

**SOUTH WALTON UTILITY COMPANY, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2021 AND 2020**



**SOUTH WALTON UTILITY COMPANY, INC.  
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SEPTEMBER 30, 2021 AND 2020**

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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, 2021 and 2020, 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, 2021 and 2020, 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 18, 2021

**SOUTH WALTON UTILITY COMPANY, INC.**  
**BALANCE SHEETS**  
**SEPTEMBER 30, 2021 AND 2020**

<b>ASSETS</b>	<b>2021</b>	<b>2020</b>
<b>UTILITY PLANT IN SERVICE, NET (See Note 2)</b>	\$ 53,573,584	\$ 54,943,811
<b>RESTRICTED AND DESIGNATED ASSETS</b>		
Cash and cash equivalents – designated (See Note 1)	5,734,530	3,337,902
Cash and cash equivalents – restricted (See Note 1)	-	84,125
Investments – designated (See Note 4)	1,724,775	3,325,803
Investments – restricted (See Note 4)	766,204	1,418,564
Total restricted and designated assets	8,225,509	8,166,394
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	5,263,899	3,080,548
Accounts receivable, net	1,280,534	1,237,234
Other receivables	8,593	65,407
Other receivable WRP true-up	145	-
Due from other utility companies (See Note 7)	-	196,099
Prepaid expenses	150,954	135,940
Inventory	278,291	297,983
Total current assets	6,982,416	5,013,211
<b>OTHER ASSETS</b>		
Prepaid debt service deposit	153,504	153,504
Investment in WRP, Inc. (See Note 6)	8,594,952	8,830,314
Total other assets	8,748,456	8,983,817
<b>TOTAL ASSETS</b>	<b>\$ 77,529,965</b>	<b>\$ 77,107,233</b>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.  
BALANCE SHEETS – CONTINUED  
SEPTEMBER 30, 2021 AND 2020**

	2021	2020
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>MEMBERS' EQUITY</b>		
Contributions in aid of construction		
Designated for future expansion	\$ 3,384,929	\$ 2,817,669
Undesignated	57,659,330	56,822,827
Accumulated amortization	<u>(30,088,270)</u>	<u>(28,670,885)</u>
Total contributions in aid of construction	30,955,989	30,969,611
Retained earnings		
Undesignated	<u>33,513,963</u>	<u>31,170,673</u>
Total members' equity	64,469,952	62,140,284
<b>LONG-TERM LIABILITIES</b>		
Customer deposits	397,110	362,565
Loan deposits	-	408,173
Prepaid tap fees	497,342	511,087
Due to WRP, Inc. (See Note 6)	3,203,901	3,454,054
Notes payable, net (See Note 8)	385,666	807,406
RUA debt obligation, net (See Note 9)	<u>6,006,828</u>	<u>6,714,539</u>
Total long-term liabilities	10,490,847	12,257,824
<b>CURRENT LIABILITIES</b>		
Accounts payable	178,435	170,087
Other payable WRP true-up	-	792
Due to WRP, Inc. (See Note 6)	234,902	229,272
Accrued wages and benefits	141,834	111,850
Notes payable (See Note 8)	739,378	1,011,935
RUA debt obligation (See Note 9)	721,011	700,146
Accrued interest payable	<u>553,606</u>	<u>485,043</u>
Total current liabilities	<u>2,569,166</u>	<u>2,709,125</u>
<b>TOTAL LIABILITIES</b>	<u>13,060,013</u>	<u>14,966,949</u>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<u>\$ 77,529,965</u>	<u>\$ 77,107,233</u>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.**  
**STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>REVENUE FROM OPERATIONS</b>	\$ 10,994,120	\$ 10,115,764
<b>OPERATING EXPENSES</b>		
Operating and maintenance	6,941,905	6,607,188
Depreciation and amortization	<u>1,360,020</u>	<u>1,282,027</u>
Total operating expenses	<u>8,301,925</u>	<u>7,889,215</u>
<b>OPERATING INCOME</b>	2,692,195	2,226,549
<b>OTHER REVENUES (EXPENSES)</b>		
Loss from investment in WRP, Inc.	(270,853)	(271,923)
Interest income	6,695	31,606
Interest expense	(330,681)	(370,647)
Investment income (loss)	(12,219)	93,652
Miscellaneous income	223,517	256,256
Gain on disposal of assets	<u>34,636</u>	<u>24,099</u>
Total other revenues (expenses), net	<u>(348,905)</u>	<u>(236,957)</u>
<b>NET INCOME</b>	<u><u>\$ 2,343,290</u></u>	<u><u>\$ 1,989,592</u></u>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.  
STATEMENTS OF MEMBERS' EQUITY  
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

	<b>2021</b>	<b>2020</b>
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>		
Beginning balance	\$ 30,969,611	\$ 31,274,490
Tap contributions	1,403,763	1,086,725
Amortization	<u>(1,417,385)</u>	<u>(1,391,604)</u>
Ending balance	<u>30,955,989</u>	<u>30,969,611</u>
<b>RETAINED EARNINGS</b>		
Beginning of year	31,170,673	29,181,081
Net income	<u>2,343,290</u>	<u>1,989,592</u>
End of year	<u>33,513,963</u>	<u>31,170,673</u>
<b>TOTAL MEMBERS' EQUITY</b>	<u><u>\$ 64,469,952</u></u>	<u><u>\$ 62,140,284</u></u>

See notes to the financial statements.



