>Short term</u>	<u>2016</u> <u>Short term</u>	<u>2017</u> <u>Long term</u>	<u>2016</u> <u>Long term</u>
Due from DWU for Phase I	\$ 199,696	\$ 199,696	\$ 737,814	\$ 966,974
Total due from other utility companies	<u>\$ 199,696</u>	<u>\$ 199,696</u>	<u>\$ 737,814</u>	<u>\$ 966,974</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, 2017, the balance of the reserve account was \$136,270 and is included in restricted cash and investments on the balance sheet. The outstanding note balances at September 30, 2017 and 2016, were \$1,982,267 and \$2,436,646, 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, 2017, 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, 2017 and 2016, were \$1,289,485 and \$1,452,987, respectively.

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

7. NOTES PAYABLE – CONTINUED

	<u>2017</u> <u>Short term</u>	<u>2016</u> <u>Short term</u>	<u>2017</u> <u>Long term</u>	<u>2016</u> <u>Long term</u>
SRL Phase I	\$ 470,286	\$ 454,378	\$ 1,511,981	\$ 1,982,267
SRL Phase II	168,378	163,503	1,121,107	1,289,484
Total note payable for SRL	638,664	617,881	2,633,088	3,271,751
Less unamortized debt issue costs	-	-	(53,509)	(64,268)
Total note payable for SRL, net	<u>\$ 638,664</u>	<u>\$ 617,881</u>	<u>\$ 2,579,579</u>	<u>\$ 3,207,483</u>

Combined maturities of the FDEP notes are as follows:

2018	\$ 638,664
2019	660,151
2020	682,364
2021	705,329
2022	189,378
Thereafter	<u>395,865</u>
	<u>\$ 3,271,751</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, 2017 and 2016, were \$9,520,024 and \$10,140,563, respectively.

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

8. RUA DEBT OBLIGATION – CONTINUED

	<u>2017</u> <u>Short term</u>	<u>2016</u> <u>Short term</u>	<u>2017</u> <u>Long term</u>	<u>2016</u> <u>Long term</u>
Note payable for RUA	\$ 641,108	\$ 622,556	\$ 8,878,916	\$ 9,518,007
Less unamortized debt issue costs	-	-	(164,033)	(177,333)
Total note payable for RUA, net	<u>\$ 641,108</u>	<u>\$ 622,556</u>	<u>\$ 8,714,883</u>	<u>\$ 9,340,674</u>

Maturities of the RUA debt obligation are as follows:

	<u>Amount</u>
2018	\$ 641,108
2019	660,212
2020	679,886
2021	700,147
2022	721,011
Thereafter	<u>6,117,660</u>
	<u>\$ 9,520,024</u>

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:

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

The Company's contributions for the years ended September 30, 2017 and 2016, were \$186,139 and \$176,250, respectively.

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

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, 2017 the Company had open contract commitments in the amount of \$944,968. 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, 2017 the Company had open contract commitments in the amount of \$888,247. The project is expected to be completed during the 2018 fiscal year.

Well 13 Upgrade Project

During January 2017, the Company entered into a contract for the purpose of upgrading the water supply well for a total contract amount of \$951,121. As of September 30, 2017 the Company had open contract commitments in the amount of \$633,399. The project is expected to be completed during the 2018 fiscal year.

