

**SOUTH WALTON UTILITY COMPANY, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2023 AND 2022**

**SOUTH WALTON UTILITY COMPANY, INC.  
TABLE OF CONTENTS  
SEPTEMBER 30, 2023 AND 2022**

---

<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>FINANCIAL STATEMENTS</b>	
Balance Sheets	3
Statements of Operations	5
Statements of Members' Equity	6
Statements of Cash Flows	7
Notes to the Financial Statements	9
<b>SUPPLEMENTARY INFORMATION</b>	
Statement of Operations – Comparison of Budget to Actual	20
Statistical Information	21

## 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, 2023 and 2022, 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, 2023 and 2022, 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. 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.

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

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 21 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 22-28 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 16, 2023

**SOUTH WALTON UTILITY COMPANY, INC.**  
**BALANCE SHEETS**  
**SEPTEMBER 30, 2023 AND 2022**

<b>ASSETS</b>	<b>2023</b>	<b>2022</b>
<b>UTILITY PLANT IN SERVICE, NET (see Note 2)</b>	\$ 50,325,252	\$ 51,949,363
<b>RESTRICTED AND DESIGNATED ASSETS</b>		
Cash and cash equivalents – designated (see Note 1)	8,684,199	7,307,407
Investments – designated (see Note 4)	3,351,185	3,163,009
Investments – restricted (see Note 4)	772,892	806,332
Total restricted and designated assets	12,808,276	11,276,748
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	5,465,134	5,049,887
Accounts receivable, net	1,607,536	1,392,987
Other receivables	16,082	28,769
Other receivable WRP true-up	-	197
Prepaid expenses	587,508	169,688
Inventory	404,864	415,467
Total current assets	8,081,124	7,056,995
<b>OTHER ASSETS</b>		
Prepaid debt service deposit	153,504	153,504
Investment in WRP, Inc. (see Note 6)	8,113,474	8,349,325
Total other assets	8,266,978	8,502,829
<b>TOTAL ASSETS</b>	<b>\$ 79,481,630</b>	<b>\$ 78,785,935</b>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.  
BALANCE SHEETS – CONTINUED  
SEPTEMBER 30, 2023 AND 2022**

	<b>2023</b>	<b>2022</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>MEMBERS' EQUITY</b>		
Contributions in aid of construction		
Designated for future expansion	\$ 5,588,741	\$ 4,828,038
Undesignated	58,241,956	58,241,956
Accumulated amortization	(32,833,662)	(31,474,578)
Total contributions in aid of construction	30,997,035	31,595,416
Retained earnings		
Undesignated	38,425,872	35,767,291
Total members' equity	69,422,907	67,362,707
<b>LONG-TERM LIABILITIES</b>		
Customer deposits	361,590	395,030
Prepaid tap fees	488,342	493,842
Due to WRP, Inc. (see Note 6)	2,684,557	2,947,454
Notes payable, net (see Note 7)	-	193,700
RUA debt obligation, net (see Note 8)	4,526,310	5,277,632
Total long-term liabilities	8,060,799	9,307,658
<b>CURRENT LIABILITIES</b>		
Accounts payable	164,907	206,455
Due to WRP, Inc. (see Note 6)	246,590	240,673
Accrued wages and benefits	166,394	153,608
Note payable (see Note 7)	196,760	195,025
RUA debt obligation (see Note 8)	764,622	742,496
Accrued interest payable	457,471	577,313
Total current liabilities	1,997,924	2,115,570
<b>TOTAL LIABILITIES</b>	<b>10,058,723</b>	<b>11,423,228</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 79,481,630</b>	<b>\$ 78,785,935</b>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.**  
**STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

	<b>2023</b>	<b>2022</b>
<b>REVENUE FROM OPERATIONS</b>	\$ 11,708,776	\$ 11,175,040
<b>OPERATING EXPENSES</b>		
Operating and maintenance	7,768,285	7,442,826
Depreciation and amortization	1,418,483	1,395,108
Total operating expenses	9,186,768	8,837,934
<b>OPERATING INCOME</b>	2,522,008	2,337,106
<b>OTHER REVENUES (EXPENSES)</b>		
Loss from investment in WRP, Inc.	(270,857)	(270,855)
Interest income	514,441	48,195
Interest expense	(260,530)	(294,182)
Investment income (loss)	108,236	(161,436)
Miscellaneous income	45,283	594,500
Total other revenues (expenses), net	136,573	(83,778)
<b>NET INCOME</b>	<b>\$ 2,658,581</b>	<b>\$ 2,253,328</b>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.  
STATEMENTS OF MEMBERS' EQUITY  
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

	<b>2023</b>	<b>2022</b>
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>		
Beginning balance	\$ 31,595,416	\$ 30,955,989
Tap contributions	760,753	2,025,735
Amortization	(1,359,134)	(1,386,308)
Ending balance	30,997,035	31,595,416
<b>RETAINED EARNINGS</b>		
Beginning of year	35,767,291	33,513,963
Net income	2,658,581	2,253,328
End of year	38,425,872	35,767,291
<b>TOTAL MEMBERS' EQUITY</b>	<b>\$ 69,422,907</b>	<b>\$ 67,362,707</b>

See notes to the financial statements.