**SOUTH WALTON UTILITY COMPANY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 11,265,696	\$ 10,285,171
Interest income	6,695	112,541
Cash paid to suppliers and customers	(6,899,832)	(6,597,958)
Interest expense	(262,118)	(505,720)
Net cash provided by operating activities	<u>4,110,441</u>	<u>3,294,034</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition and construction of utility plant in service	(1,348,210)	(751,330)
Loan deposits	(408,173)	12,754
Investment in WRP, Inc.	(280,014)	(273,366)
Proceeds from due from other utility companies	196,099	258,739
Proceeds from investments	3,997,049	3,157,533
Purchases of investments	(1,755,881)	(3,124,234)
Net cash flows provided by (used in) investing activities	<u>400,870</u>	<u>(719,904)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds on notes payable	-	550,000
Principal payments on notes payable	(705,329)	(682,364)
Principal payments on RUA debt obligation	(700,146)	(679,886)
Capital contributed by members	1,390,018	1,081,380
Net cash provided by (used in) financing activities	<u>(15,457)</u>	<u>269,130</u>
<b>NET CHANGE IN CASH</b>	4,495,854	2,843,260
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>6,502,575</u>	<u>3,659,315</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 10,998,429</u>	<u>\$ 6,502,575</u>
<b>COMPOSITION OF CASH AND CASH EQUIVALENTS:</b>		
Restricted	\$ -	\$ 84,125
Designated	5,734,530	3,337,902
Unrestricted	<u>5,263,899</u>	<u>3,080,548</u>
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u>\$ 10,998,429</u>	<u>\$ 6,502,575</u>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.  
STATEMENTS OF CASH FLOWS – CONTINUED  
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 2,343,290	\$ 1,989,592
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	1,360,020	1,282,027
Gain on disposal of assets	(34,636)	(24,099)
Loss from investment in WRP, Inc.	270,853	271,923
Bad debt expense	5,760	4,691
Unrealized (gain) loss on investments	12,219	(12,717)
(Increase) decrease in operating assets:		
Accounts receivable	(49,060)	(107,383)
Other receivables	56,814	15,578
Other receivable – WRP true-up	(145)	-
Prepaid expenses	(15,014)	(7,966)
Inventory	19,692	(18,839)
Increase (decrease) in operating liabilities:		
Accounts payable	8,348	61,118
Other payable – WRP true-up	(792)	(98)
Customer deposits	34,545	265
Accrued wages and benefits	29,984	(24,985)
Accrued interest payable	68,563	(135,073)
Net cash flows provided by operating activities	<u>\$ 4,110,441</u>	<u>\$ 3,294,034</u>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021 AND 2020**

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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 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, 2021 and 2020, was \$5,734,530 and \$3,337,902, 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.

**SOUTH WALTON UTILITY COMPANY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2021 AND 2020**

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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. 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.

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021 AND 2020**

**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, 2021, there were 59 accounts written off totaling \$5,760. For the year ended September 30, 2020, there were 63 accounts written off totaling \$4,691.

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, 2021 and 2020.

**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 \$206,155 and \$335,818 at September 30, 2021 and 2020, respectively.

The following is a summary of debt issue costs as of September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Debt issue costs	\$ 327,187	\$ 481,182
Less accumulated amortization	<u>(206,155)</u>	<u>(335,818)</u>
	<u>\$ 121,032</u>	<u>\$ 145,364</u>

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021 AND 2020**

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**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, 2021, and November 18, 2021, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021 AND 2020**

**2. UTILITY PLANT IN SERVICE**

Annual provisions for depreciation, net of amortization, of Utility Plant In Service total \$1,360,020 (depreciation of \$2,777,405 net of amortization of \$1,417,385) and \$1,282,027 (depreciation of \$2,673,631 net of amortization of \$1,391,604) for 2021 and 2020, respectively.

The following is a summary of Utility Plant in Service as of September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Land	\$ 2,286,624	\$ 2,286,624
Plant	90,391,556	88,262,801
Buildings	5,750,297	5,735,677
Computer equipment and software	316,970	316,970
Furniture and fixtures	102,535	102,535
Equipment	1,486,387	1,486,387
Vehicles	704,631	674,241
Construction in progress	<u>1,102,724</u>	<u>1,991,730</u>
	102,141,724	100,856,965
Less accumulated depreciation	<u>(48,568,140)</u>	<u>(45,913,154)</u>
	<u>\$ 53,573,584</u>	<u>\$ 54,943,811</u>

**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 \$8,770,000 and \$5,700,000 were held in the sweep account at September 30, 2021 and 2020, 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, 2021 and 2020, cash held within brokerage accounts totaled \$5,734,530 and \$3,422,027, respectively.

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021 AND 2020**

**4. INVESTMENTS**

Investments as of September 30, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Held to maturity debt securities		
Due within one year	\$ 734,647	\$ 1,862,472
Due after one year through three years	<u>636,606</u>	<u>1,041,318</u>
Total held to maturity debt securities	1,371,253	2,903,790
Equity securities	<u>1,119,726</u>	<u>1,840,577</u>
Total investments	<u>\$ 2,490,979</u>	<u>\$ 4,744,367</u>
Federal Agency Securities	\$ 104,230	\$ 618,067
U.S. Treasury	200,194	1,177,978
Certificates of deposit	1,066,829	1,107,745
Mutual funds	<u>1,119,726</u>	<u>1,840,577</u>
Total investments	<u>2,490,979</u>	<u>4,744,367</u>
Less amounts designated:		
Amount designated for operating reserves	-	(508,142)
Amount designated for future expansion	<u>(1,724,775)</u>	<u>(2,817,661)</u>
Total investments – designated	(1,724,775)	(3,325,803)
Less amounts restricted:		
Amount restricted for customer deposits	(397,110)	(362,565)
Amount restricted for loan repayment	(102,655)	(831,769)
Amount restricted for plant construction	<u>(266,439)</u>	<u>(224,230)</u>
Total investments – restricted	<u>(766,204)</u>	<u>(1,418,564)</u>
Total available investments – unrestricted	<u>\$ -</u>	<u>\$ -</u>

Investment returns were as follows:

	<u>2021</u>	<u>2020</u>
Interest income	\$ 49,583	\$ 80,935
Realized gain (loss) on investments	(69,941)	1,034
Unrealized gain (loss) on investments	<u>8,139</u>	<u>11,683</u>
Total investment income (loss)	<u>\$ (12,219)</u>	<u>\$ 93,652</u>



**SOUTH WALTON UTILITY COMPANY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2021 AND 2020**

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## **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, 2021 and 2020:

*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 \$1,119,726 and \$1,840,577 at September 30, 2021 and 2020, respectively.

