

SOUTH WALTON UTILITY COMPANY, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2022 AND 2021

SOUTH WALTON UTILITY COMPANY, INC.
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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of South Walton Utility Company, Inc., which comprise the balance sheets as of September 30, 2022 and 2021, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of South Walton Utility Company, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about South Walton Utility Company, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

Auditors' Responsibilities for the Audit of the Financial Statements – Continued

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 South Walton Utility Company, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about South Walton Utility Company, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 24-30 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 17, 2022

SOUTH WALTON UTILITY COMPANY, INC.
BALANCE SHEETS
SEPTEMBER 30, 2022 AND 2021

ASSETS	2022	2021
UTILITY PLANT IN SERVICE, NET (See Note 2)	\$ 51,949,363	\$ 53,573,584
RESTRICTED AND DESIGNATED ASSETS		
Cash and cash equivalents – designated (See Note 1)	7,307,407	5,734,530
Investments – designated (See Note 4)	3,163,009	1,724,775
Investments – restricted (See Note 4)	806,332	766,204
Total restricted and designated assets	11,276,748	8,225,509
CURRENT ASSETS		
Cash and cash equivalents	5,049,887	5,263,899
Accounts receivable, net	1,392,987	1,280,534
Other receivables	561	8,593
Other receivable WRP true-up	197	145
Prepaid expenses	169,688	150,954
Inventory	415,467	278,291
Total current assets	7,028,787	6,982,416
OTHER ASSETS		
Prepaid debt service deposit	153,504	153,504
Investment in WRP, Inc. (See Note 6)	8,349,325	8,594,952
Total other assets	8,502,829	8,748,456
TOTAL ASSETS	\$ 78,757,727	\$ 77,529,965

See notes to the financial statements.

SOUTH WALTON UTILITY COMPANY, INC.
BALANCE SHEETS – CONTINUED
SEPTEMBER 30, 2022 AND 2021

	2022	2021
LIABILITIES AND MEMBERS' EQUITY		
MEMBERS' EQUITY		
Contributions in aid of construction		
Designated for future expansion	\$ 4,828,038	\$ 3,384,929
Undesignated	58,241,956	57,659,330
Accumulated amortization	<u>(31,474,578)</u>	<u>(30,088,270)</u>
Total contributions in aid of construction	31,595,416	30,955,989
Retained earnings		
Undesignated	<u>35,767,291</u>	<u>33,513,963</u>
Total members' equity	67,362,707	64,469,952
LONG-TERM LIABILITIES		
Customer deposits	395,030	397,110
Prepaid tap fees	493,842	497,342
Due to WRP, Inc. (See Note 6)	2,947,454	3,203,901
Notes payable, net (See Note 7)	193,700	385,666
RUA debt obligation, net (See Note 8)	<u>5,277,632</u>	<u>6,006,828</u>
Total long-term liabilities	9,307,658	10,490,847
CURRENT LIABILITIES		
Accounts payable	206,455	178,435
Due to WRP, Inc. (See Note 6)	240,673	234,902
Accrued wages and benefits	153,608	141,834
Notes payable (See Note 7)	195,025	739,378
RUA debt obligation (See Note 8)	742,496	721,011
Accrued interest payable	<u>549,105</u>	<u>553,606</u>
Total current liabilities	<u>2,087,362</u>	<u>2,569,166</u>
TOTAL LIABILITIES	<u>11,395,020</u>	<u>13,060,013</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u><u>\$ 78,757,727</u></u>	<u><u>\$ 77,529,965</u></u>

See notes to the financial statements.

SOUTH WALTON UTILITY COMPANY, INC.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	2022	2021
REVENUE FROM OPERATIONS	\$ 11,175,040	\$ 10,994,120
OPERATING EXPENSES		
Operating and maintenance	7,442,826	6,907,269
Depreciation and amortization	1,395,108	1,360,020
Total operating expenses	8,837,934	8,267,289
OPERATING INCOME	2,337,106	2,726,831
OTHER REVENUES (EXPENSES)		
Loss from investment in WRP, Inc.	(270,855)	(270,853)
Interest income	48,195	6,695
Interest expense	(294,182)	(330,681)
Investment income (loss)	(161,436)	(12,219)
Miscellaneous income	594,500	223,517
Total other revenues (expenses), net	(83,778)	(383,541)
NET INCOME	\$ 2,253,328	\$ 2,343,290

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION		
Beginning balance	\$ 30,955,989	\$ 30,969,611
Tap contributions	2,025,735	1,403,763
Amortization	<u>(1,386,308)</u>	<u>(1,417,385)</u>
Ending balance	<u>31,595,416</u>	<u>30,955,989</u>
RETAINED EARNINGS		
Beginning of year	33,513,963	31,170,673
Net income	<u>2,253,328</u>	<u>2,343,290</u>
End of year	<u>35,767,291</u>	<u>33,513,963</u>
TOTAL MEMBERS' EQUITY	<u>\$ 67,362,707</u>	<u>\$ 64,469,952</u>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 11,663,039	\$ 11,265,696
Interest income	48,195	6,695
Cash paid to suppliers and customers	(7,568,994)	(6,899,832)
Interest expense	(298,683)	(262,118)
Net cash provided by operating activities	<u>3,843,557</u>	<u>4,110,441</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of utility plant in service	(1,130,836)	(1,348,210)
Loan deposits	-	(408,173)
Investment in WRP, Inc.	(275,904)	(280,014)
Proceeds from due from other utility companies	-	196,099
Proceeds from investments	1,843,713	3,997,049
Purchases of investments	(3,483,511)	(1,755,881)
Net cash flows provided by (used in) investing activities	<u>(3,046,538)</u>	<u>400,870</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(739,378)	(705,329)
Principal payments on RUA debt obligation	(721,011)	(700,146)
Capital contributed by members	2,022,235	1,390,018
Net cash provided by (used in) financing activities	<u>561,846</u>	<u>(15,457)</u>
NET CHANGE IN CASH	1,358,865	4,495,854
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>10,998,429</u>	<u>6,502,575</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 12,357,294</u>	<u>\$ 10,998,429</u>
COMPOSITION OF CASH AND CASH EQUIVALENTS:		
Designated	\$ 7,307,407	\$ 5,734,530
Unrestricted	<u>5,049,887</u>	<u>5,263,899</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 12,357,294</u>	<u>\$ 10,998,429</u>

See notes to the financial statements.