SUPPLEMENTARY INFORMATION

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

	(Unaudited) Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Water	\$ 4,377,000	\$ 4,407,256	\$ 30,256
Sewer	4,309,000	4,390,560	81,560
Wholesale water	350,000	368,413	18,413
Other	175,000	214,029	39,029
Total operating revenues	<u>9,211,000</u>	<u>9,380,258</u>	<u>169,258</u>
OPERATING EXPENSES			
Bad debts	20,000	4,093	15,907
Chemicals	195,000	186,773	8,227
Contributions	16,500	11,150	5,350
Depreciation and amortization	1,434,645	1,303,370	131,275
Education and travel	42,500	41,548	952
Engineering and fees	6,900	17,973	(11,073)
G and A expense	36,000	36,000	-
Insurance – employees and other	772,000	680,130	91,870
Lab supplies	50,000	38,693	11,307
Legal and accounting	78,500	55,837	22,663
License and fees	98,390	105,662	(7,272)
Miscellaneous	107,908	90,273	17,635
Office expenses	26,400	24,481	1,919
Operating supplies	201,800	334,869	(133,069)
Payroll taxes	169,075	170,452	(1,377)
Professional fees	244,700	334,520	(89,820)
Repairs and maintenance	1,229,800	1,219,786	10,014
Retirement plans	182,500	186,139	(3,639)
Salaries	2,389,000	2,296,872	92,128
Telephone and sanitation	77,000	68,000	9,000
Uniforms	36,500	27,474	9,026
Utilities	731,500	667,336	64,164
WRP operating expenses	-	6,970	(6,970)
Total operating expenses	<u>8,146,618</u>	<u>7,908,401</u>	<u>238,217</u>
OPERATING INCOME	<u>1,064,382</u>	<u>1,471,857</u>	<u>407,475</u>
OTHER REVENUES (EXPENSES)			
Gain on disposal of assets	-	14,836	14,836
Loss from investment in WRP, Inc.	20,000	(269,506)	(289,506)
Interest income	58,900	55,863	(3,037)
Interest expense	(496,560)	(485,768)	10,792
Miscellaneous income	195,000	277,914	82,914
Total other revenues (expenses)	<u>(222,660)</u>	<u>(406,661)</u>	<u>(184,001)</u>
NET INCOME	<u>\$ 841,722</u>	<u>\$ 1,065,196</u>	<u>\$ 223,474</u>

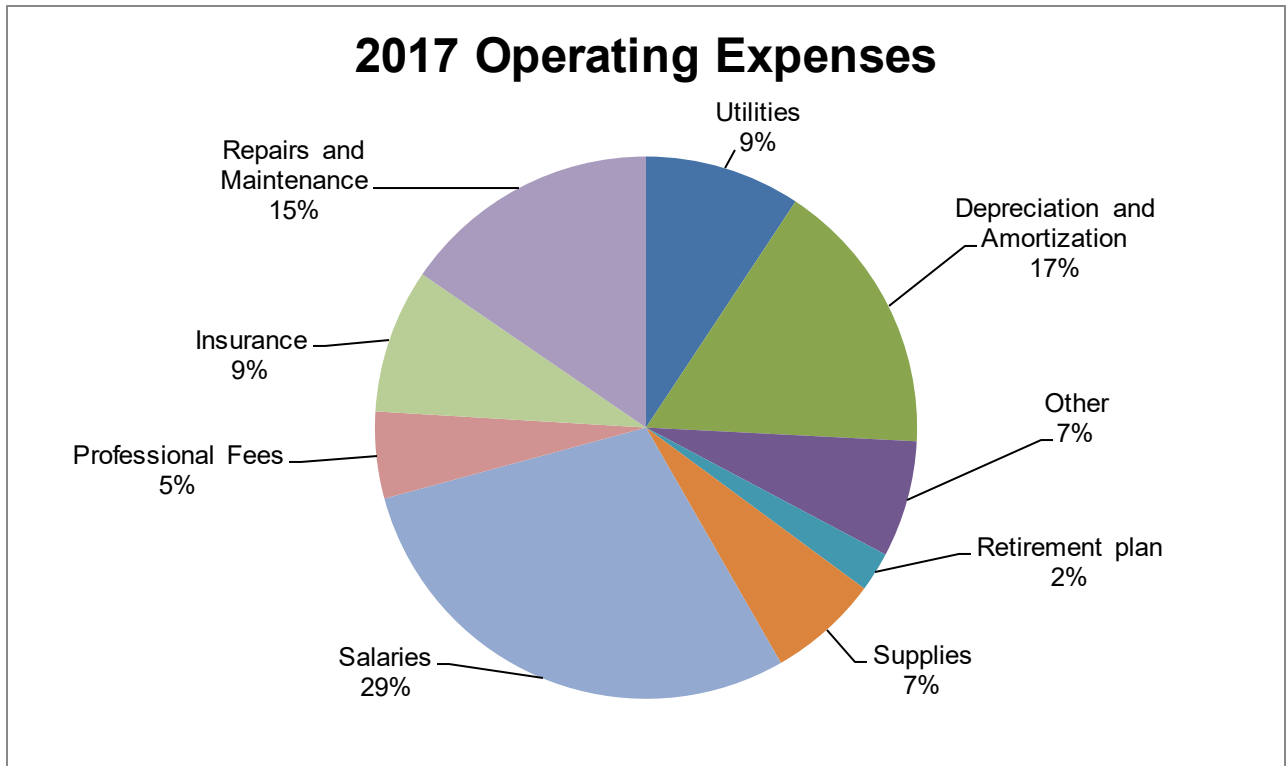
See independent auditors' report.