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021 AND 2020**

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**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, 2021, WRP had total principal outstanding of \$9,275,594 on the SRF loan, of which \$3,438,803 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, 2021, the Company owed WRP \$3,438,803 (\$3,203,901 included in long-term liabilities), which includes the Company's share of the SRF loan and accrued interest. As of September 30, 2020, the Company owed WRP \$3,683,326 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, 2021:

	<b>Amount</b>
2022	\$ 234,902
2023	256,459
2024	262,911
2025	269,525
2026	276,305
Thereafter	2,138,700
Total due to WRP, Inc.	\$ 3,438,803

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021 AND 2020**

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

During the year ended September 30, 2021, the Company contributed \$35,491 to WRP related to the costs of the Phase IV project and recognized its share of WRP's net loss of \$270,853. 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 50% share of WRP's net loss of \$271,922. The Company's investment in WRP totaled \$8,594,952 and \$8,830,314 at September 30, 2021 and 2020, respectively.

The following is a summary of the Company's investment in WRP, Inc. as of September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 8,830,314	\$ 9,067,394
Contributions to WRP, Inc.	35,491	34,843
Amortization of contributed capital	(231,126)	(232,095)
WRP, Inc. net loss	<u>(39,727)</u>	<u>(39,828)</u>
SWUCI Investment in WRP, Inc.	<u>\$ 8,594,952</u>	<u>\$ 8,830,314</u>

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021 AND 2020**

**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:

<b>Balance Sheets</b>	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
Cash	\$ 464,519	\$ 393,536
Other receivable – SWU true-up	-	792
Other receivable – DWU true-up	145	-
Due from SWUCI	3,438,803	3,683,326
Due from DWU	5,795,835	6,207,960
Property and equipment, net	16,656,108	17,182,425
Total assets	\$ 26,355,410	\$ 27,468,039
<b>LIABILITIES</b>		
Accrued interest payable	\$ 34,005	\$ 35,370
Other payable – SWU true-up	145	-
Other payable – DWU true-up	-	792
SRF loan payable, net	9,074,268	9,712,597
Contributed Capital – DWU	8,410,109	8,607,308
Contributed capital – SWU	8,353,021	8,548,657
Retained earnings	483,862	563,315
Total liabilities and equity	\$ 26,355,410	\$ 27,468,039

<b>Statements of Operations and Gains</b>	<b>Year ended 2021</b>	<b>Year ended 2020</b>
Revenue	\$ 13,936	\$ 15,235
Expenses	(93,389)	(94,890)
Excess of revenues over expenses	(79,453)	(79,655)
Company's share of excess of WRP, Inc. (50%)		
Net loss	(39,727)	(39,828)
Less amortization of contributed capital	(231,126)	(232,095)
Company's recognized loss on investment in WRP, Inc.	\$ (270,853)	\$ (271,923)

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021 AND 2020**

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**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. Payments for Phase I loan were completed in 2021.

	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>Short-term</b>	<b>Short-term</b>	<b>Long-term</b>	<b>Long-term</b>
Due from DWU for Phase I	\$ -	\$ 196,099	\$ -	\$ -

**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, 2021, the balance of the reserve account was \$0 as the note was fully repaid during 2021. The outstanding note balances at September 30, 2021 and 2020, were \$0 and \$521,434, 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, 2021, 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, 2021 and 2020, were \$585,243 and \$769,138, respectively.

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021 AND 2020**

**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. 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.

	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b>Short-term</b>	<b>Short-term</b>	<b>Long-term</b>	<b>Long-term</b>
SRL Phase I	\$ -	\$ 521,434	\$ -	\$ -
SRL Phase II	189,378	183,894	395,865	585,244
PPP Loan	550,000	306,607	-	243,393
Total note payable	739,378	1,011,935	395,865	828,637
Less unamortized debt issue costs	-	-	(10,199)	(21,231)
Total note payable, net	<u>\$ 739,378</u>	<u>\$ 1,011,935</u>	<u>\$ 385,666</u>	<u>\$ 807,406</u>

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

2022	\$ 739,378
2023	195,025
2024	200,840
	<u>\$ 1,135,243</u>

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021 AND 2020**

**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, 2021 and 2020, were \$6,838,672 and \$7,538,818, respectively.

	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
	<b><u>Short-term</u></b>	<b><u>Short-term</u></b>	<b><u>Long-term</u></b>	<b><u>Long-term</u></b>
Note payable for RUA	\$ 721,011	\$ 700,146	\$ 6,117,661	\$ 6,838,672
Less unamortized debt issue costs	-	-	(110,833)	(124,133)
Total note payable for RUA, net	<b><u>\$ 721,011</u></b>	<b><u>\$ 700,146</u></b>	<b><u>\$ 6,006,828</u></b>	<b><u>\$ 6,714,539</u></b>

Maturities of the RUA debt obligation are as follows:

	<b><u>Amount</u></b>
2022	\$ 721,011
2023	742,496
2024	764,622
2025	787,407
2026	810,872
Thereafter	<u>3,012,264</u>
	<b><u>\$ 6,838,672</u></b>

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2021 AND 2020**

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**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:

<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, 2021 and 2020, were \$233,305 and \$195,698, respectively.

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.



**SUPPLEMENTARY INFORMATION**

**SOUTH WALTON UTILITY COMPANY, INC.**  
**STATEMENT OF OPERATIONS – COMPARISON OF BUDGET TO ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2021**