SOUTH WALTON UTILITY COMPANY, INC.
STATEMENTS OF CASH FLOWS – CONTINUED
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,253,328	\$ 2,343,290
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	1,395,108	1,360,020
Gain on disposal of assets	(10,000)	(34,636)
Loss from investment in WRP, Inc.	270,855	270,853
Bad debt expense	6,501	5,760
Unrealized (gain) loss on investments	161,436	12,219
(Increase) decrease in operating assets:		
Accounts receivable	(118,954)	(49,060)
Other receivables	8,032	56,814
Other receivable – WRP true-up	(52)	(145)
Prepaid expenses	(18,734)	(15,014)
Inventory	(137,176)	19,692
Increase (decrease) in operating liabilities:		
Accounts payable	28,020	8,348
Other payable – WRP true-up	-	(792)
Customer deposits	(2,080)	34,545
Accrued wages and benefits	11,774	29,984
Accrued interest payable	(4,501)	68,563
Net cash flows provided by operating activities	<u>\$ 3,843,557</u>	<u>\$ 4,110,441</u>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

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 45 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, 2022 and 2021, was \$7,307,407 and \$5,734,530, 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, 2022 AND 2021**

**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

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).

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, 2022, there were 63 accounts written off totaling \$6,501. For the year ended September 30, 2021, there were 59 accounts written off totaling \$5,760.

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, 2022 and 2021.

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

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

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 \$222,514 and \$206,155 at September 30, 2022 and 2021, respectively.

The following is a summary of debt issue costs as of September 30, 2022 and 2021:

	2022	2021
Debt issue costs	\$ 327,187	\$ 327,187
Less accumulated amortization	(222,514)	(206,155)
	\$ 104,673	\$ 121,032

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 DWU 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.

SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

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

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.

Events Occurring after Reporting Date

The Company has evaluated events and transactions that occurred between September 30, 2022, and November 17, 2022, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Recently Issued Accounting Pronouncements

The FASB issued Accounting Standards Updates (ASU) 2016-02, *Leases (Subtopic 842)*. The purpose of this ASU is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on their balance sheets and disclosing key information about leasing arrangements. The amendments in this ASU require that lessees recognize the rights and obligations resulting from leases as assets and liabilities on their balance sheets, initially measured at the present value of the lease payments over the term of the lease, including payments to be made in optional periods to extend the lease and payments to purchase the underlying assets if the lessee is reasonably certain of exercising those options. Subtopic 842 requires recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. This guidance is effective for fiscal years beginning after December 15, 2021. Management is currently evaluating the impact this standard will have on the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

2. UTILITY PLANT IN SERVICE

Annual provisions for depreciation, net of amortization, of Utility Plant In Service total \$1,395,108 (depreciation of \$2,781,416, net of amortization of \$1,386,308) and \$1,360,020 (depreciation of \$2,777,405, net of amortization of \$1,417,385) for 2022 and 2021, respectively.

The following is a summary of Utility Plant in Service as of September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Land	\$ 2,286,624	\$ 2,286,624
Plant	91,212,981	90,391,556
Buildings	5,750,297	5,750,297
Computer equipment and software	316,970	316,970
Furniture and fixtures	102,535	102,535
Equipment	1,560,103	1,486,387
Vehicles	704,631	704,631
Construction in progress	<u>1,330,138</u>	<u>1,102,724</u>
	103,264,279	102,141,724
Less accumulated depreciation	<u>(51,314,916)</u>	<u>(48,568,140)</u>
	<u>\$ 51,949,363</u>	<u>\$ 53,573,584</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 \$11,900,000 and \$8,770,000 were held in the sweep account at September 30, 2022 and 2021, 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, 2022 and 2021, cash held within brokerage accounts totaled \$7,307,407 and \$5,734,530, respectively.

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

4. INVESTMENTS

Investments as of September 30, 2022 and 2021, consist of the following:

	<u>2022</u>	<u>2021</u>
Held to maturity debt securities		
Due within one year	\$ 1,868,791	\$ 734,647
Due after one year through three years	2,100,550	636,606
Total held to maturity debt securities	3,969,341	1,371,253
Equity securities	-	1,119,726
Total investments	<u>\$ 3,969,341</u>	<u>\$ 2,490,979</u>
Federal Agency Securities	\$ 687,058	\$ 104,230
U.S. Treasury	1,501,539	200,194
Certificates of deposit	1,780,744	1,066,829
Mutual funds	-	1,119,726
Total investments	<u>3,969,341</u>	<u>2,490,979</u>
Less amounts designated:		
Amount designated for operating reserves	-	-
Amount designated for future expansion	<u>(3,163,009)</u>	<u>(1,724,775)</u>
Total investments – designated	(3,163,009)	(1,724,775)
Less amounts restricted:		
Amount restricted for customer deposits	(395,030)	(397,110)
Amount restricted for loan repayment	(102,655)	(102,655)
Amount restricted for plant construction	<u>(308,647)</u>	<u>(266,439)</u>
Total investments – restricted	<u>(806,332)</u>	<u>(766,204)</u>
Total available investments – unrestricted	<u>\$ -</u>	<u>\$ -</u>

Investment returns were as follows:

	<u>2022</u>	<u>2021</u>
Interest income	\$ 31,559	\$ 49,583
Realized gain (loss) on investments	(150,224)	(69,941)
Unrealized gain (loss) on investments	<u>(42,771)</u>	<u>8,139</u>
Total investment income (loss)	<u>\$ (161,436)</u>	<u>\$ (12,219)</u>

SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021

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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 methodology used for assets measured at fair value at September 30, 2022 and 2021:

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 \$0 and \$1,119,726 at September 30, 2022 and 2021, 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.