**SOUTH WALTON UTILITY COMPANY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 11,518,757	\$ 11,663,039
Interest income	514,441	48,195
Cash paid to suppliers and customers	(8,238,451)	(7,568,994)
Interest expense	(380,372)	(298,683)
Net cash provided by operating activities	<u>3,414,375</u>	<u>3,843,557</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition and construction of utility plant in service	(1,161,332)	(1,130,836)
Proceeds from sale of vehicles	59,750	-
Investment in WRP, Inc.	(291,986)	(275,904)
Proceeds from investments	2,679,500	1,843,713
Purchases of investments	(2,726,000)	(3,483,511)
Net cash flows used in investing activities	<u>(1,440,068)</u>	<u>(3,046,538)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on notes payable	(195,025)	(739,378)
Principal payments on RUA debt obligation	(742,496)	(721,011)
Capital contributed by members	755,253	2,022,235
Net cash (used in) provided by financing activities	<u>(182,268)</u>	<u>561,846</u>
<b>NET CHANGE IN CASH</b>	1,792,039	1,358,865
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>12,357,294</u>	<u>10,998,429</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 14,149,333</u>	<u>\$ 12,357,294</u>
<b>COMPOSITION OF CASH AND CASH EQUIVALENTS:</b>		
Designated	\$ 8,684,199	\$ 7,307,407
Unrestricted	5,465,134	5,049,887
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u>\$ 14,149,333</u>	<u>\$ 12,357,294</u>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.  
STATEMENTS OF CASH FLOWS – CONTINUED  
FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 2,658,581	\$ 2,253,328
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	1,418,483	1,395,108
Gain on disposal of assets	(35,564)	(10,000)
Loss from investment in WRP, Inc.	270,857	270,855
Bad debt expense	3,781	6,501
Unrealized (gain) loss on investments	(108,236)	161,436
(Increase) decrease in operating assets:		
Accounts receivable	(218,330)	(118,954)
Other receivables	12,687	8,032
Other receivable – WRP true-up	197	(52)
Prepaid expenses	(417,820)	(18,734)
Inventory	10,603	(137,176)
Increase (decrease) in operating liabilities:		
Accounts payable	(41,548)	28,020
Customer deposits	(33,440)	(2,080)
Accrued wages and benefits	12,786	11,774
Accrued interest payable	(119,842)	(4,501)
Net cash flows provided by operating activities	<u>\$ 3,414,375</u>	<u>\$ 3,843,557</u>

See notes to the financial statements.

**SOUTH WALTON UTILITY COMPANY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2023 AND 2022**

---

**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, 2023 and 2022, was \$8,684,199 and \$7,307,407, 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.

**Investments**

Management determines the appropriate classification of investment securities at the time they are acquired and evaluates the appropriateness of such classifications at each balance sheet date. All of the investments held by the Company, which consist of fixed income investments, are classified at fair value.

**SOUTH WALTON UTILITY COMPANY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2023 AND 2022**

---

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

**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).

**Accounts Receivable**

Accounts receivable 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. The accounts receivable, net was \$1,280,534 at September 30, 2021.

For the year ended September 30, 2023, there were 48 accounts written off totaling \$3,781. For the year ended September 30, 2022, there were 63 accounts written off totaling \$6,501.

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, 2023 and 2022.

**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.

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 AND 2022**

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

**Debt Issue Costs**

Issue costs for the state of Florida revolving loans are deferred and amortized over the term of the debt using the straight-line method. Issue costs are included as a reduction to reported debt, net of any accumulated amortization. Accumulated amortization of debt issue costs was \$238,874 and \$222,514 at September 30, 2023 and 2022, respectively.

The following is a summary of debt issue costs as of September 30, 2023 and 2022:

	<b>2023</b>	<b>2022</b>
Debt issue costs	\$ 327,187	\$ 327,187
Less accumulated amortization	(238,874)	(222,514)
	<b>\$ 88,313</b>	<b>\$ 104,673</b>

**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.

**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 hours per month of employment, up to 10 years. From 10 to 15 years, annual leave is accrued at 15 days per year. From 15 to 20 years of service, annual leave is accrued at 20 days per year. After 20 years of service, employees earn 25 days per year.

An employee may not accrue more than 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 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.

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 AND 2022**

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

**Right-Of-Use Assets and Lease Liabilities**

Effective October 1, 2022, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, Leases (“Topic 842”). Under Topic 842, a lessee is required to recognize a lease liability and a right-of-use lease asset on the balance sheet. The Company has determined that they have no long-term leases under this standard at this time, and there was no impact on the financial statements as a result of the adoption of this standard.

**Reclassifications**

Certain amounts presented in the prior year have been reclassified in order to conform to the current year presentation.

**Subsequent Events**

The Company has evaluated events and transactions that occurred between September 30, 2023, and November 16, 2023, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**2. UTILITY PLANT IN SERVICE**

Annual provisions for depreciation, net of amortization, of Utility Plant In Service total \$1,418,483 (depreciation of \$2,777,617, net of amortization of \$1,359,134) and \$1,395,108 (depreciation of \$2,781,416, net of amortization of \$1,386,308) for 2023 and 2022, respectively.

The following is a summary of Utility Plant in Service as of September 30, 2023 and 2022:

	<u><b>2023</b></u>	<u><b>2022</b></u>
Land	\$ 2,286,624	\$ 2,286,624
Plant	92,947,102	91,212,981
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	1,560,103
Vehicles	799,325	704,631
Construction in progress	525,074	1,330,138
	<u>104,288,030</u>	<u>103,264,279</u>
Less accumulated depreciation	<u>(53,962,778)</u>	<u>(51,314,916)</u>
	<u><u>\$ 50,325,252</u></u>	<u><u>\$ 51,949,363</u></u>

**SOUTH WALTON UTILITY COMPANY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2023 AND 2022**

**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 \$13,620,000 and \$11,900,000 were held in the sweep account at September 30, 2023 and 2022, 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 U.S. 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, 2023 and 2022, cash held within brokerage accounts totaled \$8,684,199 and \$7,307,407, respectively.

