SOUTH WALTON UTILITY COMPANY, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2020 AND 2019

Warren Averett
CPAs AND ADVISORS

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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, 2020 and 2019, 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 auditors consider 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, 2020 and 2019, 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 23 is presented for purposes of additional analysis and is 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.

The statistical information on pages 24-28 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Warren Averett, LLC

Destin, Florida
November 19, 2020

SOUTH WALTON UTILITY COMPANY, INC.
BALANCE SHEETS
SEPTEMBER 30, 2020 AND 2019

ASSETS

	2020	2019
UTILITY PLANT IN SERVICE, NET (See Note 2)	$ 54,943,811	$ 56,971,566
RESTRICTED AND DESIGNATED ASSETS		
Cash and cash equivalents – designated (See Note 1)	3,337,902	1,464,751
Cash and cash equivalents – restricted (See Note 1)	84,125	18,168
Investments – designated (See Note 4)	3,325,803	3,344,363
Investments – restricted (See Note 4)	1,418,564	1,420,585
Total restricted and designated assets	8,166,394	6,247,867
CURRENT ASSETS		
Cash and cash equivalents	3,080,548	2,176,396
Accounts receivable, net	1,237,234	1,134,542
Other receivables	65,407	80,985
Due from other utility companies (See Note 7)	196,099	254,083
Prepaid expenses	135,940	127,974
Inventory	297,983	279,144
Total current assets	5,013,211	4,053,124
OTHER ASSETS		
Prepaid debt service deposit	153,504	153,504
Investment in WRP, Inc. (See Note 6)	8,830,314	9,067,394
Due from other utility companies (See Note 7)	-	200,755
Total other assets	8,983,817	9,421,653
TOTAL ASSETS	$ 77,107,233	$ 76,694,210

See notes to the financial statements.

SOUTH WALTON UTILITY COMPANY, INC.
BALANCE SHEETS – CONTINUED
SEPTEMBER 30, 2020 AND 2019

LIABILITIES AND MEMBERS' EQUITY

	2020	2019
MEMBERS' EQUITY		
Contributions in aid of construction		
Designated for future expansion	$ 2,817,669	$ 1,730,945
Undesignated	56,822,827	56,822,827
Accumulated amortization	(28,670,885)	(27,279,282)
Total contributions in aid of construction	30,969,611	31,274,490
Retained earnings		
Undesignated	31,170,673	29,181,081
Total members' equity	62,140,284	60,455,571
LONG-TERM LIABILITIES		
Customer deposits	362,565	362,300
Loan deposits	408,173	395,419
Prepaid tap fees	511,087	516,432
Due to WRP, Inc. (See Note 6)	3,454,054	3,698,069
Notes payable, net (See Note 8)	807,406	1,258,581
RUA debt obligation, net (See Note 9)	6,714,539	7,401,385
Total long-term liabilities	12,257,824	13,632,186
CURRENT LIABILITIES		
Accounts payable	170,087	108,969
Contracts payable	-	95,165
Retainage payable	-	58,448
Other payable WRP true-up	792	890
Due to WRP, Inc. (See Note 6)	229,272	223,780
Accrued wages and benefits	111,850	136,835
Notes payable (See Note 8)	1,011,935	682,364
RUA debt obligation (See Note 9)	700,146	679,886
Accrued interest payable	485,043	620,116
Total current liabilities	2,709,125	2,606,453
TOTAL LIABILITIES	14,966,949	16,238,639
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 77,107,233	$ 76,694,210

See notes to the financial statements.

SOUTH WALTON UTILITY COMPANY, INC.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
REVENUE FROM OPERATIONS	$ 10,115,764	$ 9,778,066
OPERATING EXPENSES		
Operating and maintenance	6,607,188	6,703,288
Depreciation and amortization	1,282,027	1,267,318
Total operating expenses	7,889,215	7,970,606
OPERATING INCOME	2,226,549	1,807,460
OTHER REVENUES (EXPENSES)		
Loss from investment in WRP, Inc.	(271,923)	(272,792)
Interest income	31,606	45,473
Interest expense	(370,647)	(410,173)
Investment income	93,652	70,675
Miscellaneous income	256,256	225,831
Gain on disposal of assets	24,099	15,299
Total other revenues (expenses), net	(236,957)	(325,687)
NET INCOME	$ 1,989,592	$ 1,481,773

See notes to the financial statements.

SOUTH WALTON UTILITY COMPANY, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
CONTRIBUTIONS IN AID OF CONSTRUCTION		
Beginning balance	$ 31,274,490	$ 31,093,849
Tap contributions	1,086,725	1,606,328
Amortization	(1,391,604)	(1,425,687)
Ending balance	30,969,611	31,274,490
RETAINED EARNINGS		
Beginning of year	29,181,081	27,699,308
Net income	1,989,592	1,481,773
End of year	31,170,673	29,181,081
TOTAL MEMBERS' EQUITY	$ 62,140,284	$ 60,455,571

See notes to the financial statements.

SOUTH WALTON UTILITY COMPANY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 10,285,171	$ 10,025,404
Interest income	112,541	116,148
Cash paid to suppliers and customers	(6,597,958)	(6,716,528)
Interest expense	(505,720)	(341,718)
Net cash provided by operating activities	3,294,034	3,083,306
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of utility plant in service	(751,330)	(1,871,167)
Loan deposits	12,754	10,244
Investment in WRP, Inc.	(273,366)	(247,405)
Proceeds from due from other utility companies	258,739	245,488
Proceeds from investments	3,157,533	2,140,000
Purchases of investments	(3,124,234)	(2,721,428)
Net cash flows used in investing activities	(719,904)	(2,444,268)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on notes payable	550,000	-
Principal payments on notes payable	(682,364)	(662,063)
Principal payments on RUA debt obligation	(679,886)	(658,300)
Capital contributed by members	1,081,380	1,591,803
Net cash provided by financing activities	269,130	271,440
NET CHANGE IN CASH	2,843,260	910,478
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,659,315	2,748,837
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 6,502,575	$ 3,659,315
COMPOSITION OF CASH AND CASH EQUIVALENTS:		
Restricted	$ 84,125	$ 18,168
Designated	3,337,902	1,464,751
Unrestricted	3,080,548	2,176,396
TOTAL CASH AND CASH EQUIVALENTS	$ 6,502,575	$ 3,659,315

See notes to the financial statements.