	(Unaudited) Budget	Actual	Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>			
Water	\$ 4,750,000	\$ 5,102,890	\$ 352,890
Sewer	4,712,000	5,264,262	552,262
Wholesale water	401,578	399,387	(2,191)
Other	50,000	227,581	177,581
Total operating revenues	<u>9,913,578</u>	<u>10,994,120</u>	<u>1,080,542</u>
<b>OPERATING EXPENSES</b>			
Bad debts	12,000	4,473	7,527
Chemicals	142,500	144,846	(2,346)
Contributions	16,500	12,813	3,687
Depreciation and amortization	1,374,000	1,360,020	13,980
Education and travel	46,000	31,588	14,412
Engineering and fees	36,000	21,215	14,785
Insurance – employees and other	812,000	799,192	12,808
Lab supplies	51,000	32,091	18,909
Legal and accounting	62,000	53,890	8,110
License and fees	166,500	145,881	20,619
Miscellaneous	91,708	141,256	(49,548)
Office expenses	27,250	12,385	14,865
Operating supplies	452,750	373,083	79,667
Payroll taxes	195,100	189,221	5,879
Professional fees	510,000	416,498	93,502
Repairs and maintenance	1,155,000	842,495	312,505
Retirement plans	212,000	233,305	(21,305)
Salaries	2,738,773	2,642,066	96,707
Telephone and sanitation	94,500	80,416	14,084
Uniforms	19,650	16,007	3,643
Utilities	679,000	742,361	(63,361)
WRP operating expenses	-	6,823	(6,823)
Total operating expenses	<u>8,894,231</u>	<u>8,301,925</u>	<u>592,306</u>
<b>OPERATING INCOME</b>	<u>1,019,347</u>	<u>2,692,195</u>	<u>1,672,848</u>
<b>OTHER REVENUES (EXPENSES)</b>			
Loss from investment in WRP, Inc.	(270,000)	(270,853)	(853)
Interest income	104,000	56,278	(47,722)
Interest expense	(330,000)	(330,681)	(681)
Investment income (loss)	-	(61,802)	(61,802)
Miscellaneous income	111,000	223,517	112,517
Gain on disposal of assets	16,000	34,636	18,636
Total other revenues (expenses)	<u>(369,000)</u>	<u>(348,905)</u>	<u>20,095</u>
<b>NET INCOME</b>	<u>\$ 650,347</u>	<u>\$ 2,343,290</u>	<u>\$ 1,692,943</u>

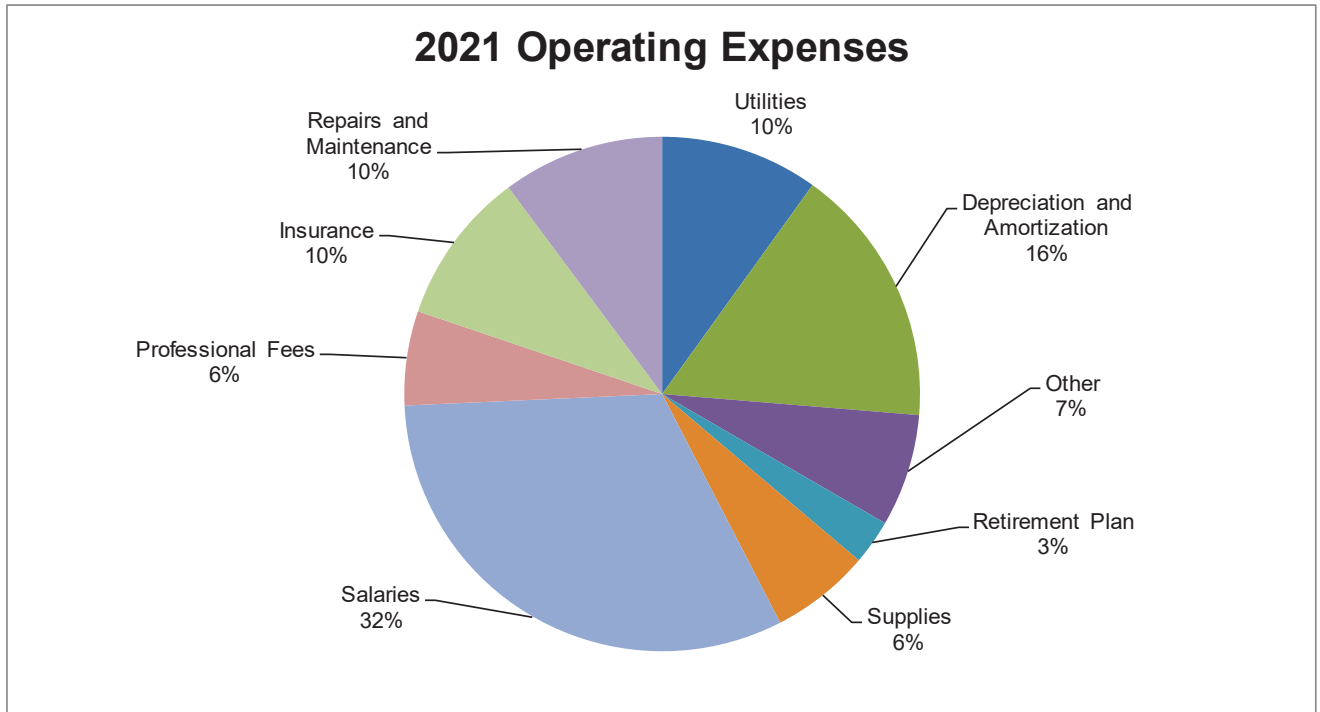
See independent auditors' report.