**4. INVESTMENTS**

Investments as of September 30, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Federal Agency Securities	\$ 1,616,396	\$ 687,058
U.S. Treasury	353,267	1,501,539
Certificates of deposit	<u>2,154,414</u>	<u>1,780,744</u>
Total investments	<u>4,124,077</u>	<u>3,969,341</u>
Less amounts designated:		
Amount designated for future expansion	<u>(3,351,185)</u>	<u>(3,163,009)</u>
Total investments – designated	<u>(3,351,185)</u>	<u>(3,163,009)</u>
Less amounts restricted:		
Amount restricted for customer deposits	(361,590)	(395,030)
Amount restricted for loan repayment	(102,655)	(102,655)
Amount restricted for plant construction	<u>(308,647)</u>	<u>(308,647)</u>
Total investments – restricted	<u>(772,892)</u>	<u>(806,332)</u>
Total available investments – unrestricted	<u>\$ -</u>	<u>\$ -</u>

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 AND 2022**

**4. INVESTMENTS – CONTINUED**

Investment returns were as follows:

	<b>2023</b>	<b>2022</b>
Interest income	\$ 87,651	\$ 31,559
Realized gain (loss) on investments	27,834	(150,224)
Unrealized loss on investments	(7,249)	(42,771)
Total investment income (loss)	\$ 108,236	\$ (161,436)

**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, 2023 and 2022:

*Fixed income:* Investments in debt and fixed income funds are comprised of various bond market index funds. They are classified as Level 2, as they are traded in an active market and quoted prices are based on the value of underlying assets.

The Company's investments in fixed income were \$4,124,078 and \$3,969,341 at September 30, 2023 and 2022, respectively.



**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 AND 2022**

**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, 2023, WRP had total principal outstanding of \$7,209,169 on the SRF loan, of which \$2,931,147 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, 2023, the Company owed WRP \$2,931,147 (\$2,684,557 included in long-term liabilities), which includes the Company's share of the SRF loan and accrued interest. As of September 30, 2022, the Company owed WRP \$3,188,127 for costs associated with the Phase IV Project, which included the Company's share of the 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, 2023:

	<b>Amount</b>
2024	\$ 246,590
2025	269,525
2026	276,305
2027	283,256
2028	290,382
Thereafter	1,565,089
Total due to WRP, Inc.	\$ 2,931,147

During the year ended September 30, 2023, the Company contributed \$35,006 to WRP related to the costs of the Phase IV project and recognized its share of WRP's net loss of \$270,857. 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 50% share of WRP's net loss of \$270,855. The Company's investment in WRP totaled \$8,113,474 and \$8,349,325 at September 30, 2023 and 2022, respectively.

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 AND 2022**

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

The following is a summary of the Company's investment in WRP, Inc. as of September 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Beginning balance	\$ 8,349,325	\$ 8,594,952
Contributions to WRP, Inc.	35,006	25,228
Amortization of contributed capital	(231,130)	(231,128)
WRP, Inc. net loss	<u>(39,727)</u>	<u>(39,727)</u>
SWUCI Investment in WRP, Inc.	<u>\$ 8,113,474</u>	<u>\$ 8,349,325</u>

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**

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Cash	\$ 584,987	\$ 514,975
Other receivable – SWU true-up	1,180	-
Other receivable – DWU true-up	-	197
Due from SWUCI	2,931,147	3,188,127
Due from DWU	4,940,221	5,373,343
Property and equipment, net	<u>15,603,476</u>	<u>16,129,792</u>
Total assets	<u>\$ 24,061,011</u>	<u>\$ 25,206,434</u>
<b>LIABILITIES</b>		
Accrued interest payable	\$ 31,170	\$ 32,605
Other payable – SWU true-up	-	197
Other payable – DWU true-up	1,180	-
SRF loan payable, net	7,747,741	8,419,454
Contributed capital – DWU	8,004,967	8,202,648
Contributed capital – SWU	7,950,997	8,147,121
Retained earnings	<u>324,956</u>	<u>404,409</u>
Total liabilities and equity	<u>\$ 24,061,011</u>	<u>\$ 25,206,434</u>

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 AND 2022**

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

**Statements of Operations**

	<b>Year ended 2023</b>	<b>Year ended 2022</b>
Revenue	\$ 14,908	\$ 14,464
Expenses	(94,361)	(93,917)
Net loss	(79,453)	(79,453)
Company's share (50%) of WRP, Inc. net loss	(39,727)	(39,727)
Less amortization of contributed capital	(231,130)	(231,128)
Company's recognized loss on investment in WRP, Inc.	\$ (270,857)	\$ (270,855)

**7. NOTES PAYABLE**

**Capitalization Grants for Drinking Water State Revolving Fund**

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, 2023, 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, 2023 and 2022, was \$200,840 and \$395,865, respectively.

	<b>2023 Short-term</b>	<b>2022 Short-term</b>	<b>2023 Long-term</b>	<b>2022 Long-term</b>
SRL Phase II	\$ 200,840	\$ 195,025	\$ -	\$ 200,840
Less unamortized debt issue costs	(4,080)	-	-	(7,140)
Total note payable, net	\$ 196,760	\$ 195,025	\$ -	\$ 193,700

Maturities on the remaining FDEP note for 2024 are \$200,840.

In May 2020, the Company obtained a 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.

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 AND 2022**

**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 is secured by land and building. 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, 2023 and 2022, was \$5,375,165 and \$6,117,661, respectively.

	<u>2023</u> <u>Short-term</u>	<u>2022</u> <u>Short-term</u>	<u>2023</u> <u>Long-term</u>	<u>2022</u> <u>Long-term</u>
Note payable for RUA	\$ 764,622	\$ 742,496	\$4,610,543	\$ 5,375,165
Less unamortized debt issue costs	-	-	(84,233)	(97,533)
Total note payable for RUA, net	<u>\$ 764,622</u>	<u>\$ 742,496</u>	<u>\$4,526,310</u>	<u>\$ 5,277,632</u>

Maturities of the RUA debt obligation are as follows:

	<u>Amount</u>
2024	\$ 764,622
2025	787,407
2026	810,872
2027	835,035
2028	859,919
Thereafter	<u>1,317,310</u>
	<u>\$ 5,375,165</u>

**SOUTH WALTON UTILITY COMPANY, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2023 AND 2022**

---

**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, 2023 and 2022, were \$270,006 and \$273,437, 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, 2023**