SOUTH WALTON UTILITY COMPANY, INC.
STATEMENTS OF CASH FLOWS – CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,989,592	$ 1,481,773
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	1,282,027	1,267,318
Gain on disposal of assets	(24,099)	(15,299)
Loss from investment in WRP, Inc.	271,923	272,792
Bad debt expense	4,691	6,014
Unrealized (gain) loss on investments	(12,717)	-
(Increase) decrease in operating assets:		
Accounts receivable	(107,383)	(22,368)
Other receivables	15,578	19,811
Prepaid expenses	(7,966)	7,614
Inventory	(18,839)	(3,226)
Increase (decrease) in operating liabilities:		
Accounts payable	61,118	(23,231)
Other payable – WRP true-up	(98)	653
Customer deposits	265	18,050
Accrued wages and benefits	(24,985)	4,950
Accrued interest payable	(135,073)	68,455
Net cash flows provided by operating activities	$ 3,294,034	$ 3,083,306

See notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF BUSINESS

Background

South Walton Utility Company, Inc., (hereinafter referred to as the Company), was organized in 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 Statute, 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 earned; 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, for customer meter deposits, 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, 2020 and 2019, was $3,337,902 and $1,464,751, respectively.

Investment restrictions and designations are detailed within Note 4.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers debt securities purchased within three months of maturity to be cash equivalents.

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. The Company's investments in marketable equity securities are held at fair value, and unrealized gains and losses are reported in other revenues. The Company's investments in marketable debt securities 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 by 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.

Revenue Recognition, Contract Assets and Contract Liabilities

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606) and related amendments ("ASC 606"), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASC 606 is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. ASC 606 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgements and changes in judgements and assets recognized from costs incurred to fulfill a contract.

The Company recognizes revenue when performance obligations are satisfied. Generally, the Company's performance obligations are satisfied, control of water and sewer services are transferred, and revenue is recognized on a monthly basis after the service has been performed. Because customers are invoiced at the time service has been performed and the Company's right to consideration is unconditional at the time, the Company currently does not maintain contract asset balances. For setup of customer accounts, any amounts that have been collected for services, where control has not transferred, are recorded as customer deposits (contract liabilities).

Effective October 1, 2019, the Company adopted ASC 606, which provides accounting guidance on the recognition of revenues from contracts. The adoption of ASC 606 did not result in a change of timing of the Company's revenue recognition.

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

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, 2020, there were 63 accounts written off totaling $4,691. For the year ended September 30, 2019, there were 74 accounts written off totaling $6,014.

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, 2020 and 2019.

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.

Contributions in Aid of Construction

This 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. Contributions are reported net of the related cost and are amortized over the life of the improvement or the length of the related agreement. Amortization of contributions in aid of construction is credited to amortization expense.

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 $335,818 and $311,758 at September 30, 2020 and 2019, respectively.

The following is a summary of debt issue costs as of September 30, 2020 and 2019:

	2020	2019
Debt issue costs	$ 481,182	$ 481,182
Less accumulated amortization	(335,818)	(311,758)
	$ 145,364	$ 169,424

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

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

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, 2020, and November 19, 2020, 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 $1,282,027 (depreciation of $2,673,631 net of amortization of $1,391,604) and $1,267,318 (depreciation of $2,693,005 net of amortization of $1,425,687) for 2020 and 2019, respectively.

The following is a summary of Utility Plant in Service as of September 30, 2020 and 2019:

	2020	2019
Land	$ 2,286,624	$ 2,266,624
Plant	88,262,801	82,798,254
Buildings	5,735,677	5,735,677
Computer equipment and software	316,970	303,633
Furniture and fixtures	102,535	102,535
Equipment	1,486,387	1,486,387
Vehicles	674,241	670,759
Construction in progress	1,991,730	6,980,609
	100,856,965	100,344,478
Less accumulated depreciation	(45,913,154)	(43,372,912)
	$ 54,943,811	$ 56,971,566

3. CONCENTRATIONS OF CREDIT RISK

The Company has a sweep arrangement with a local financial institution in which its deposits are swept overnight into a separate account to reduce credit risk for exceeding FDIC insured limits. A total of $5,700,000 and $2,860,000 were held in the sweep account at September 30, 2020 and 2019, 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. The investments that consist of certificates of deposit are fully insured by the FDIC. Restricted and designated cash balances also consist of governmental and U.S. Treasury Securities. These funds consist of repurchase agreements that are fully collateralized by U.S. Treasury securities or are 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, 2020 and 2019, cash held within brokerage accounts totaled $3,422,027 and $1,485,373, respectively.

4. INVESTMENTS

Investments as of September 30, 2020 and 2019, consist of the following:

	2020	2019
Held to maturity debt securities		
Due within one year	$ 1,862,472	$ 2,448,001
Due after one year through three years	1,041,318	2,316,947
Total held to maturity debt securities	2,903,790	4,764,948
Equity securities	1,840,577	-
Total investments	$ 4,744,367	$ 4,764,948
Federal Agency Securities	$ 618,067	$ 1,924,310
U.S. Treasury	1,177,978	968,651
Certificates of deposit	1,107,745	1,871,987
Mutual funds	1,840,577	-
Total investments	4,744,367	4,764,948
Less amounts designated:		
Amount designated for operating reserves	(508,142)	(1,613,421)
Amount designated for future expansion	(2,817,661)	(1,730,942)
Total investments – designated	(3,325,803)	(3,344,363)
Less amounts restricted:		
Amount restricted for customer deposits	(362,565)	(362,300)
Amount restricted for loan repayment	(831,769)	(876,263)
Amount restricted for plant construction	(224,230)	(182,022)
Total investments – restricted	(1,418,564)	(1,420,585)
Total available investments – unrestricted	$ -	$ -

Investment returns were as follows:

	2020	2019
Interest income	$ 80,935	$ 70,675
Realized gain on investments	1,034	-
Unrealized gain on investments	11,683	-
Total investment income	$ 93,652	$ 70,675

5. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820 Fair Value Measurements are described as follows:

Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities. These valuations represent quoted prices in the active markets, and therefore, do not require significant management judgement.

Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, for the asset or liability such as: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in less active markets; or other inputs that can be derived principally from, or corroborated by, observable market data.

Level 3 – Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value at September 30, 2020 and 2019:

Mutual funds: Investments are comprised of various equity holdings. They are classified as Level 1, as the funds are traded in an active market of which closing prices are readily available.