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

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

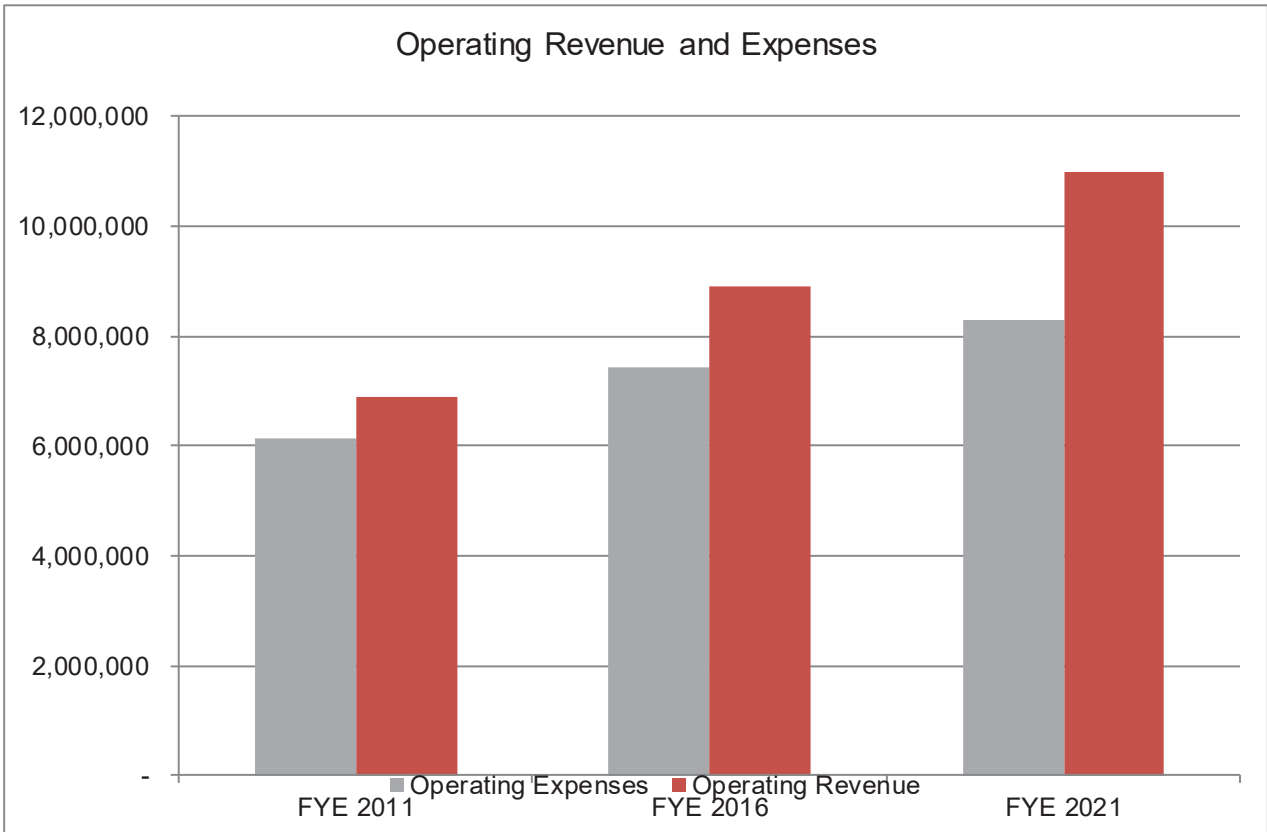
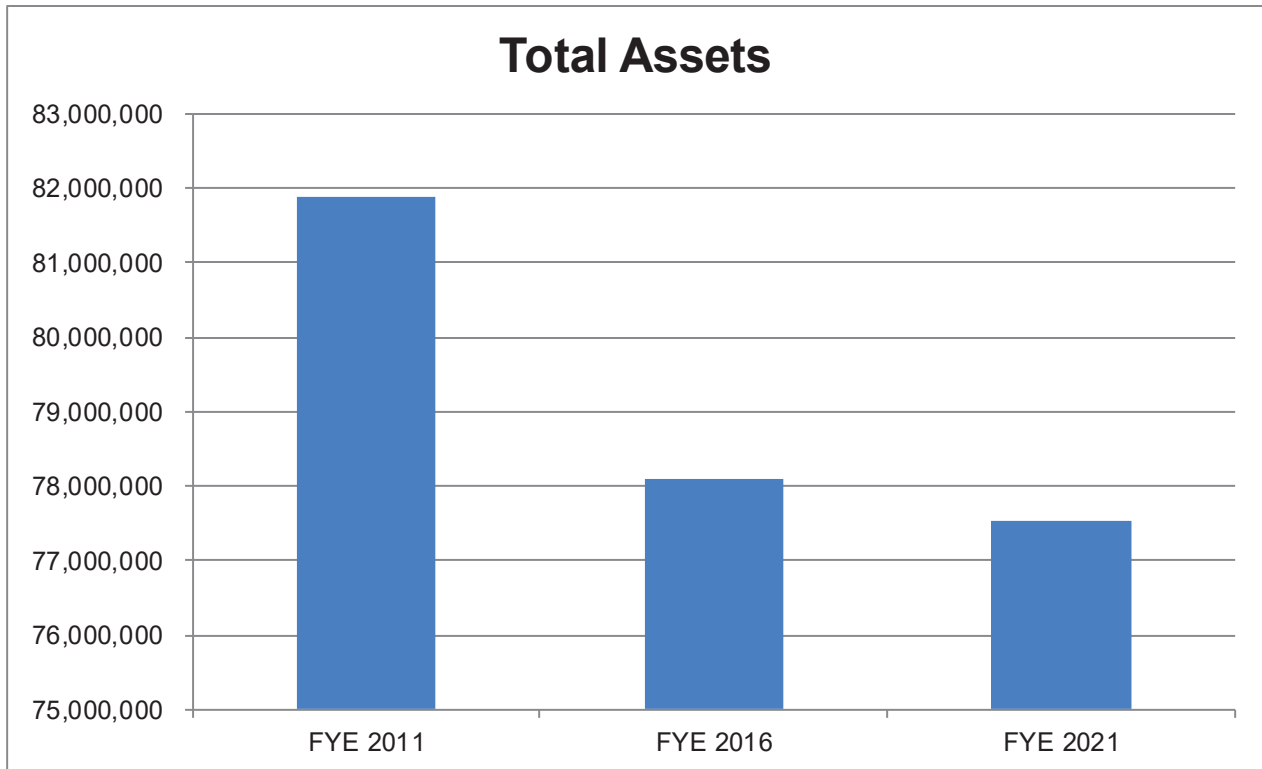
The table below compares total water consumption for fiscal years 2021 and 2020.

	<u>Fiscal Year 2021</u>	<u>Fiscal Year 2020</u>
Water consumption	1,189,037,000	1,097,811,000
Wholesale water	1,016,492,000	1,030,876,000
Number of units – water	19,445	19,080
Number of units – sewer	10,278	10,015
Number of members	10,210	10,037