	(Unaudited) Budget	Actual	Variance Favorable (Unfavorable)
<b>OPERATING REVENUES</b>			
Water	\$ 5,278,364	\$ 5,512,464	\$ 234,100
Sewer	5,594,577	5,654,629	60,052
Wholesale water	436,800	367,335	(69,465)
Other	215,000	174,348	(40,652)
Total operating revenues	<u>11,524,741</u>	<u>11,708,776</u>	<u>184,035</u>
<b>OPERATING EXPENSES</b>			
Bad debts	8,000	-	8,000
Chemicals	162,000	146,717	15,283
Contributions	15,000	1,050	13,950
Depreciation and amortization	1,747,600	1,418,483	329,117
Education and travel	51,975	54,167	(2,192)
Engineering and fees	37,335	97,097	(59,762)
Insurance – employees and other	904,000	1,044,524	(140,524)
Lab supplies	46,000	41,569	4,431
Legal and accounting	64,000	61,200	2,800
License and fees	166,250	134,113	32,137
Miscellaneous	70,358	23,594	46,764
Office expenses	13,050	9,523	3,527
Operating supplies	437,400	426,741	10,659
Payroll taxes	195,870	210,113	(14,243)
Professional fees	403,000	311,359	91,641
Repairs and maintenance	1,230,500	1,132,045	98,455
Retirement plans	282,000	270,006	11,994
Salaries	3,009,418	2,845,892	163,526
Telephone and sanitation	88,500	81,622	6,878
Uniforms	19,250	15,427	3,823
Utilities	828,000	889,636	(61,636)
WRP operating expenses	-	7,454	(7,454)
Gain on disposal of assets	-	(35,564)	(35,564)
Total operating expenses	<u>9,779,506</u>	<u>9,186,768</u>	<u>521,610</u>
<b>OPERATING INCOME</b>	<u>1,745,235</u>	<u>2,522,008</u>	<u>705,645</u>
<b>OTHER REVENUES (EXPENSES)</b>			
Loss from investment in WRP, Inc.	(220,000)	(270,857)	(50,857)
Interest income	39,637	602,092	562,455
Interest expense	(260,530)	(260,530)	-
Investment income	-	20,585	20,585
Miscellaneous income	44,500	45,283	783
Total other revenues (expenses)	<u>(396,393)</u>	<u>136,573</u>	<u>532,966</u>
<b>NET INCOME</b>	<u>\$ 1,348,842</u>	<u>\$ 2,658,581</u>	<u>\$ 1,238,611</u>

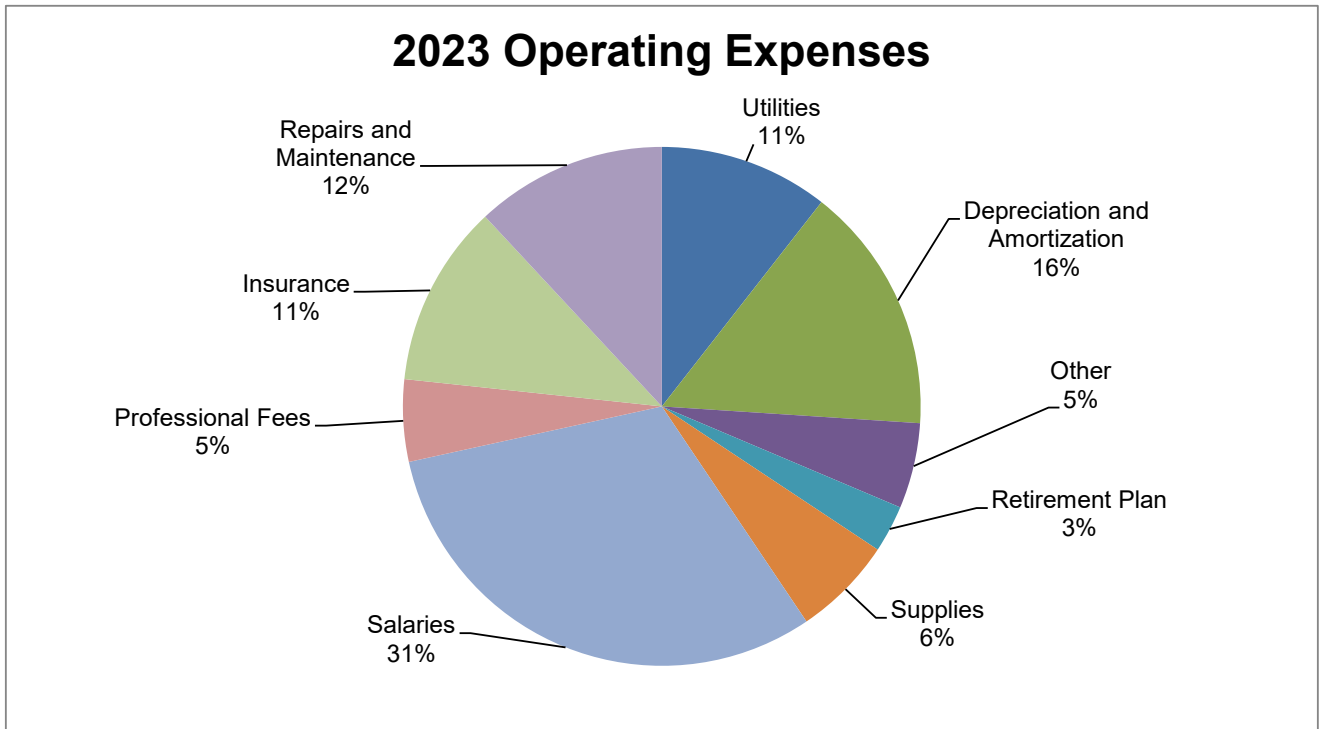
See independent auditors' report.

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

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

The table below compares total water consumption for fiscal years 2023 and 2022.