The Company's investments in mutual funds were $1,840,577 and $0 at September 30, 2020 and 2019, respectively.

6. INVESTMENT IN WRP, INC. AND AMOUNT DUE TO WRP, INC.

In 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 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) for $16,000,000 obtained by WRP, as well as contributions from the Company and from DWU. Based on the agreement with DWU, the Company’s portion of the SRF loan for the Phase IV Project is 37.2%. The SRF loan bears interest at 2.5% and is payable in semiannual principal and interest payments of $449,742. The SRF loan is secured by pledged revenues of the Company and DWU. As of September 30, 2020, WRP had total principal outstanding of $9,930,877 on the SRF loan, of which $3,683,326 is the responsibility of the Company.

The Company's 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, 2020, the Company owed WRP $3,683,326 ($3,454,054 included in long-term liabilities), which includes the Company’s share of the SRF loan and accrued interest. As of September 30, 2019, the Company owed WRP $3,921,849 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, 2020:

	Amount
2021	$ 229,272
2022	250,166
2023	256,459
2024	262,911
2025	269,525
Thereafter	2,414,993
Total due to WRP, Inc.	$ 3,683,326

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

During the year ended September 30, 2020, the Company contributed $34,843 to WRP related to the costs of the Phase IV project and recognized its share of WRP's net loss of $271,922. During the year ended September 30, 2019, the Company contributed $14,736 to WRP related to the costs of the Phase IV project and recognized its 50% share of WRP's net loss of $272,792. The Company's investment in WRP totaled $8,830,314 and $9,067,394 at September 30, 2020 and 2019, respectively.

The following is a summary of the Company's investment in WRP, Inc. as of September 30, 2020 and 2019:

	2020	2019
Beginning balance	$ 9,067,394	$ 9,325,450
Contributions to WRP, Inc.	34,843	14,736
Amortization of contributed capital	(232,095)	(233,064)
WRP, Inc. net loss	(39,828)	(39,728)
SWUCI Investment in WRP, Inc.	$ 8,830,314	$ 9,067,394

6. 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 Sheets

	2020	2019
ASSETS		
Cash	$ 393,536	$ 323,853
Other receivable – SWU true-up	792	890
Due from SWUCI	3,683,326	3,921,849
Due from DWU	6,207,960	6,609,972
Property and equipment, net	17,182,425	17,710,891
Total assets	$ 27,468,039	$ 28,567,455
LIABILITIES		
Accrued interest payable	$ 35,370	$ 36,700
Other payable – DWU true-up	792	890
SRF loan payable, net	9,712,597	10,334,847
Contributed Capital – DWU	8,607,308	8,806,139
Contributed capital – SWU	8,548,657	8,745,909
Retained earnings	563,315	642,970
Total liabilities and equity	$ 27,468,039	$ 28,567,455

Statements of Operations and Gains

	Year ended 2020	Year ended 2019
Revenue	$ 15,235	$ 14,134
Expenses	(94,890)	(93,589)
Excess of revenues over expenses	(79,655)	(79,455)
Company's share of excess of WRP, Inc. (50%)		
Net loss	(39,828)	(39,728)
Less amortization of contributed capital	(232,095)	(233,064)
Company's recognized loss on investment in WRP, Inc.	$ (271,923)	$ (272,792)

7. 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 8) 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.

	2020 Short-term	2019 Short-term	2020 Long-term	2019 Long-term
Due from DWU for Phase I	$ 196,099	$ 254,083	$ -	$ 200,755

8. NOTES PAYABLE

Capitalization Grants for Drinking Water State Revolving Fund
The Company obtained a $6,302,378 20-year revolving note in 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 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, 2020, the balance of the reserve account was $813,239 and is included in restricted cash and investments on the balance sheet. The outstanding note balances at September 30, 2020 and 2019, were $521,434 and $1,025,229, respectively.

The Company obtained a $3,021,280 20-year revolving note in 2003 from the 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, 2020, 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, 2020 and 2019, were $769,138 and $947,707, respectively.

8. NOTES PAYABLE – CONTINUED

In May 2020, the Company borrowed $550,000, pursuant to the Paycheck Protection Program (PPP) established as part of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). This loan matures in May 2022, bears interest at a rate of 1% per annum and has monthly installments of $30,958 commencing in December 2020. The note may be prepaid at any time prior to maturity with no prepayment penalties. Under the terms of the loan, certain amounts may be forgiven if they are used for qualifying expenses, as described in the CARES Act. Qualifying expenses include payroll costs, costs used to continue group health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations. The Company has used all the proceeds on qualified expenses as of September 30, 2020; however, no assurances can be given that the amount will all be forgiven.

	2020 Short-term	2019 Short-term	2020 Long-term	2019 Long-term
SRL Phase I	$ 521,434	$ 503,794	$ -	$ 521,435
SRL Phase II	183,894	178,570	585,244	769,137
PPP Loan	306,607	-	243,393	-
Total note payable	1,011,935	682,364	828,637	1,290,572
Less unamortized debt issue costs	-	-	(21,231)	(31,991)
Total note payable, net	$ 1,011,935	$ 682,364	$ 807,406	$ 1,258,581

Combined maturities of the FDEP notes and PPP loan are as follows:

2021	$ 1,011,935
2022	432,772
2023	195,025
2024	200,840
	$ 1,840,572

9. RUA DEBT OBLIGATION

In 2009, the Company obtained a $10,000,000, 20-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 has leased 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 $458,886 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, 2020 and 2019, were $7,538,818 and $8,218,704, respectively.

	2020 Short-term	2019 Short-term	2020 Long-term	2019 Long-term
Note payable for RUA	$ 700,146	$ 679,886	$ 6,838,672	$ 7,538,818
Less unamortized debt issue costs	-	-	(124,133)	(137,433)
Total note payable for RUA, net	$ 700,146	$ 679,886	$ 6,714,539	$ 7,401,385

Maturities of the RUA debt obligation are as follows:

	Amount
2021	$ 700,146
2022	721,011
2023	742,496
2024	764,622
2025	787,407
Thereafter	3,823,136
	$ 7,538,818

10. RETIREMENT PLAN

The Company has a 401(k)-retirement plan covering all employees who have completed one year of service. The Company matches employee contributions up to 8%.