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

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

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, 2022, WRP had total principal outstanding of \$8,603,826 on the SRF loan, of which \$3,188,127 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, 2022, the Company owed WRP \$3,188,127 (\$2,947,454 included in long-term liabilities), which includes the Company's share of the SRF loan and accrued interest. As of September 30, 2021, the Company owed WRP \$3,438,803 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, 2022:

	Amount
2023	\$ 240,673
2024	262,911
2025	269,525
2026	276,305
2027	283,256
Thereafter	1,855,457
Total due to WRP, Inc.	\$ 3,188,127

During the year ended September 30, 2022, the Company contributed \$25,228 to WRP related to the costs of the Phase IV project and recognized its share of WRP's net loss of \$270,855. 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 50% share of WRP's net loss of \$270,853. The Company's investment in WRP totaled \$8,349,325 and \$8,594,952 at September 30, 2022 and 2021, respectively.

The following is a summary of the Company's investment in WRP, Inc. as of September 30, 2022 and 2021:

	2022	2021
Beginning balance	\$ 8,594,952	\$ 8,830,314
Contributions to WRP, Inc.	25,228	35,491
Amortization of contributed capital	(231,128)	(231,126)
WRP, Inc. net loss	(39,727)	(39,727)
SWUCI Investment in WRP, Inc.	\$ 8,349,325	\$ 8,594,952

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

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

	2022	2021
ASSETS		
Cash	\$ 514,975	\$ 464,519
Other receivable – DWU true-up	197	145
Due from SWUCI	3,188,127	3,438,803
Due from DWU	5,373,343	5,795,835
Property and equipment, net	16,129,792	16,656,108
Total assets	\$ 25,206,434	\$ 26,355,410
LIABILITIES		
Accrued interest payable	\$ 32,605	\$ 34,005
Other payable – SWU true-up	197	145
SRF loan payable, net	8,419,454	9,074,268
Contributed Capital – DWU	8,202,648	8,410,109
Contributed capital – SWU	8,147,121	8,353,021
Retained earnings	404,409	483,862
Total liabilities and equity	\$ 25,206,434	\$ 26,355,410

Statements of Operations

	Year ended 2022	Year ended 2021
Revenue	\$ 14,464	\$ 13,936
Expenses	(93,917)	(93,389)
Net loss	(79,453)	(79,453)
Company's share (50%) of WRP, Inc. net loss	(39,727)	(39,727)
Less amortization of contributed capital	(231,128)	(231,126)
Company's recognized loss on investment in WRP, Inc.	\$ (270,855)	\$ (270,853)

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

7. 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 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 bore 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 were 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 required that the Company maintain a loan repayment reserve account in the amount of \$498,519. As of September 30, 2022, the balance of the reserve account was \$0 as the note was fully repaid during 2021.

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, 2022, the balance of the reserve account was \$102,655, which is included in restricted investments on the balance sheets. The outstanding note balance at September 30, 2022 and 2021, was \$395,865 and \$585,243, respectively.

In May 2020, the Company obtained a loan (the Loan) from a Bank in the amount of \$550,000 under the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Under the terms of the PPP, up to 100% of the loan (and related interest) may be forgiven if the proceeds are used for covered expenses and certain other requirements related to wage rates and maintenance of full-time equivalents are met. The Company applied for forgiveness and received forgiveness of \$550,000 from the Small Business Administration (SBA) in January 2022. Loan forgiveness is reflected as a component of miscellaneous income in the accompanying statements of operations.

	2022	2021	2022	2021
	Short-term	Short-term	Long-term	Long-term
SRL Phase II	\$ 195,025	\$ 189,378	\$ 200,840	\$ 395,865
PPP Loan	-	550,000	-	-
Total note payable	195,025	739,378	200,840	395,865
Less unamortized debt issue costs	-	-	(7,140)	(10,199)
Total note payable, net	<u>\$ 195,025</u>	<u>\$ 739,378</u>	<u>\$ 193,700</u>	<u>\$ 385,666</u>

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

7. NOTES PAYABLE – CONTINUED

Maturities on the remaining FDEP note are as follows:

2023		\$ 195,025
2024		<u>200,840</u>
		<u>\$ 395,865</u>

8. 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 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 balance at September 30, 2022 and 2021, was \$6,117,661 and \$6,838,672, respectively.

	<u>2022</u> <u>Short-term</u>	<u>2021</u> <u>Short-term</u>	<u>2022</u> <u>Long-term</u>	<u>2021</u> <u>Long-term</u>
Note payable for RUA	\$ 742,496	\$ 721,011	\$ 5,375,165	\$ 6,117,661
Less unamortized debt issue costs	<u>-</u>	<u>-</u>	<u>(97,533)</u>	<u>(110,833)</u>
Total note payable for RUA, net	<u>\$ 742,496</u>	<u>\$ 721,011</u>	<u>\$ 5,277,632</u>	<u>\$ 6,006,828</u>

Maturities of the RUA debt obligation are as follows:

	<u>Amount</u>
2023	\$ 742,496
2024	764,622
2025	787,407
2026	810,872
2027	835,035
Thereafter	<u>2,177,229</u>
	<u>\$ 6,117,661</u>

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

9. 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, 2022 and 2021, were \$273,437 and \$233,305, 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, 2022

	(Unaudited) Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Water	\$ 5,166,920	\$ 5,251,604	\$ 84,684
Sewer	5,338,292	5,235,398	(102,894)
Wholesale water	382,408	415,523	33,115
Other	304,702	272,515	(32,187)
Total operating revenues	<u>11,192,322</u>	<u>11,175,040</u>	<u>(17,282)</u>
OPERATING EXPENSES			
Bad debts	12,000	4,748	7,252
Chemicals	145,500	129,866	15,634
Contributions	16,500	6,258	10,242
Depreciation and amortization	1,698,000	1,395,108	302,892
Education and travel	40,500	37,730	2,770
Engineering and fees	70,500	18,889	51,611
Insurance – employees and other	865,566	900,641	(35,075)
Lab supplies	51,000	38,624	12,376
Legal and accounting	67,000	68,475	(1,475)
License and fees	157,500	156,081	1,419
Miscellaneous	72,230	40,101	32,129
Office expenses	21,800	11,026	10,774
Operating supplies	416,500	393,909	22,591
Payroll taxes	205,400	205,338	62
Professional fees	630,500	376,543	253,957
Repairs and maintenance	1,299,500	1,073,404	226,096
Retirement plans	251,000	273,437	(22,437)
Salaries	2,975,723	2,784,551	191,172
Telephone and sanitation	92,000	84,674	7,326
Uniforms	19,150	12,772	6,378
Utilities	724,500	828,869	(104,369)
WRP operating expenses	-	6,890	(6,890)
Gain on disposal of assets	-	(10,000)	(10,000)
Total operating expenses	<u>9,832,369</u>	<u>8,837,934</u>	<u>974,435</u>
OPERATING INCOME	<u>1,359,953</u>	<u>2,337,106</u>	<u>957,153</u>
OTHER REVENUES (EXPENSES)			
Loss from investment in WRP, Inc.	(270,000)	(270,855)	(855)
Interest income	50,000	79,754	29,754
Interest expense	(294,184)	(294,182)	2
Investment income (loss)	-	(192,995)	(192,995)
Miscellaneous income	80,000	594,500	514,500
Total other revenues (expenses)	<u>(434,184)</u>	<u>(83,778)</u>	<u>350,406</u>
NET INCOME	<u>\$ 925,769</u>	<u>\$ 2,253,328</u>	<u>\$ 1,307,559</u>