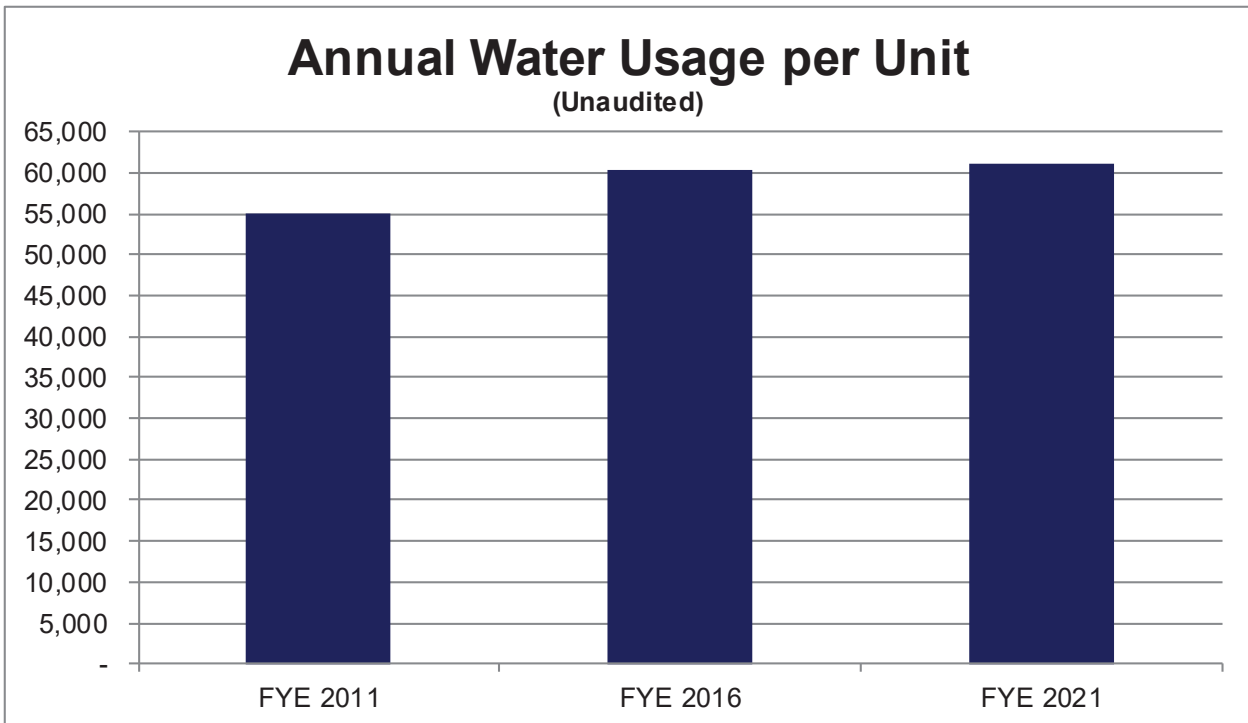
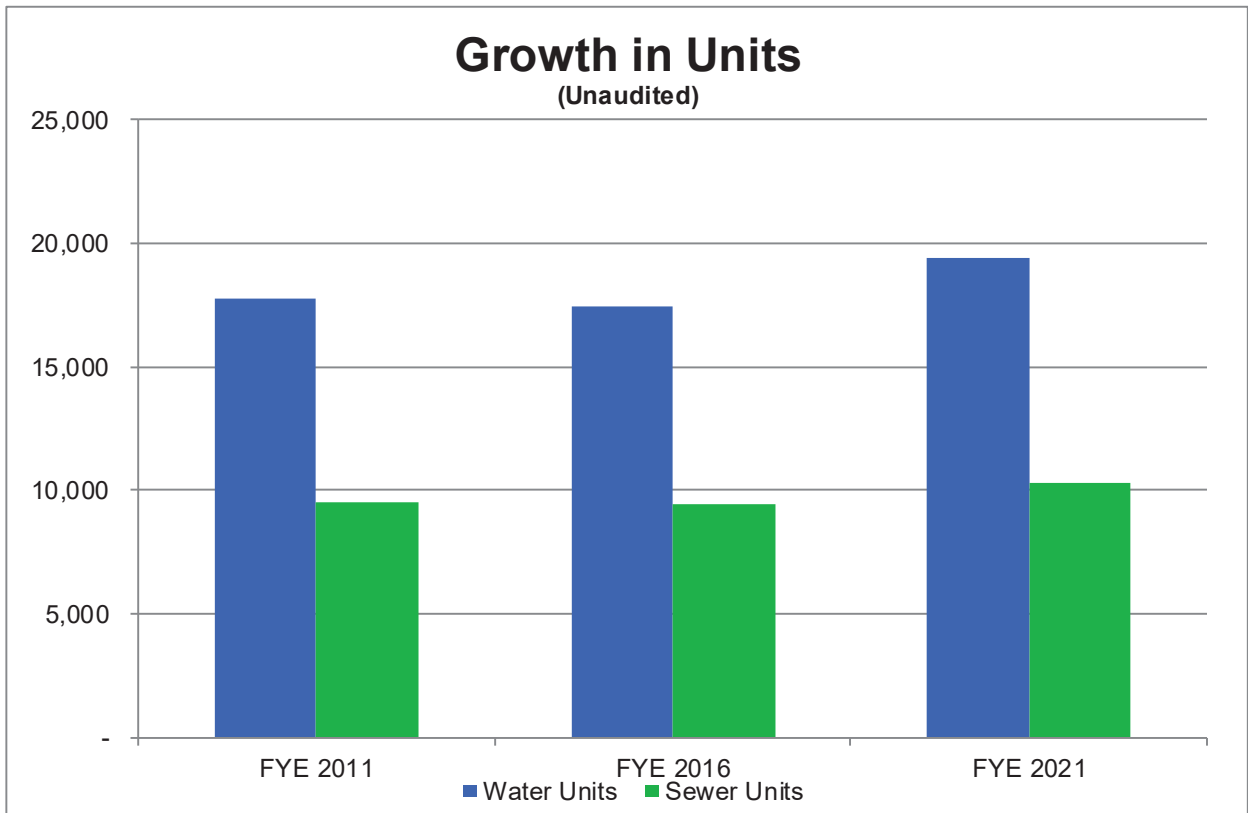
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**SOUTH WALTON UTILITY COMPANY, INC.  
STATISTICAL INFORMATION - CONTINUED**