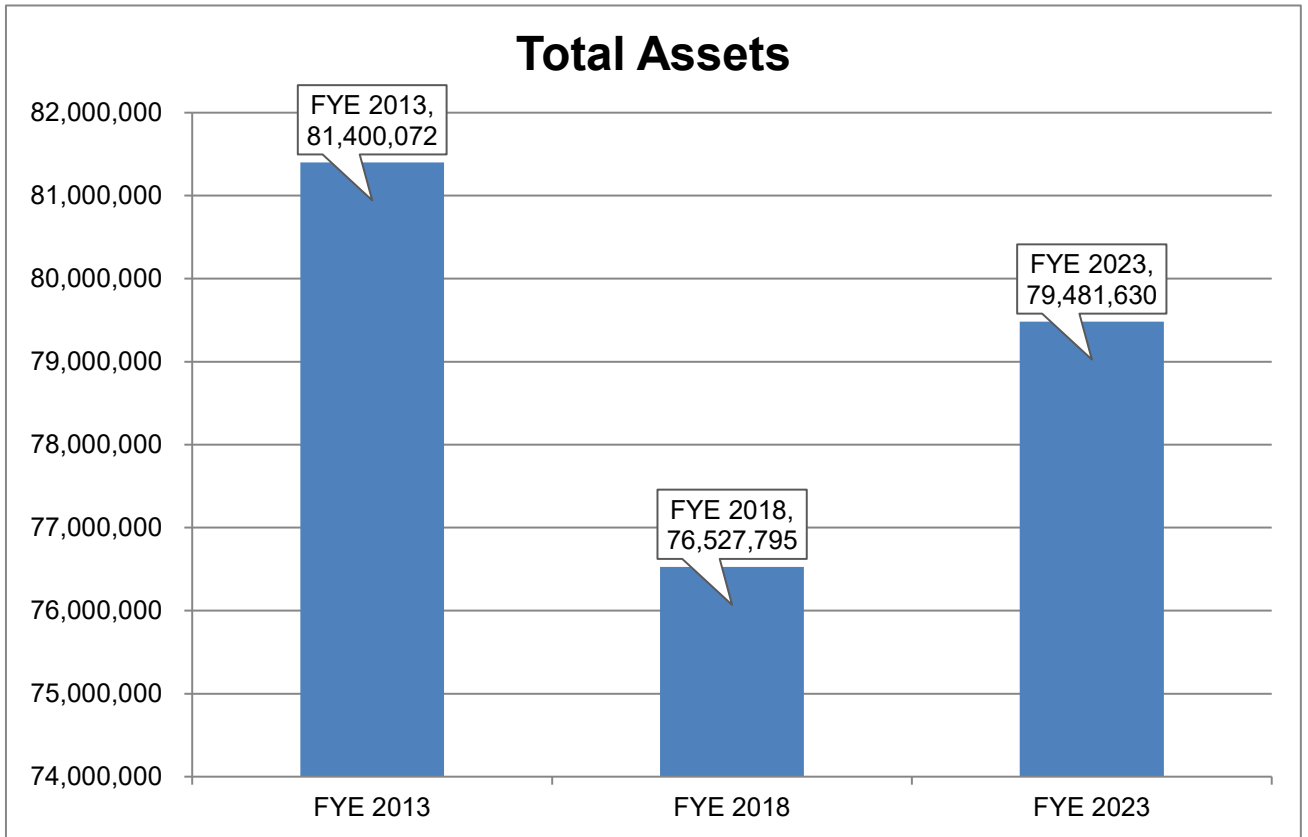
	<b>Fiscal Year 2023</b>	<b>Fiscal Year 2022</b>
Water consumption	1,168,302,000	1,186,795,000
Wholesale water	1,012,281,000	1,066,153,000
Number of units – water	20,280	19,720
Number of units – sewer	10,901	10,338
Number of members	10,598	10,488



See independent auditors' report.