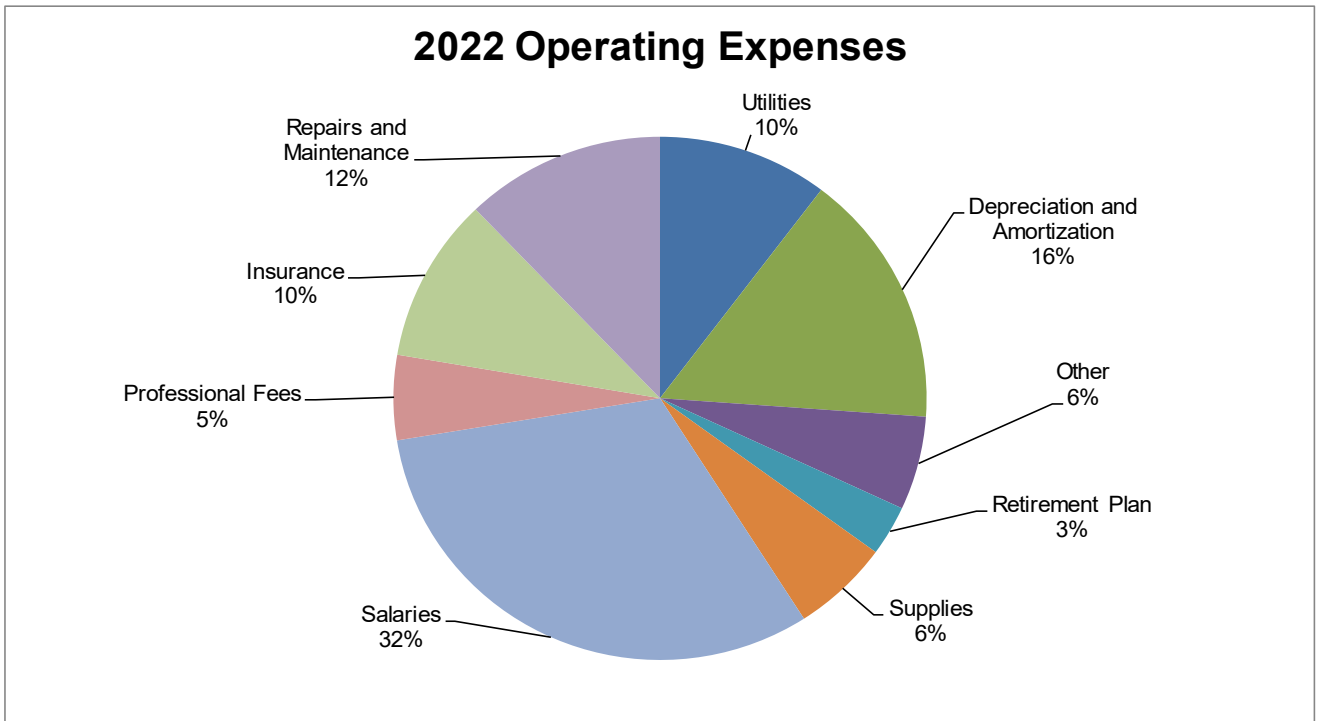
See independent auditors' report.

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

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

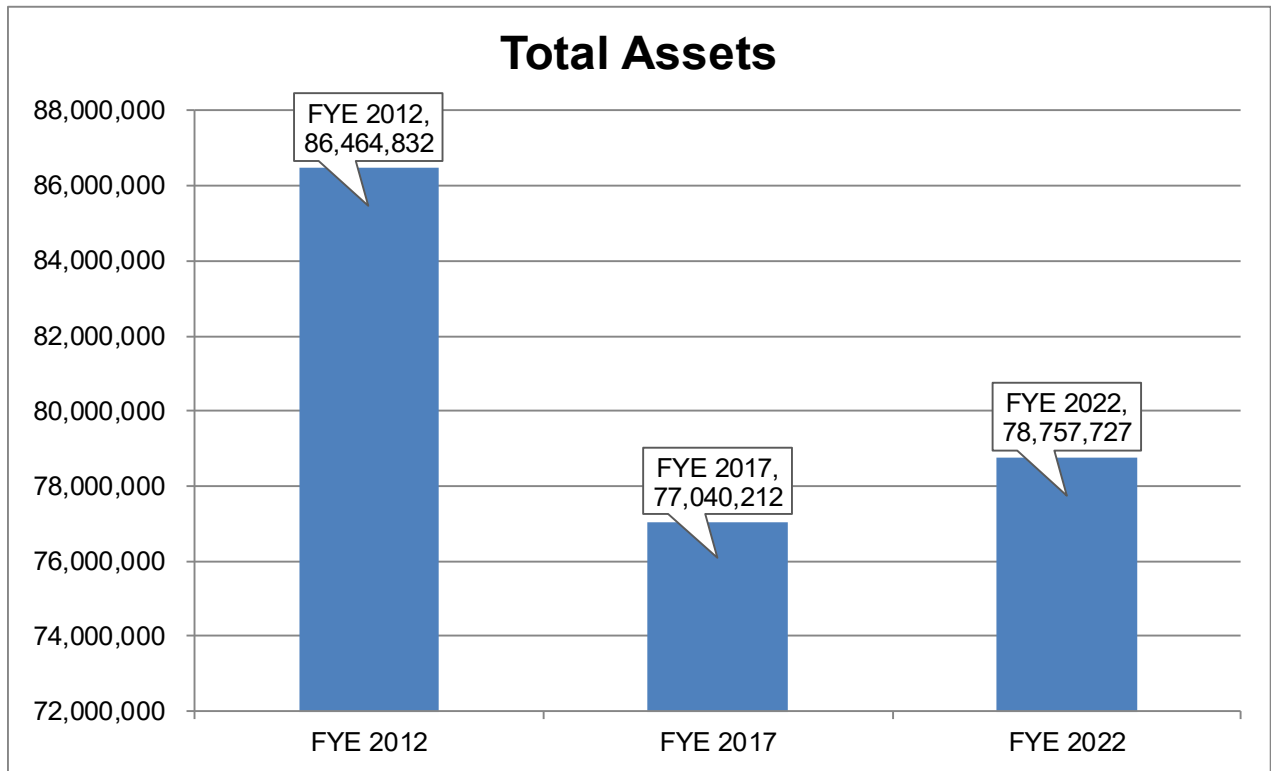
The table below compares total water consumption for fiscal years 2022 and 2021.