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

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

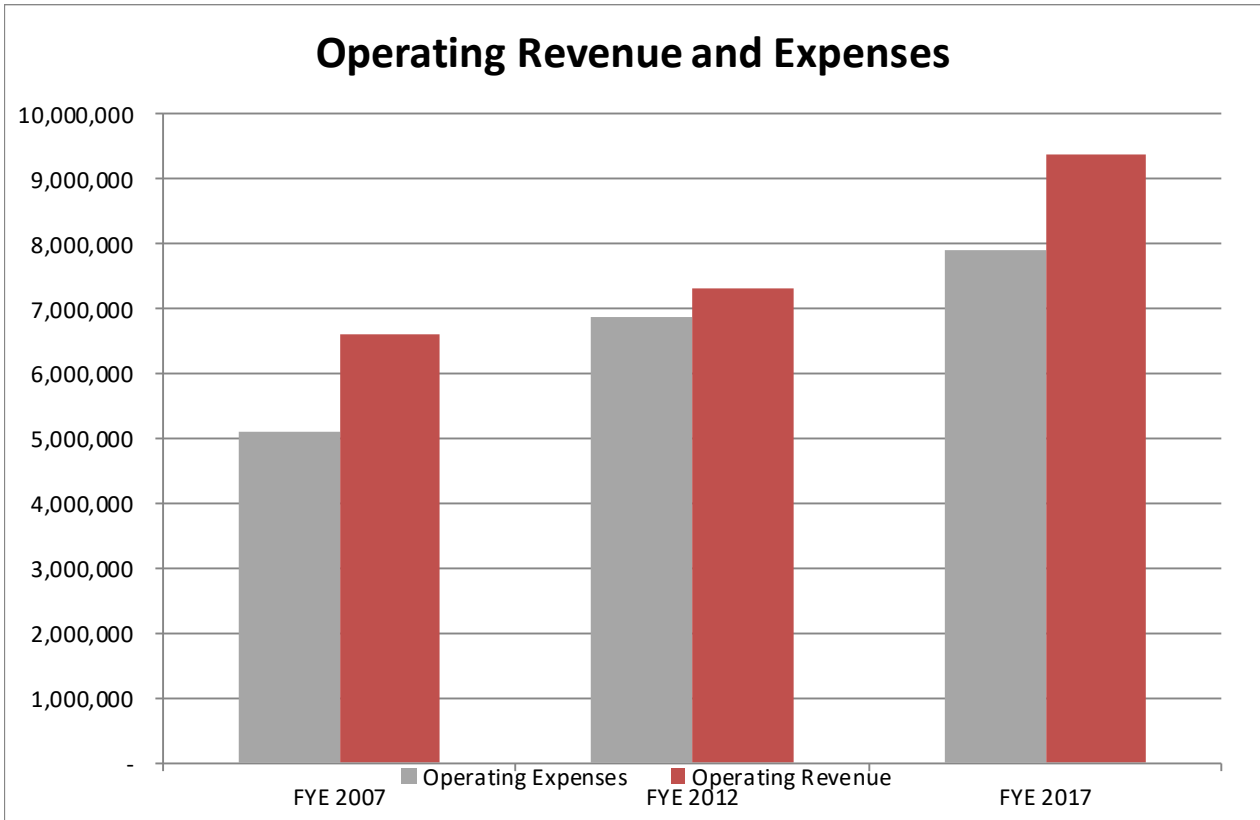
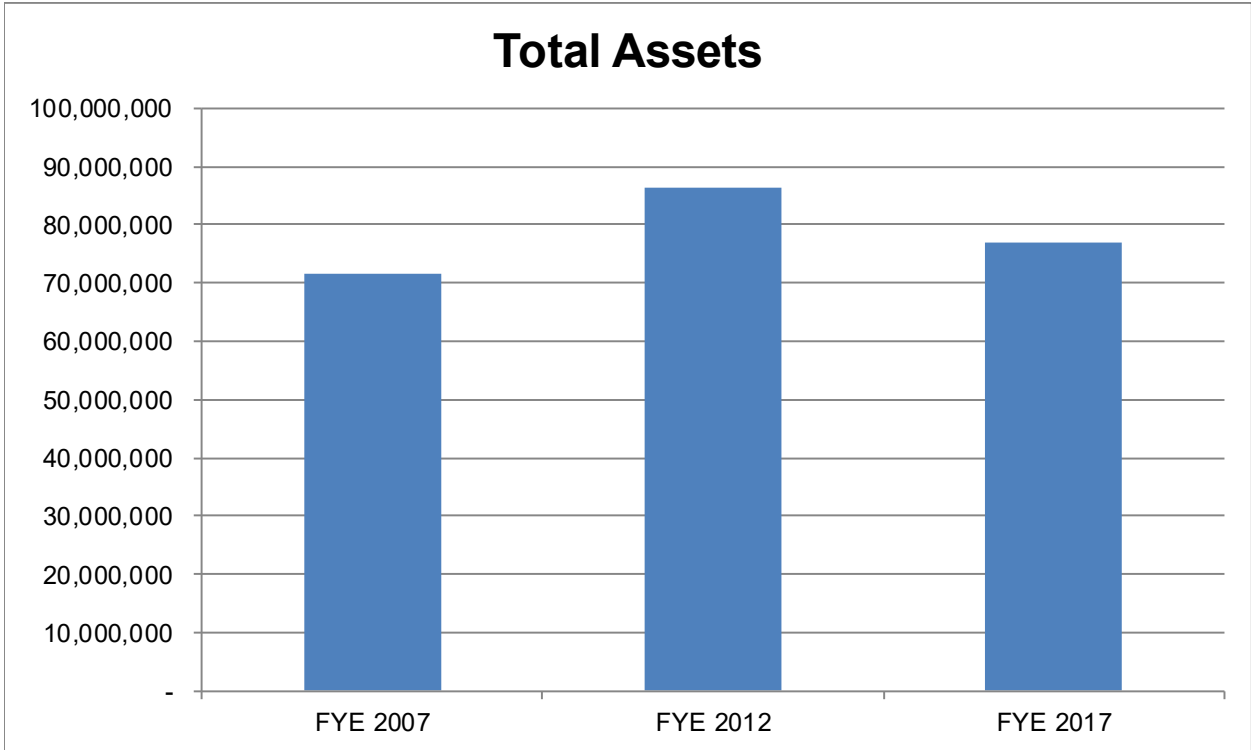
The table below compares total water consumption for fiscal years 2017 and 2016.