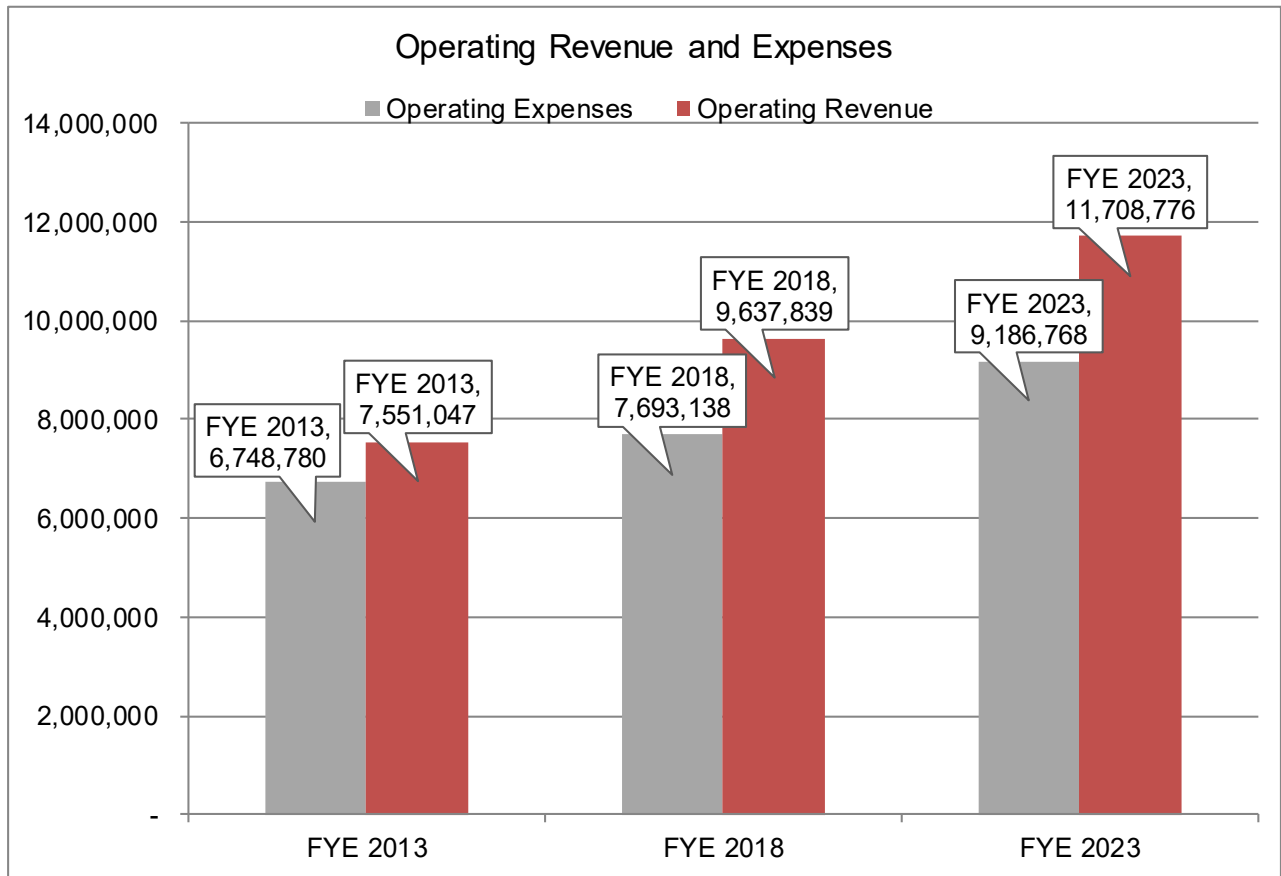


**SOUTH WALTON UTILITY COMPANY, INC.  
STATISTICAL INFORMATION – CONTINUED**



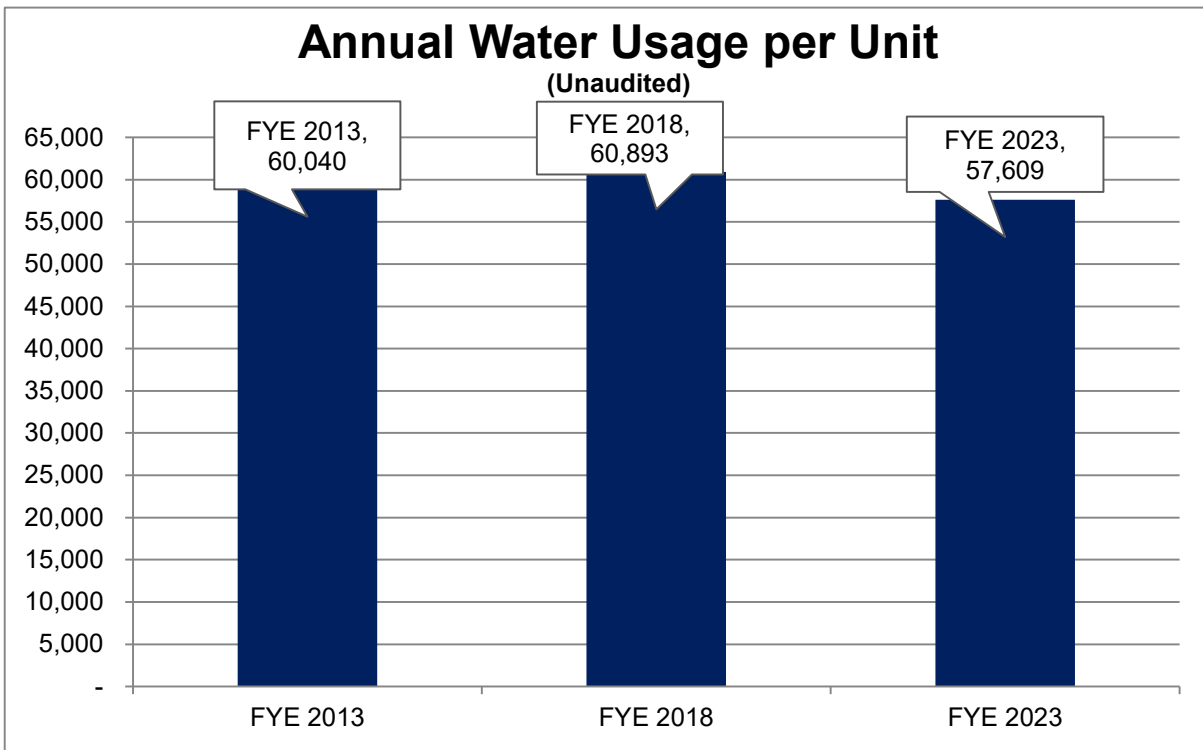
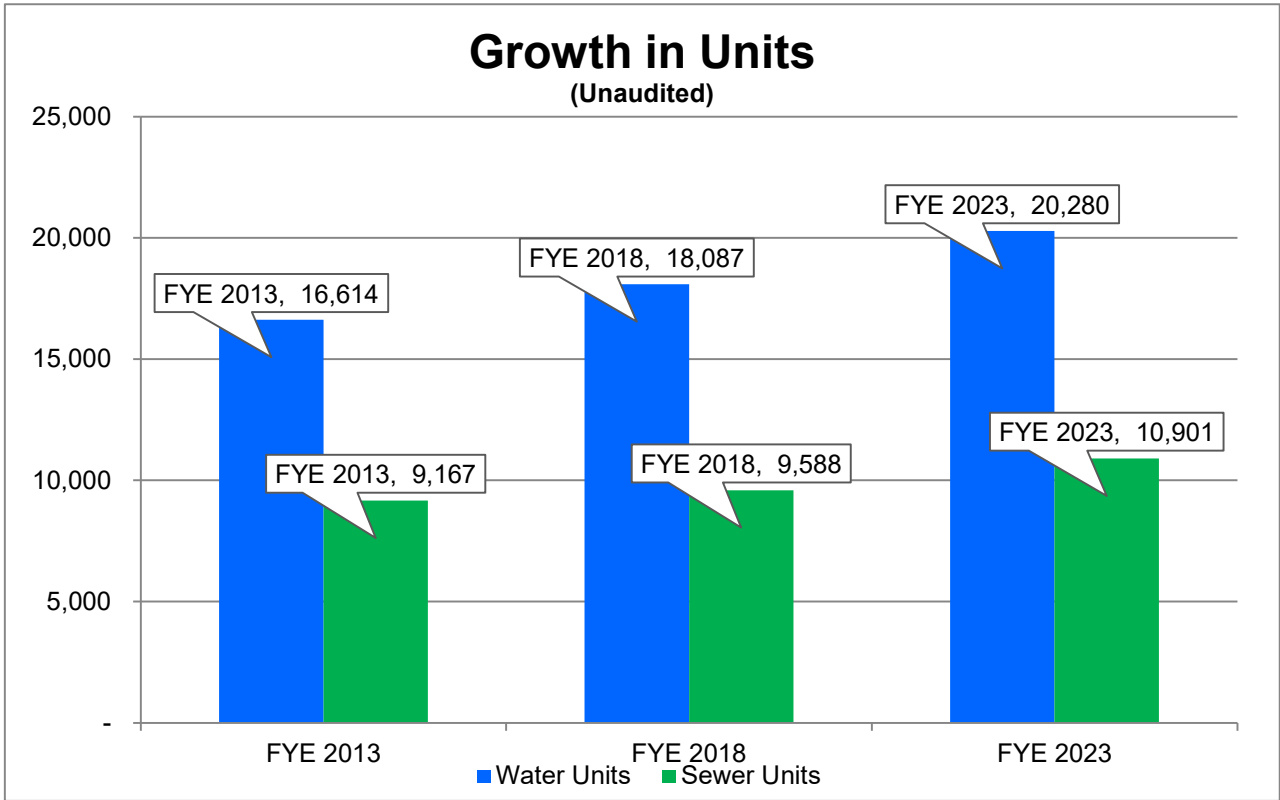
See independent auditors' report.