	Fiscal Year 2022	Fiscal Year 2021
Water consumption	1,186,795,000	1,189,037,000
Wholesale water	1,066,153,000	1,016,492,000
Number of units – water	19,720	19,445
Number of units – sewer	10,338	10,278
Number of members	10,488	10,210



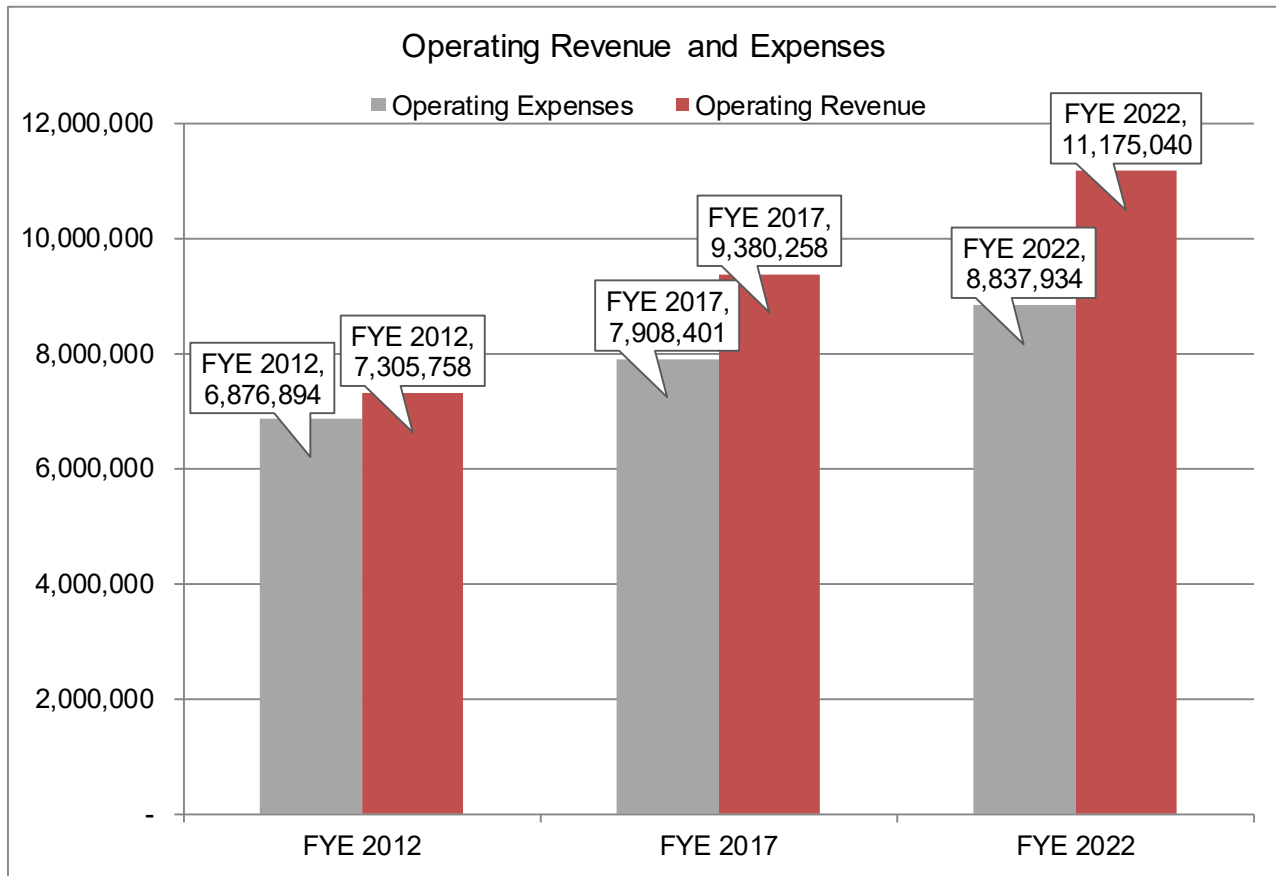
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**SOUTH WALTON UTILITY COMPANY, INC.
STATISTICAL INFORMATION – CONTINUED**