The Company may also 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:

Group	Years of Service
A	1-10
B	10-20
C	more than 20

The Company's contributions for the years ended September 30, 2020 and 2019, were $195,698 and $227,048, respectively.

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

Years of service	Vesting Percentages
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.

11. COMMITMENTS

Meter Upgrade Project
During November 2015, the Company entered into a contract to upgrade meters for a total contract amount of $1,595,123. As of September 30, 2020, the Company had open contract commitments in the amount of $59,408. The project is expected to be completed during the 2021 fiscal year.

SUPPLEMENTARY INFORMATION

SOUTH WALTON UTILITY COMPANY, INC.
STATEMENT OF OPERATIONS – COMPARISON OF BUDGET TO ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2020

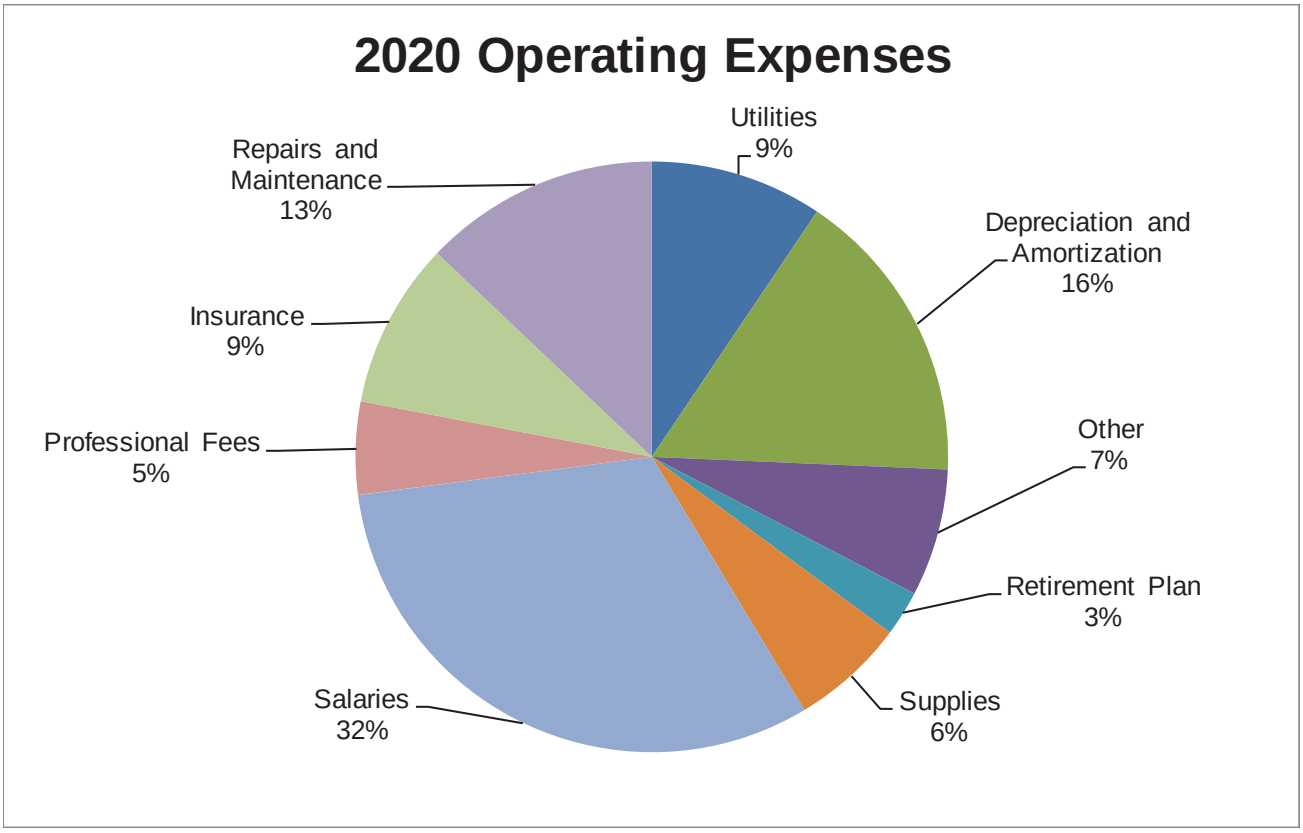
	(Unaudited) Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Water	$ 4,578,628	$ 4,777,435	$ 198,807
Sewer	4,682,347	4,739,636	57,289
Wholesale water	402,871	405,645	2,774
Other	170,000	193,048	23,048
Total operating revenues	9,833,846	10,115,764	281,918
OPERATING EXPENSES			
Bad debts	5,000	3,076	1,924
Chemicals	152,500	104,684	47,816
Contributions	16,500	12,859	3,641
Depreciation and amortization	1,417,500	1,282,027	135,473
Education and travel	46,000	28,553	17,447
Engineering and fees	2,400	44,569	(42,169)
Insurance – employees and other	742,000	716,272	25,728
Lab supplies	36,000	58,249	(22,249)
Legal and accounting	75,500	53,373	22,127
License and fees	111,000	169,014	(58,014)
Miscellaneous	102,708	58,062	44,646
Office expenses	27,200	20,713	6,487
Operating supplies	407,700	387,066	20,634
Payroll taxes	199,200	183,577	15,623
Professional fees	385,000	302,754	82,246
Repairs and maintenance	1,300,000	1,016,008	283,992
Retirement plans	240,175	195,698	44,477
Salaries	2,575,031	2,486,314	88,717
Telephone and sanitation	80,800	84,574	(3,774)
Uniforms	26,185	15,851	10,334
Utilities	695,000	657,513	37,487
WRP operating expenses	-	8,409	(8,409)
Total operating expenses	8,643,399	7,889,215	754,184
OPERATING INCOME	1,190,447	2,226,549	1,036,102
OTHER REVENUES (EXPENSES)			
Loss from investment in WRP, Inc.	(25,000)	(271,923)	(246,923)
Interest income	61,000	112,541	51,541
Interest expense	(389,273)	(370,647)	18,626
Investment income	-	12,717	12,717
Miscellaneous income	180,000	256,256	76,256
Gain on disposal of assets	-	24,099	24,099
Total other revenues (expenses)	(173,273)	(236,957)	(63,684)
NET INCOME	$ 1,017,174	$ 1,989,592	$ 972,418

See independent auditors' report.

Water and Sewer Consumption Analysis
(Unaudited)

The table below compares total water consumption for fiscal years 2020 and 2019.