	Fiscal Year 2017	Fiscal Year 2016
Water consumption	1,093,284,000	1,053,774,000
Wholesale water	897,903,000	812,966,000
Number of units – water	17,831	17,471
Number of units – sewer	9,488	9,410
Number of members	9,630	9,446



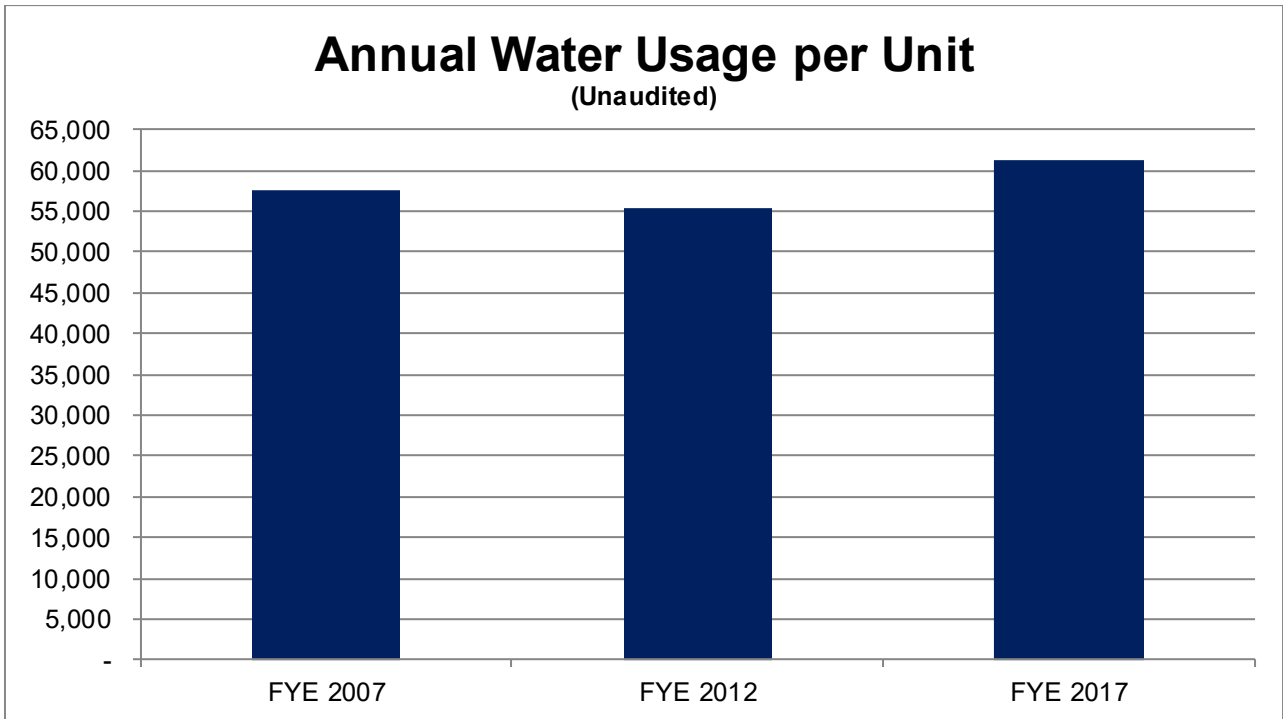
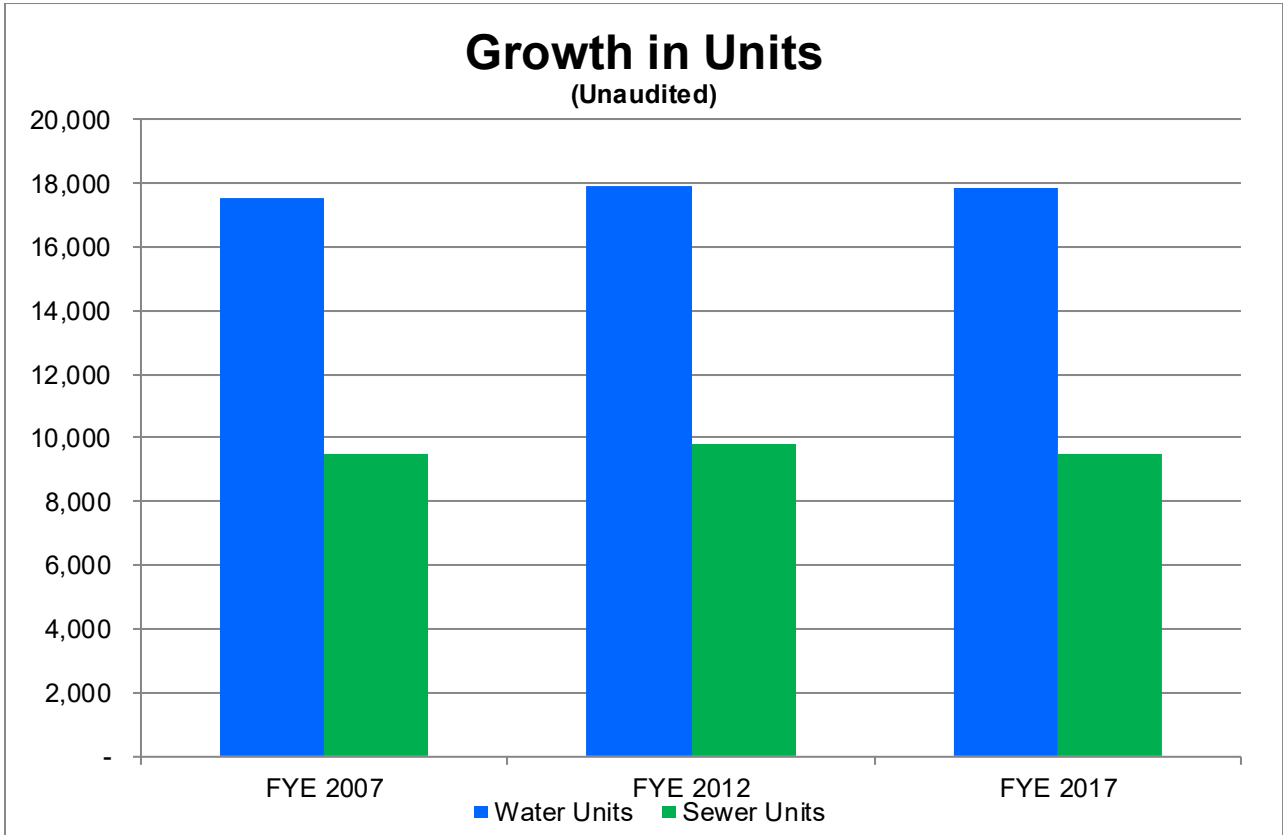
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**SOUTH WALTON UTILITY COMPANY, INC.
STATISTICAL INFORMATION – CONTINUED**