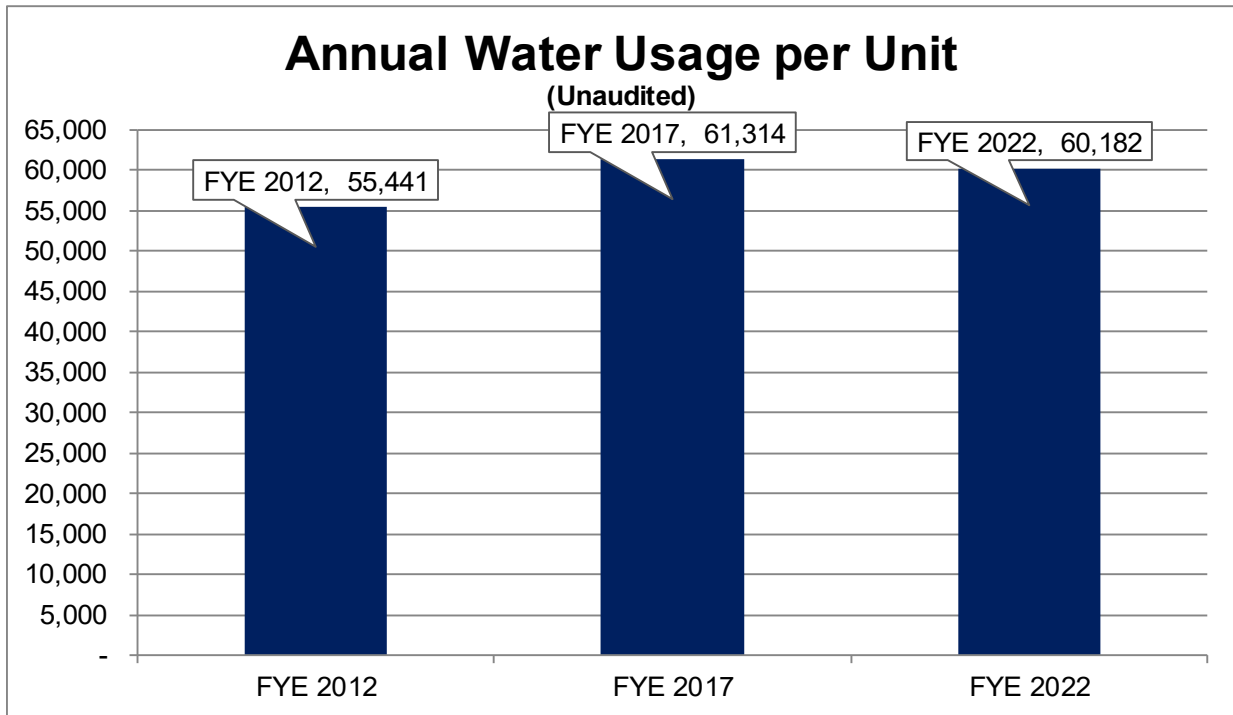
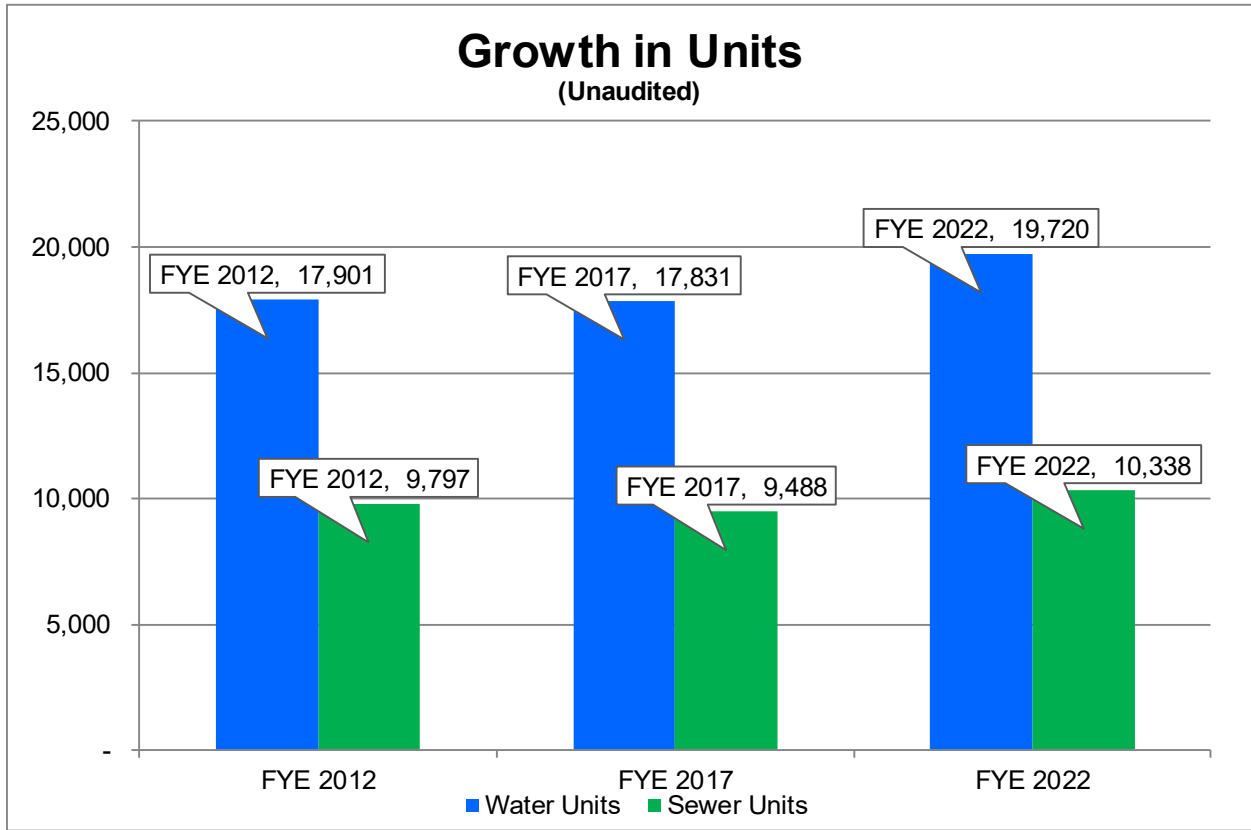
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**SOUTH WALTON UTILITY COMPANY, INC.
STATISTICAL INFORMATION – CONTINUED**