	Fiscal Year 2020	Fiscal Year 2019
Water consumption	1,097,811,000	1,108,904,000
Wholesale water	1,030,876,000	991,130,000
Number of units – water	19,080	18,467
Number of units – sewer	10,015	9,813
Number of members	10,037	9,947



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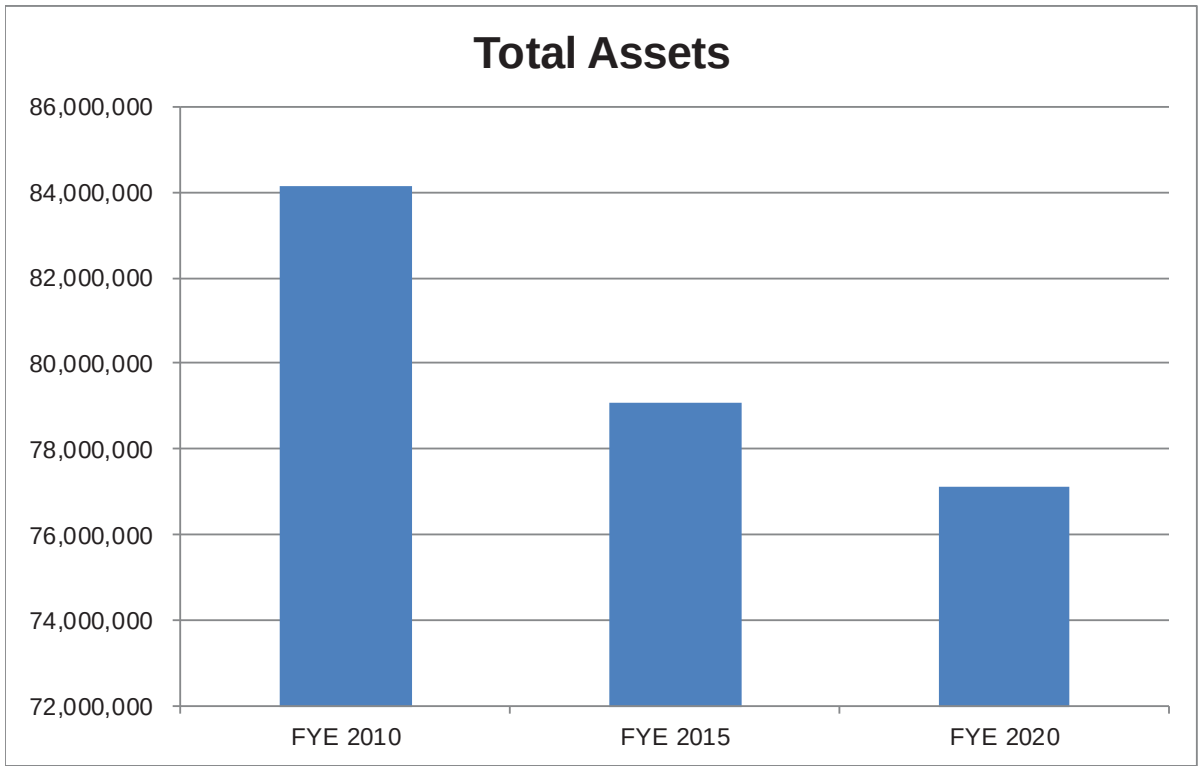