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



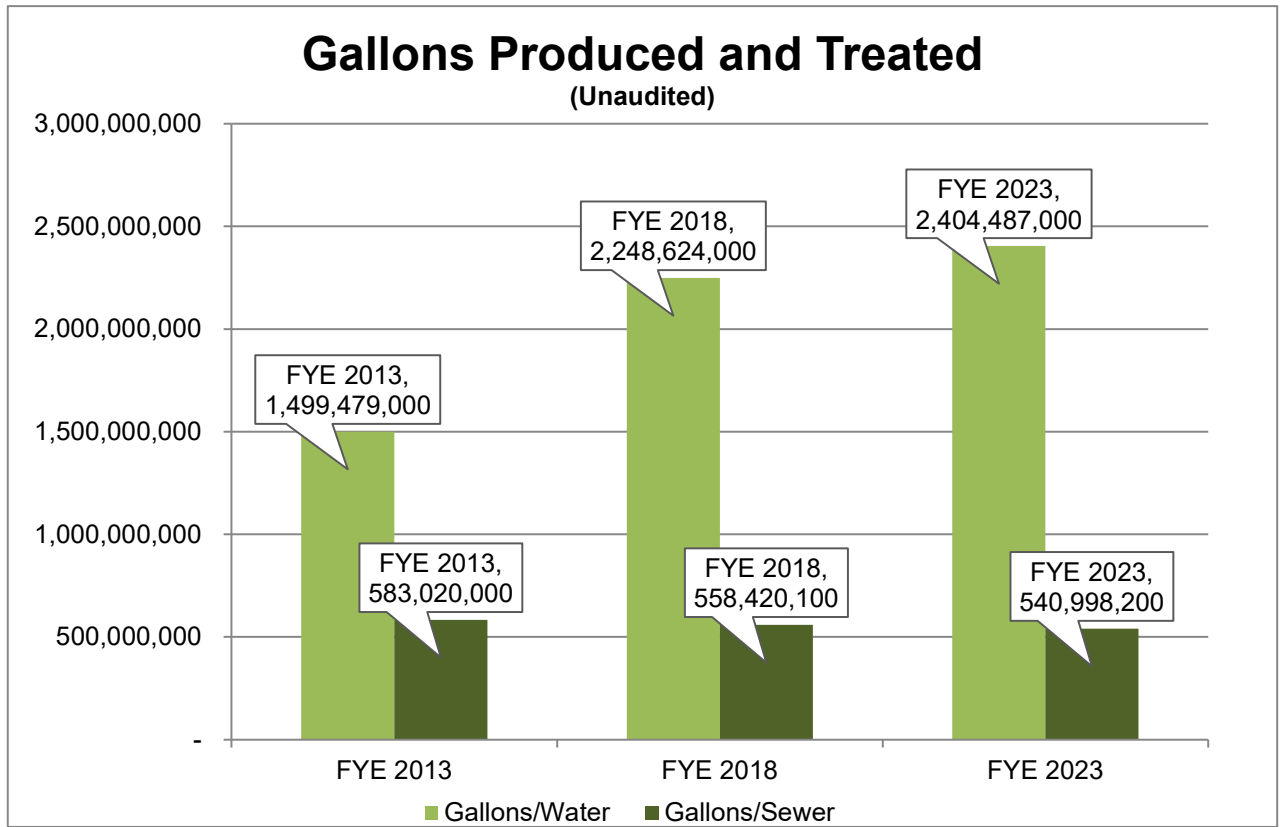
See independent auditors' report.