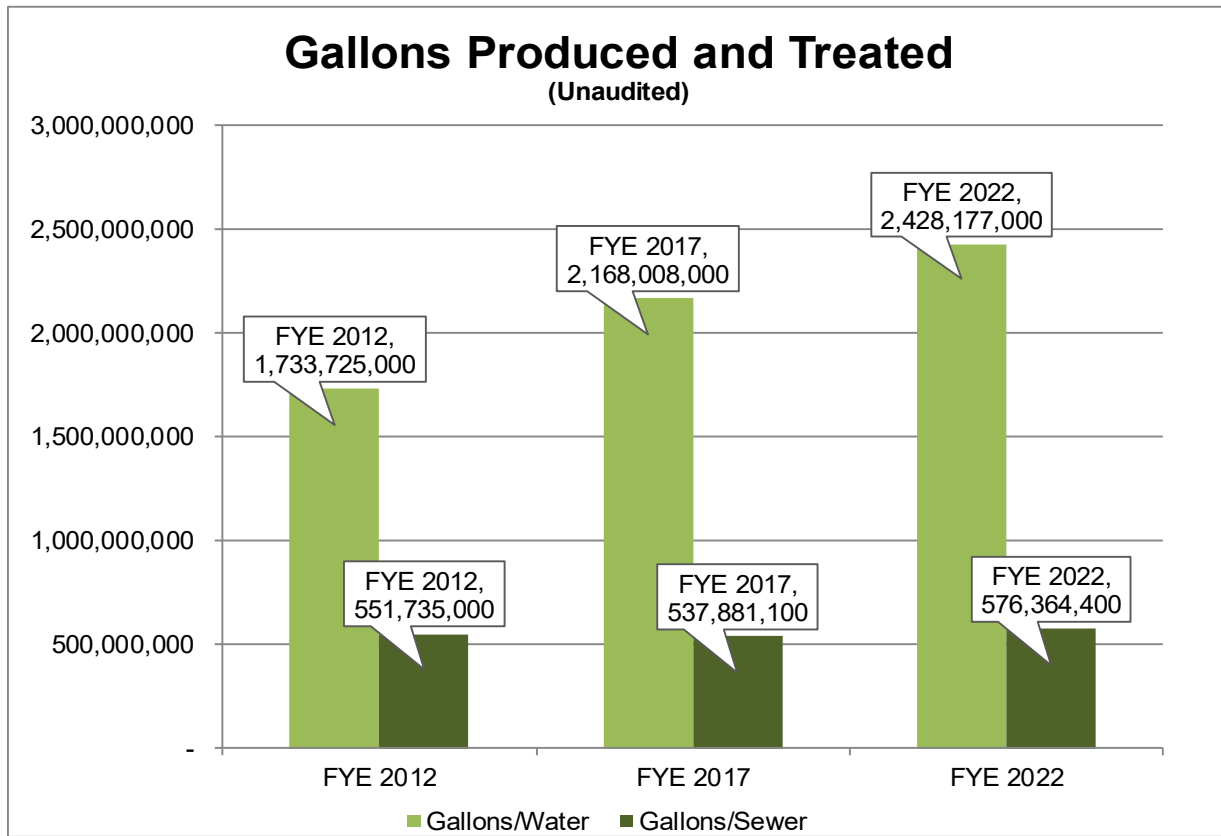
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**SOUTH WALTON UTILITY COMPANY, INC.
STATISTICAL INFORMATION – CONTINUED**



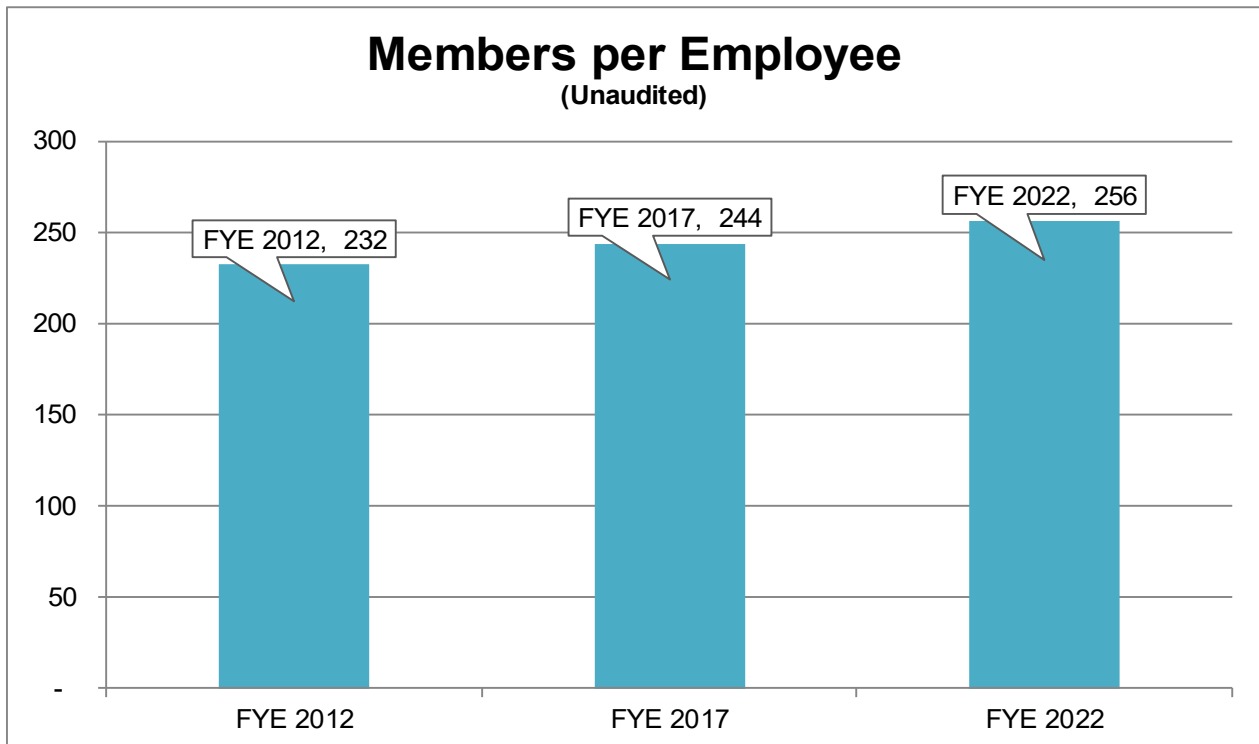
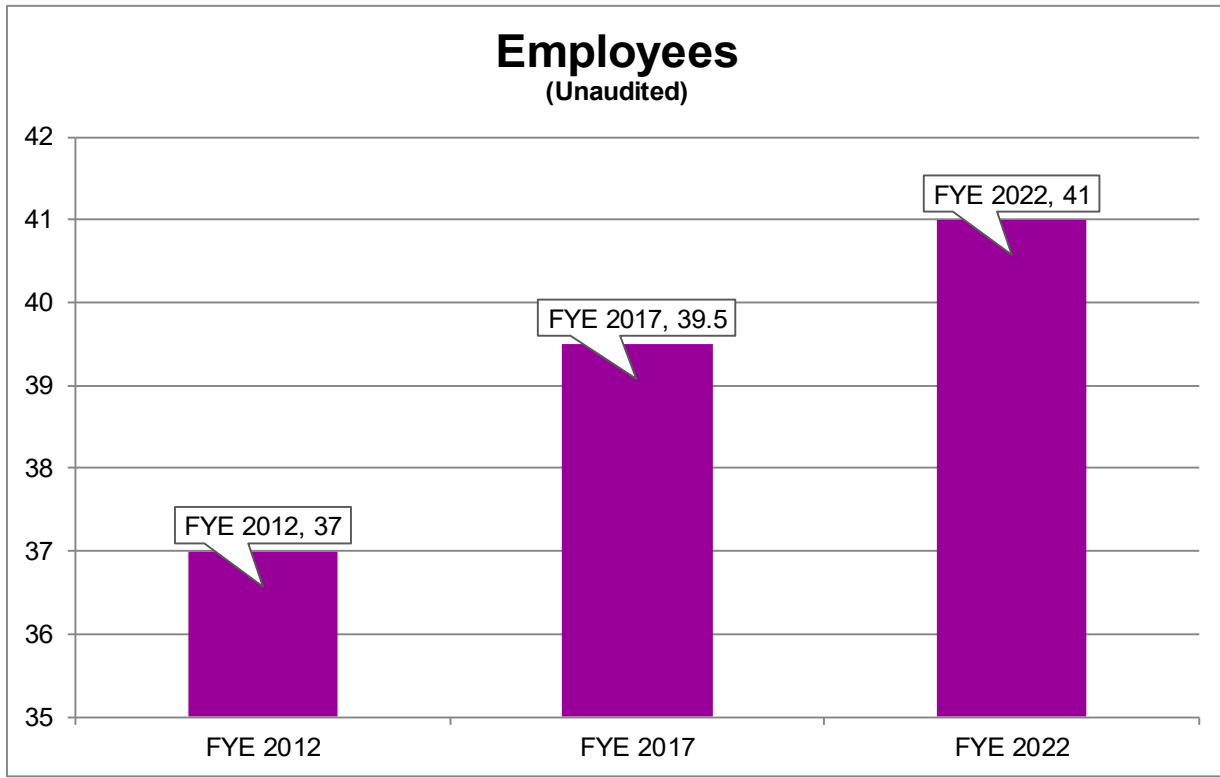
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**SOUTH WALTON UTILITY COMPANY, INC.
STATISTICAL INFORMATION – CONTINUED**