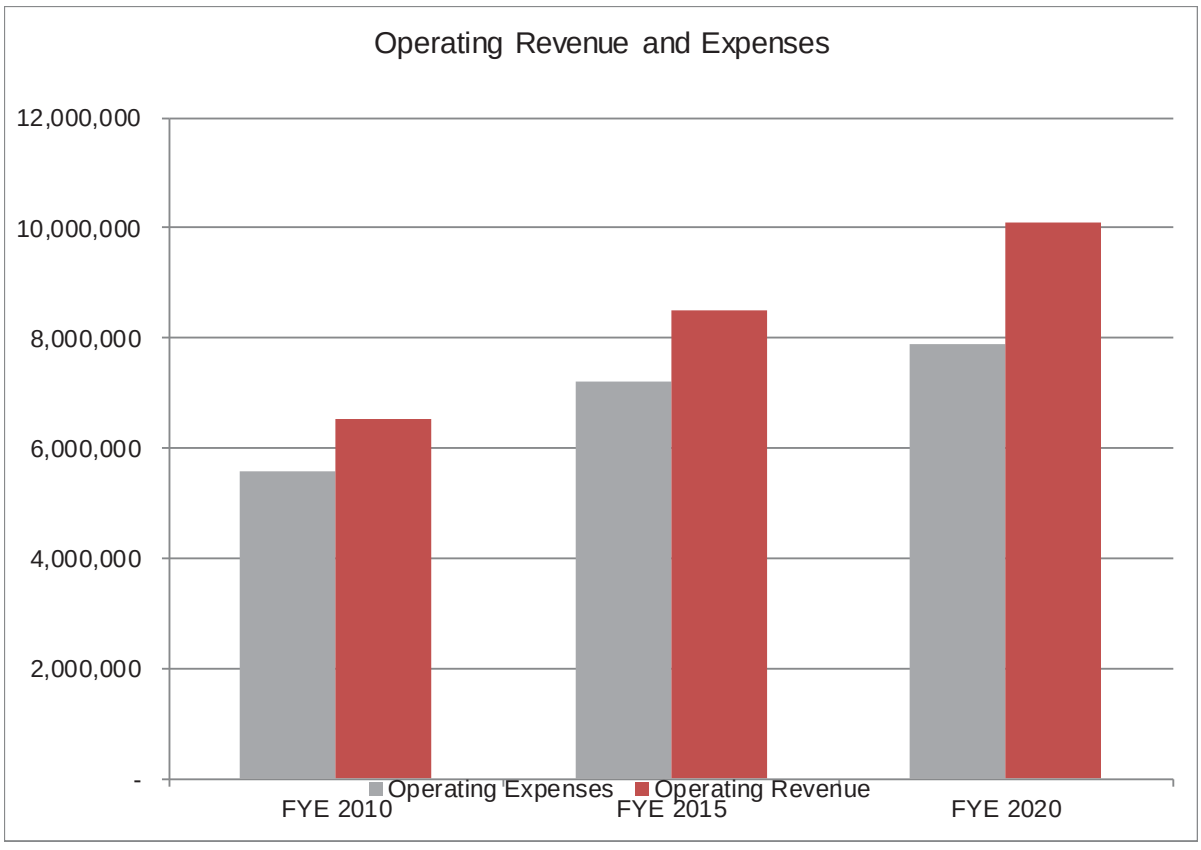

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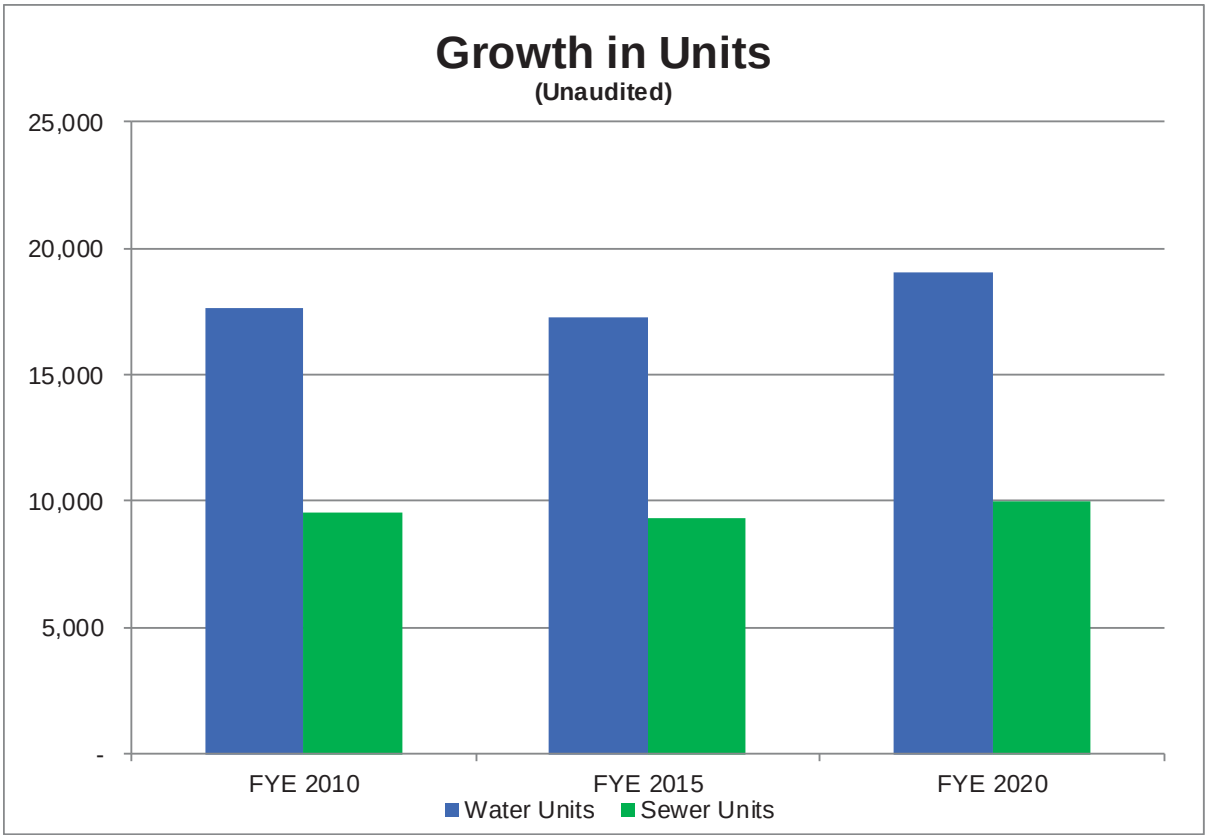