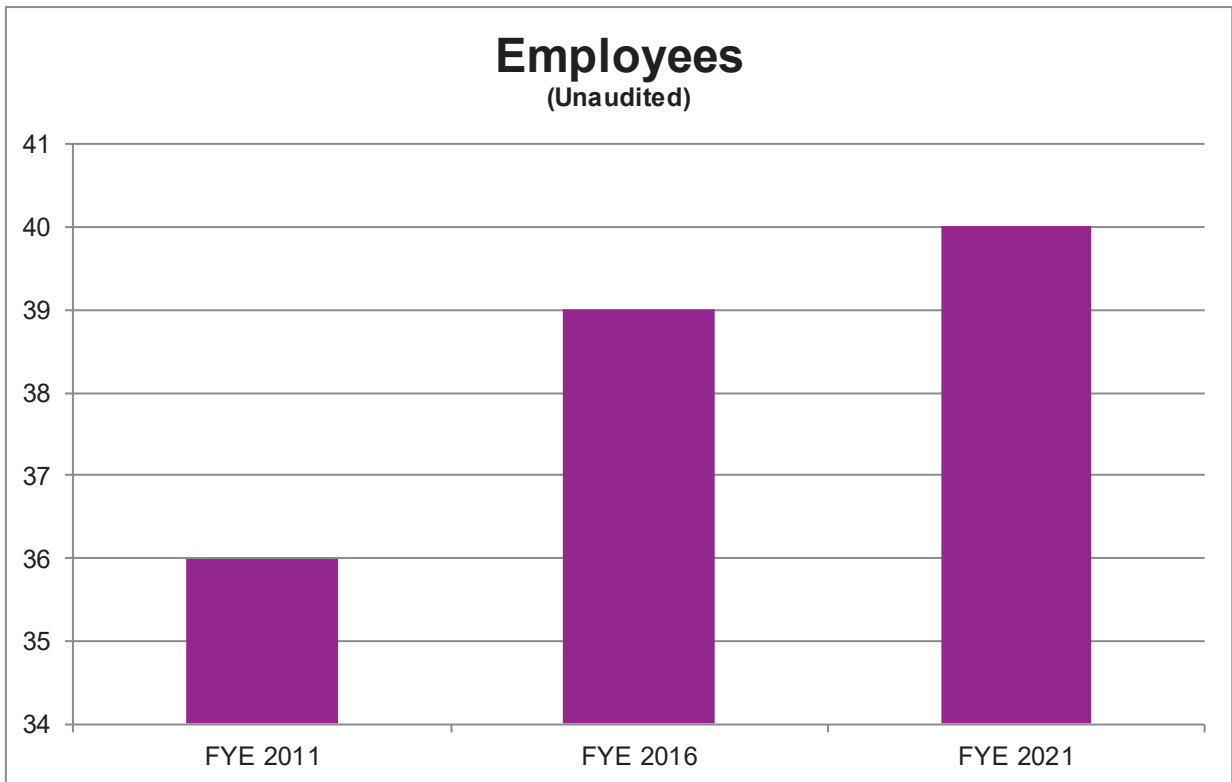
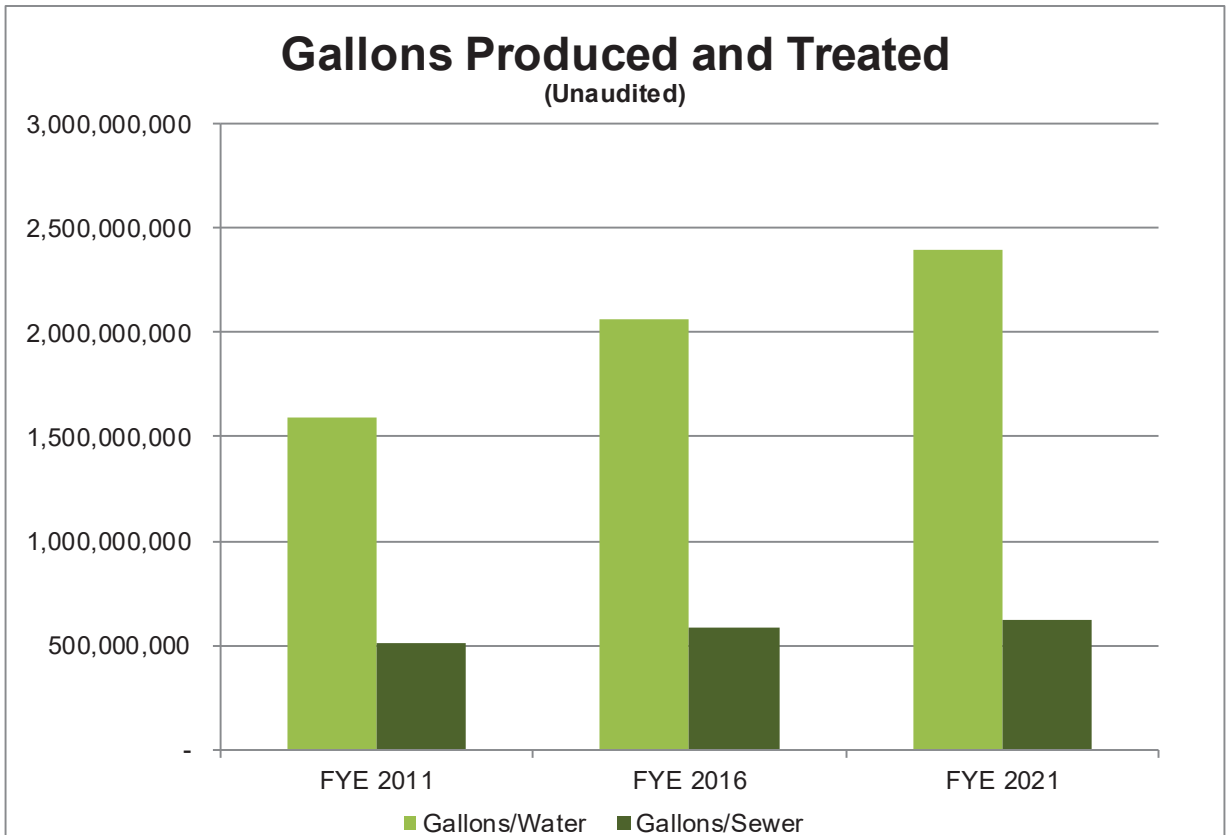
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**SOUTH WALTON UTILITY COMPANY, INC.  
STATISTICAL INFORMATION - CONTINUED**