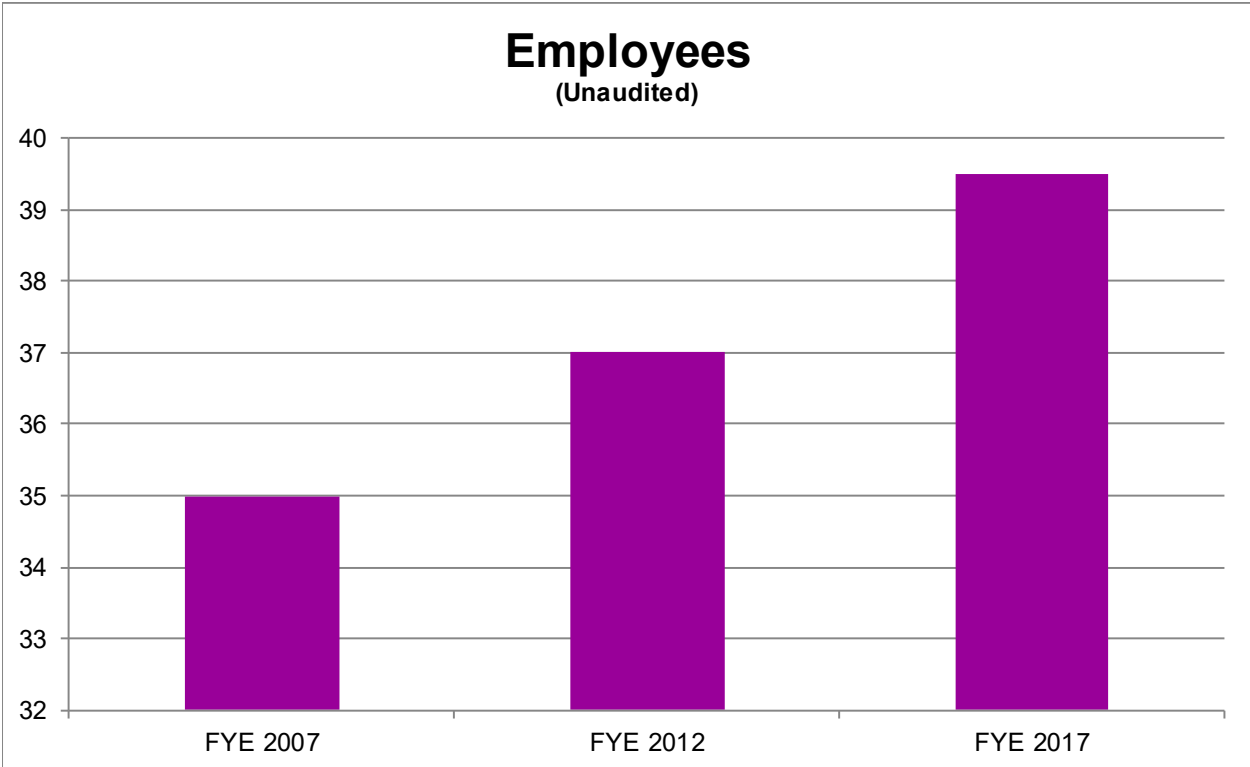
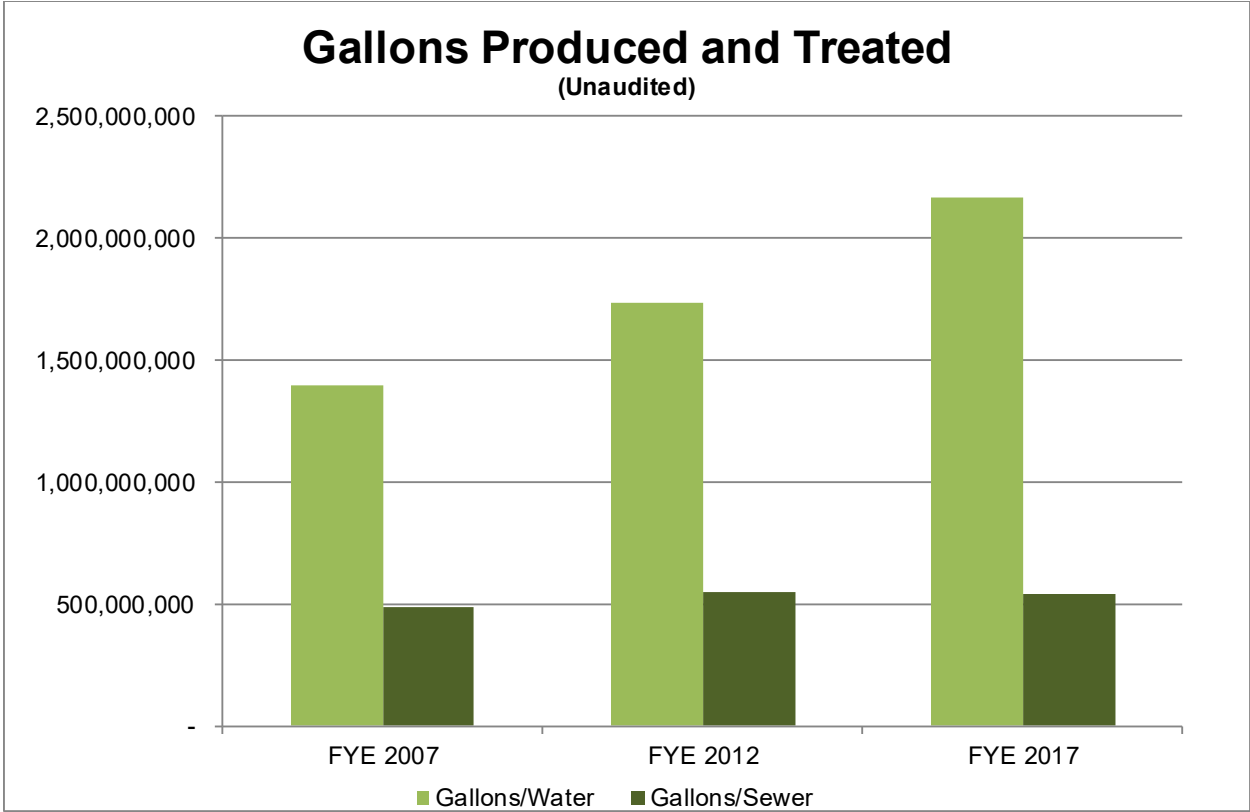
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**SOUTH WALTON UTILITY COMPANY, INC.
STATISTICAL INFORMATION – CONTINUED**