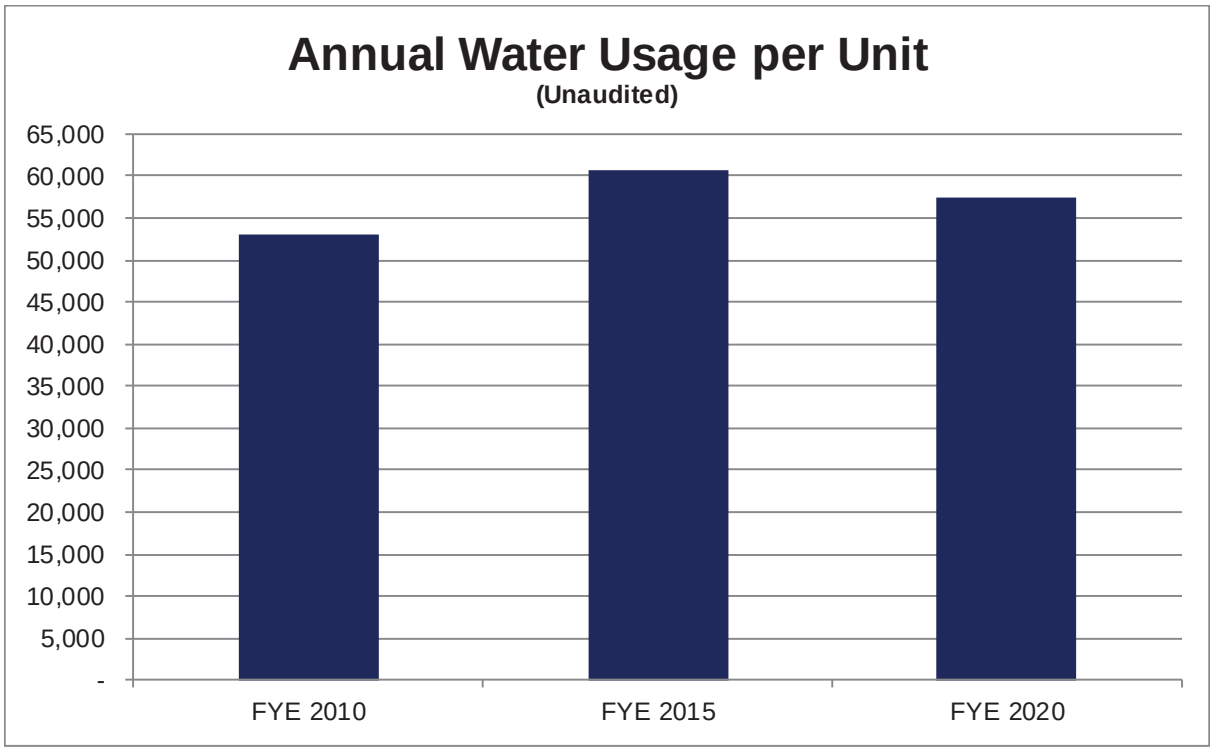

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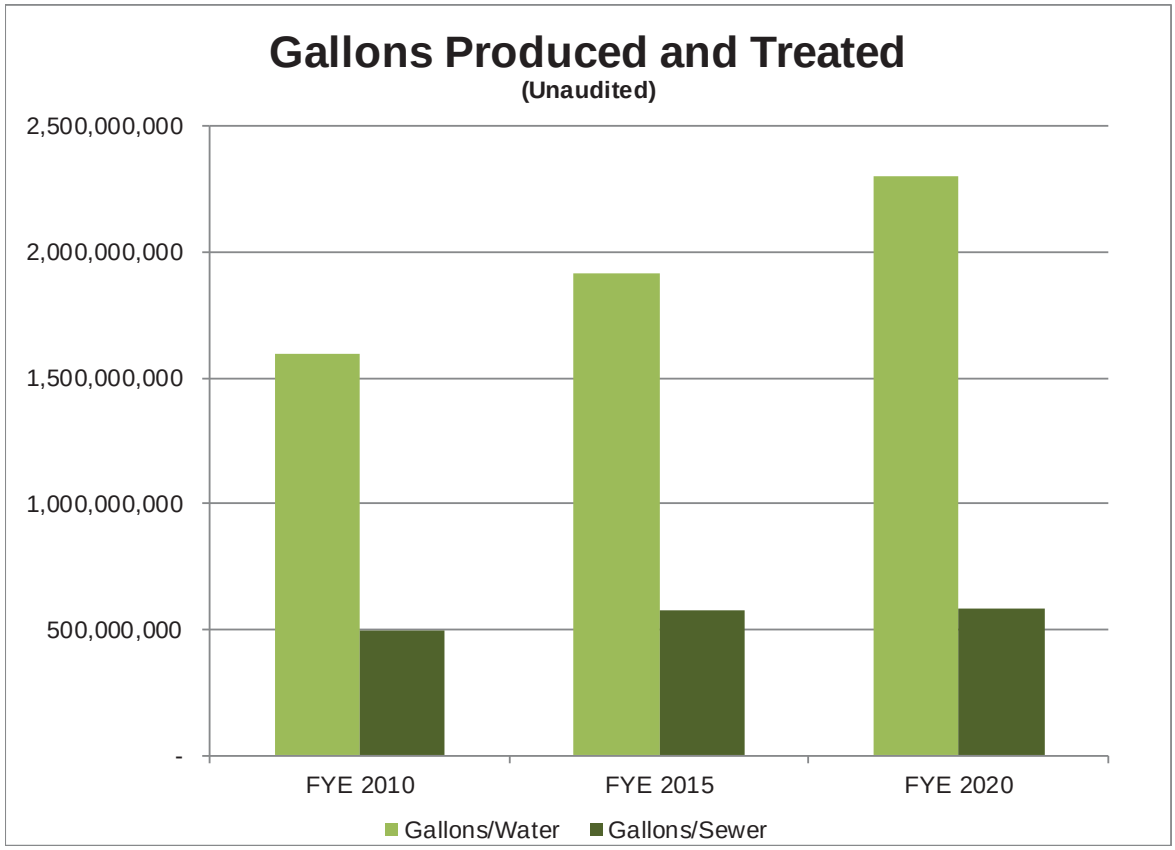