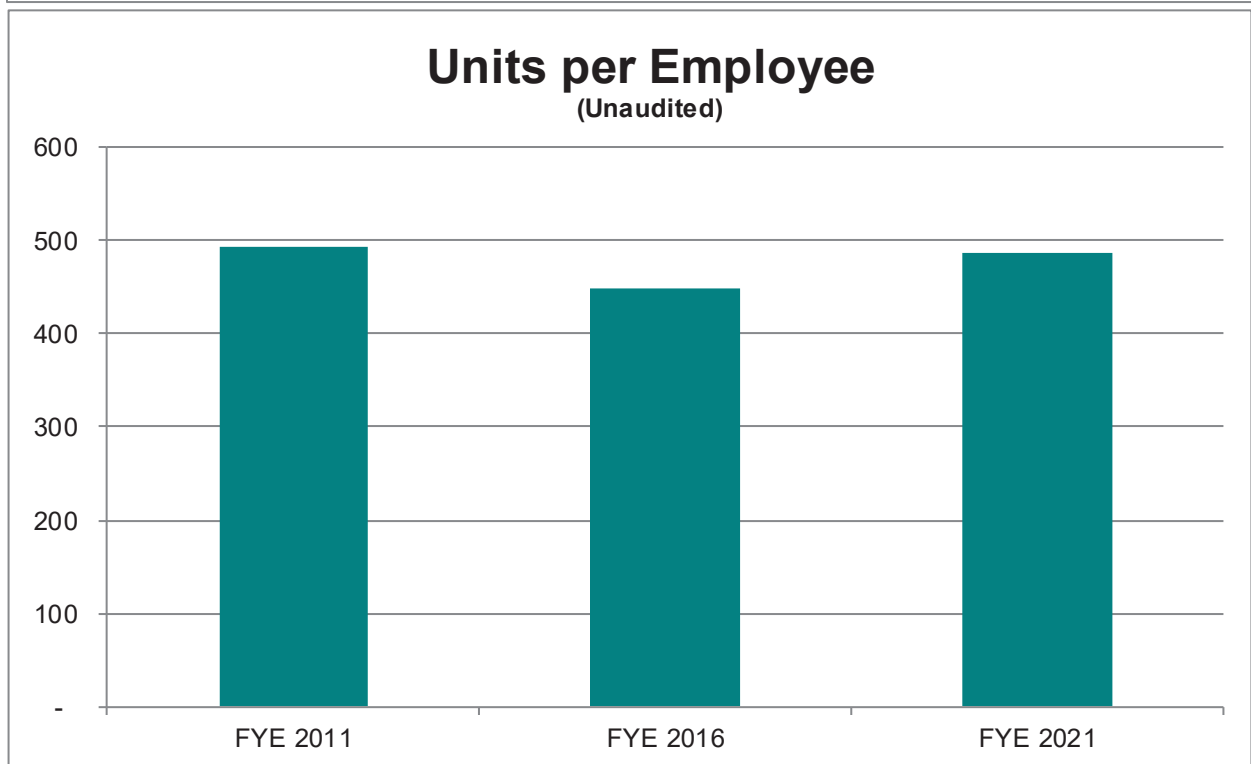
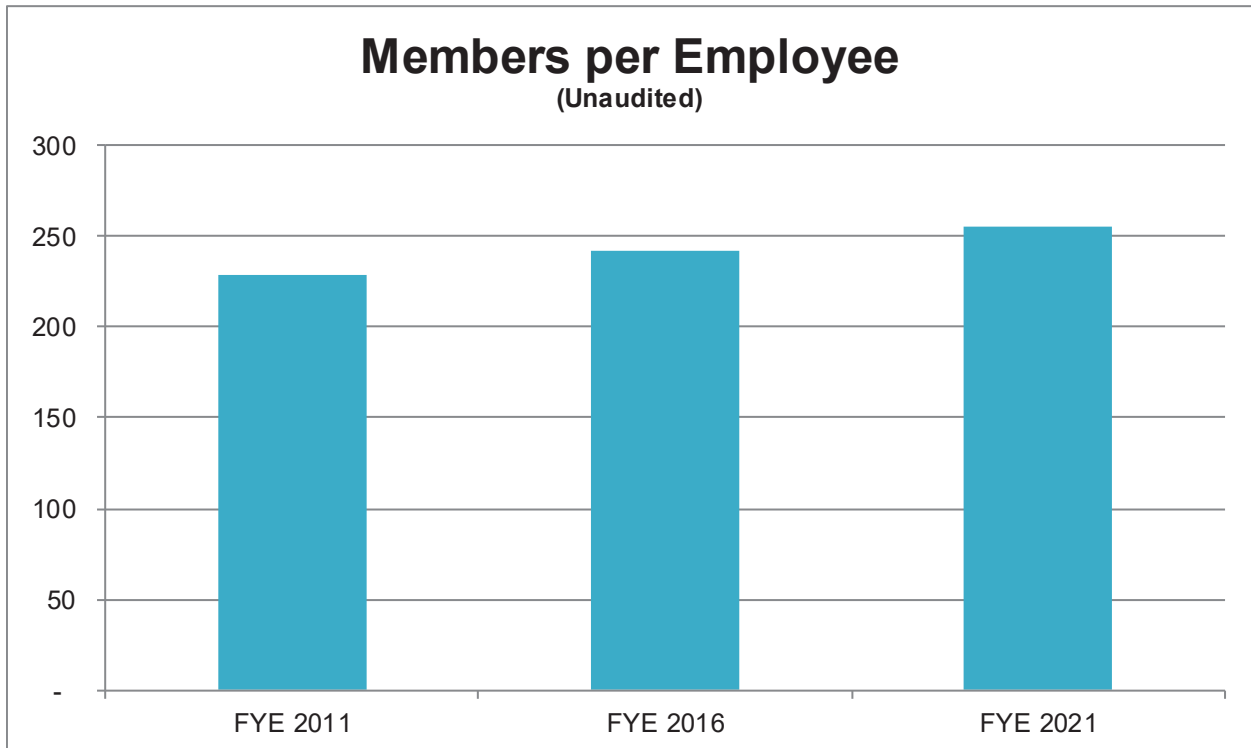
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**SOUTH WALTON UTILITY COMPANY, INC.  
STATISTICAL INFORMATION - CONTINUED**



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



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