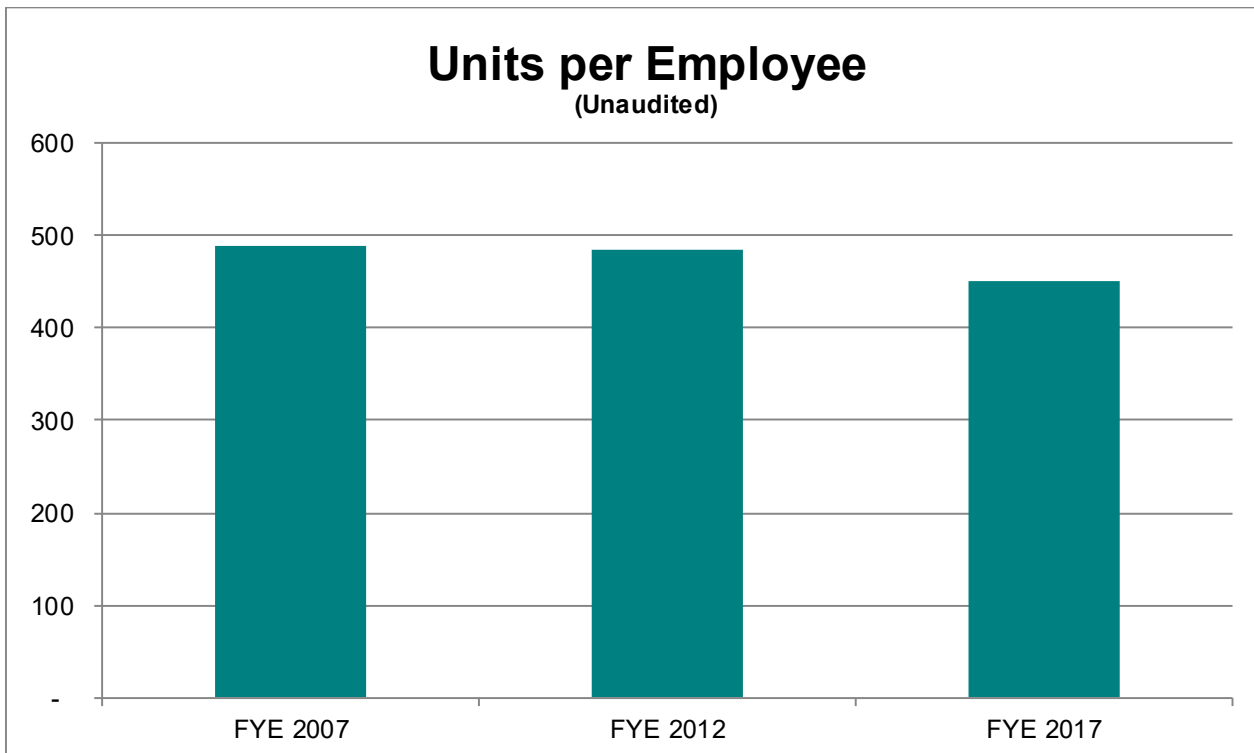
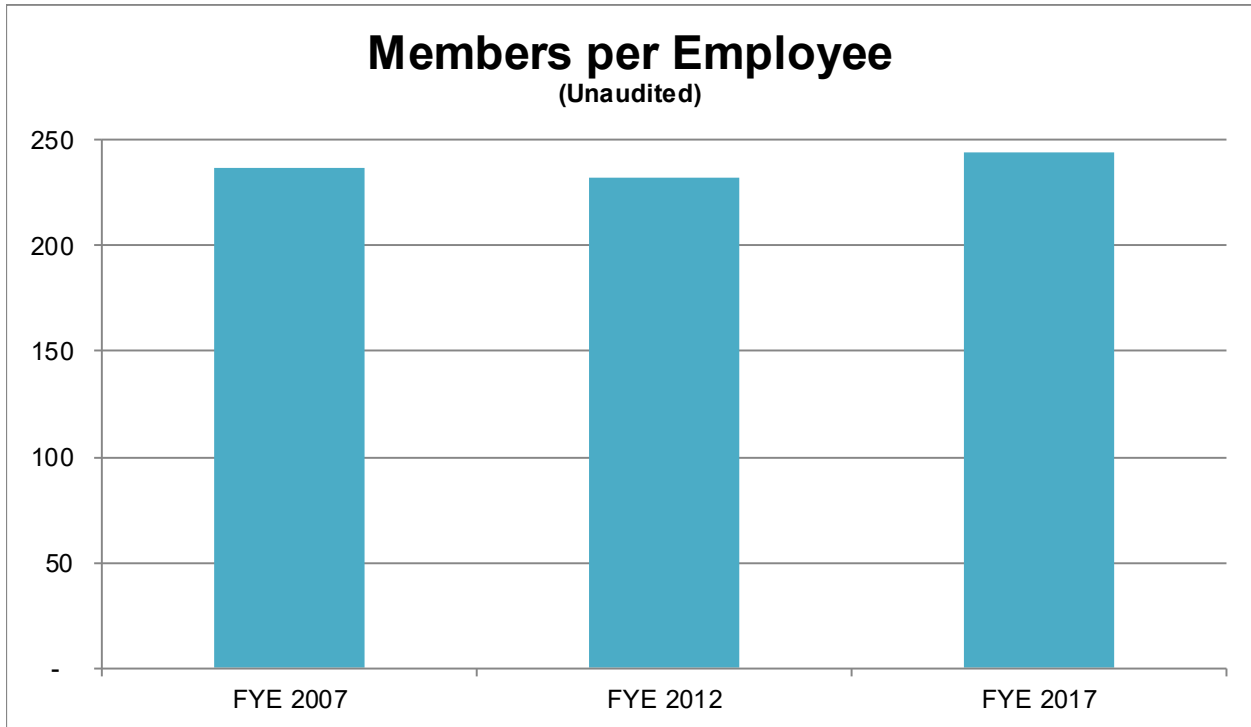
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**SOUTH WALTON UTILITY COMPANY, INC.
STATISTICAL INFORMATION – CONTINUED**



See independent auditors' report.

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



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