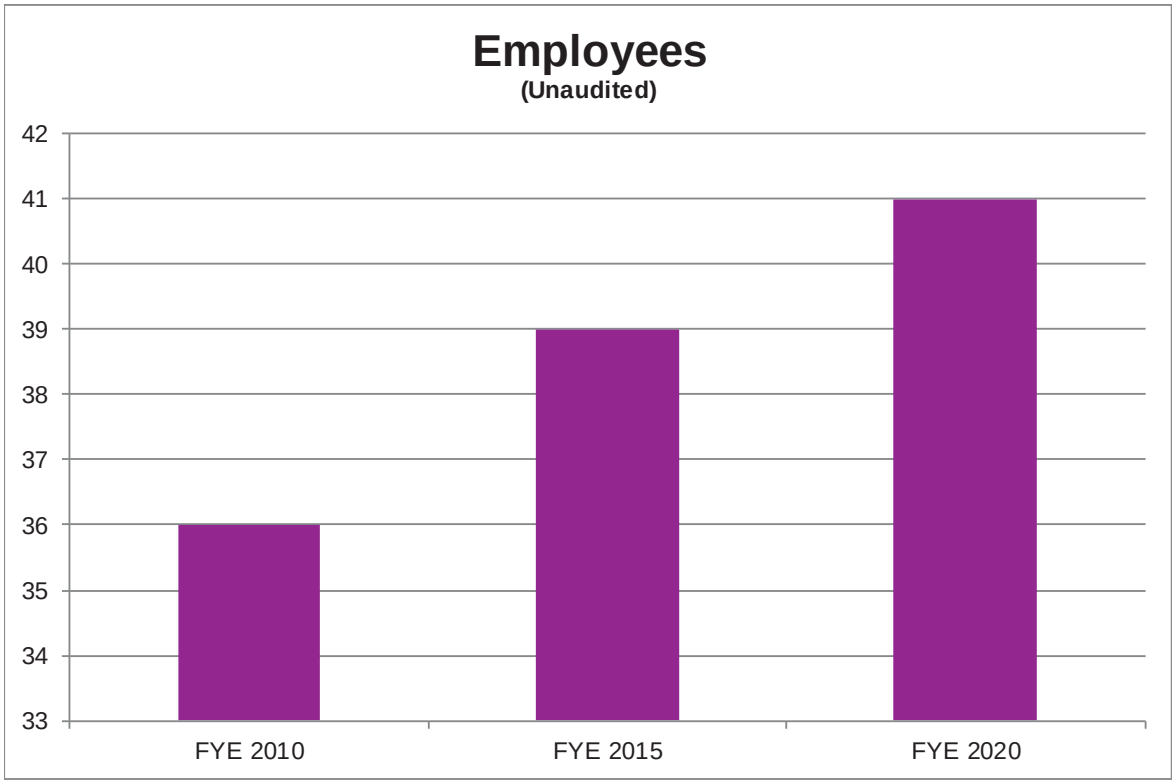

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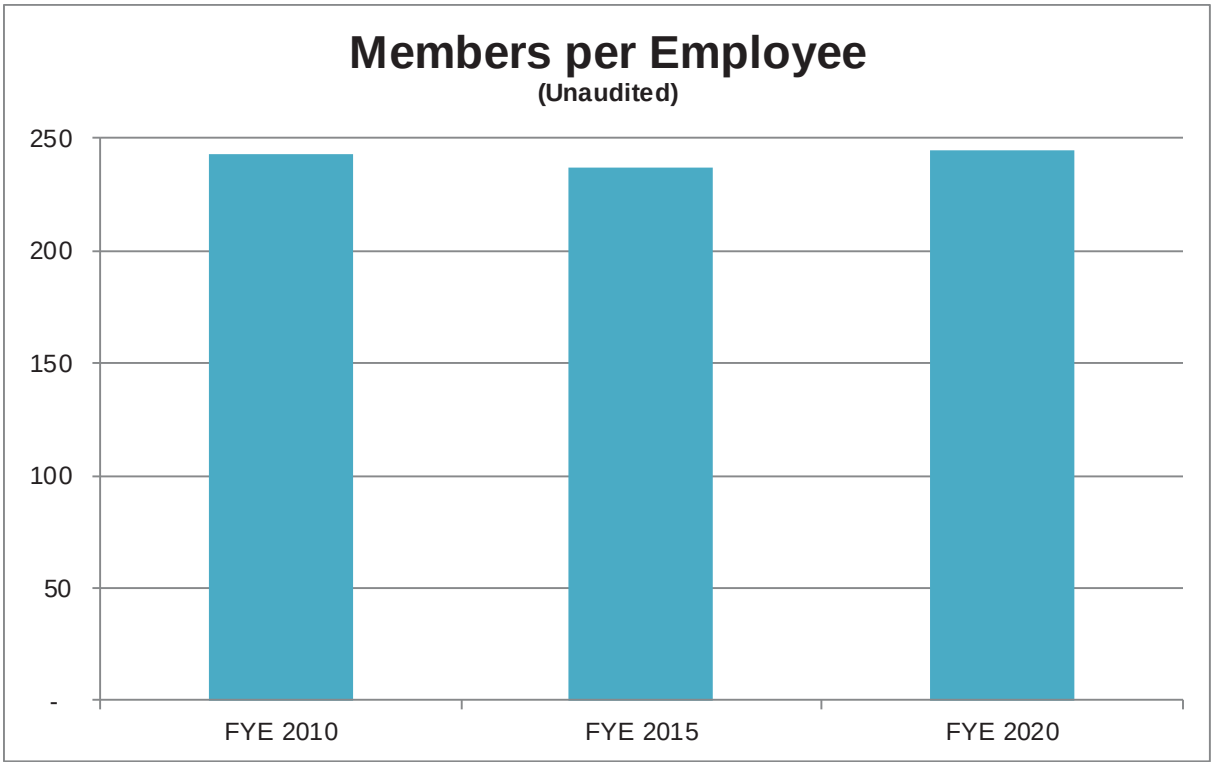

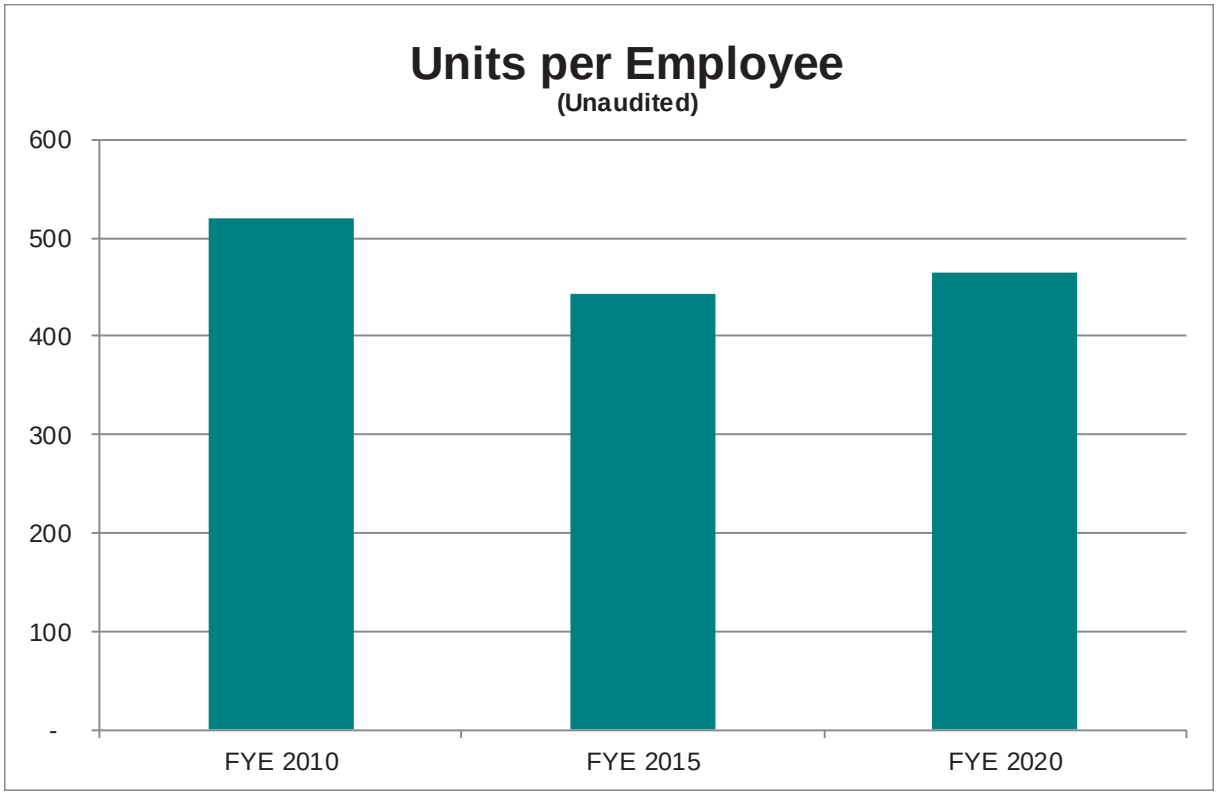

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