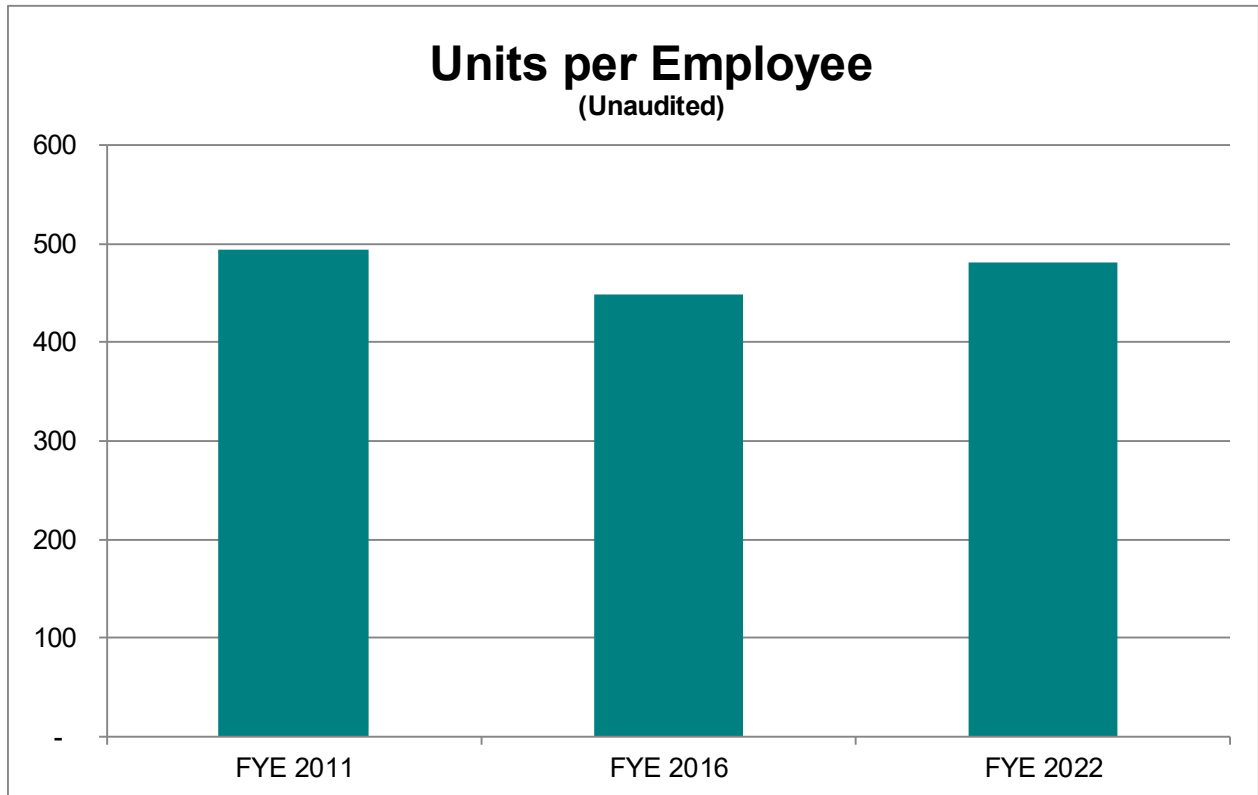
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**SOUTH WALTON UTILITY COMPANY, INC.
STATISTICAL INFORMATION – CONTINUED**



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



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