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



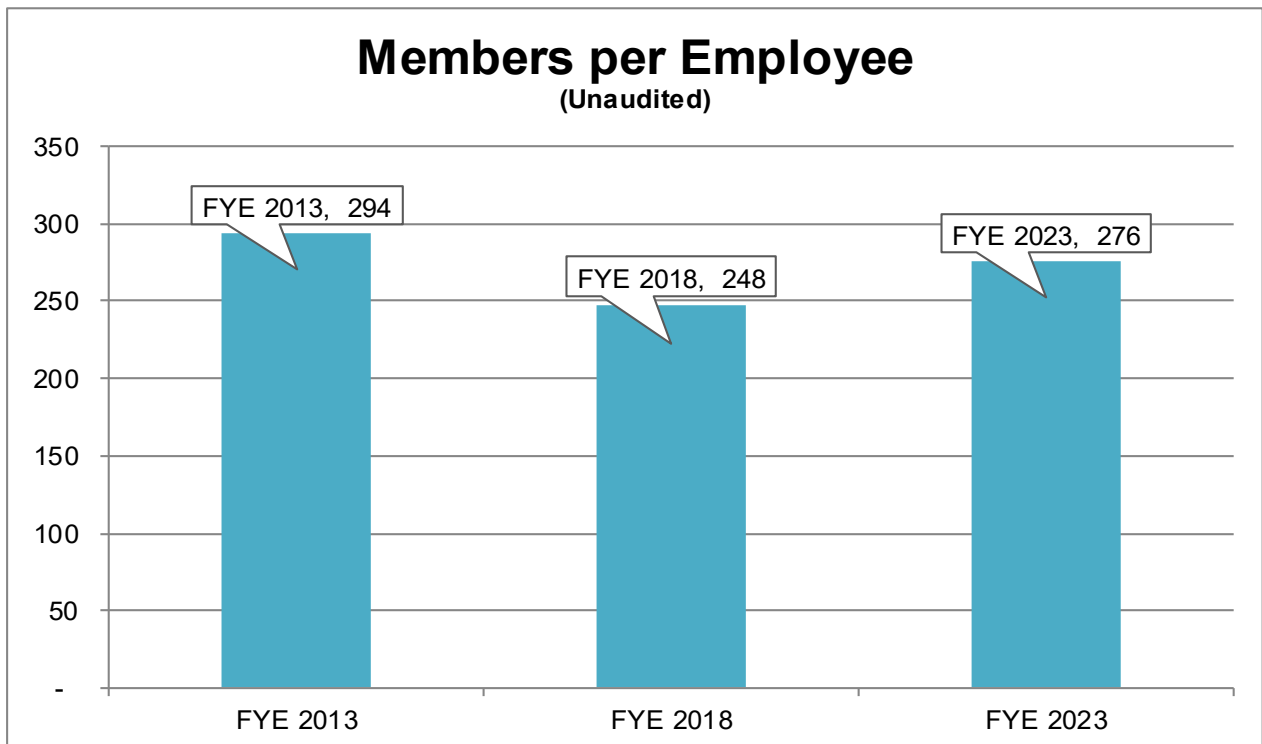
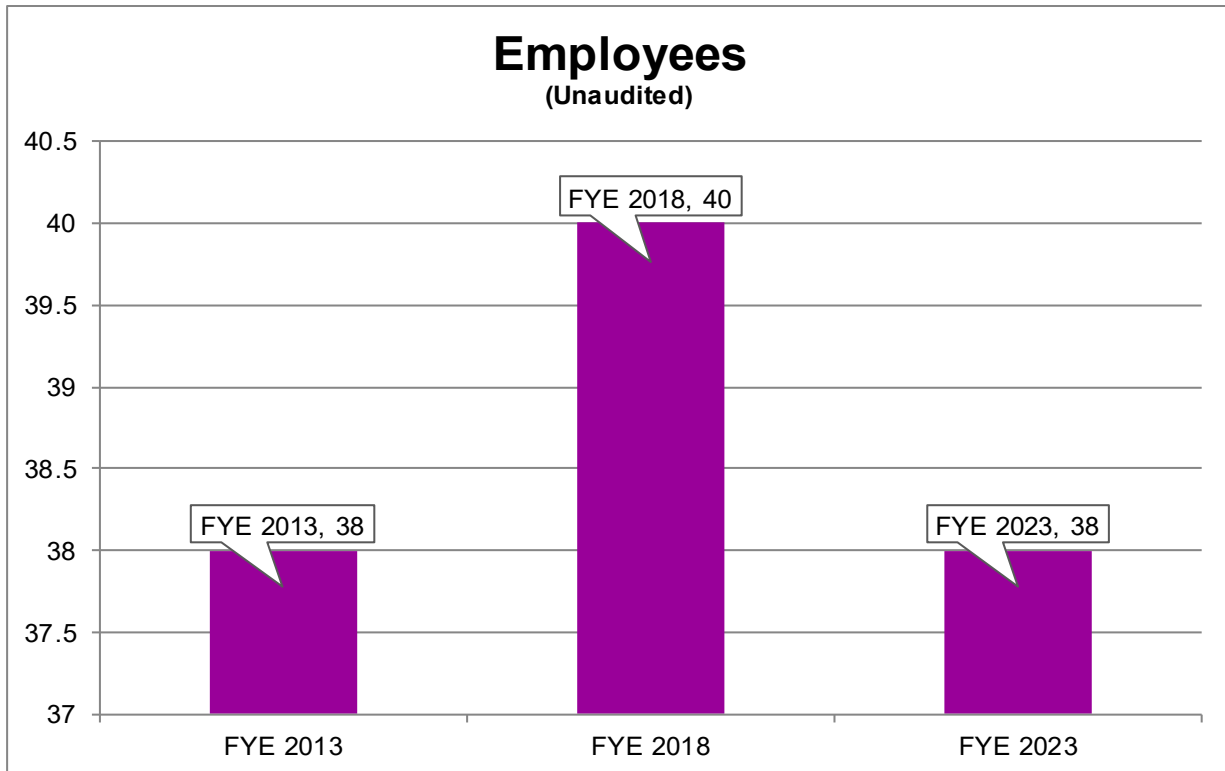
See independent auditors' report.

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



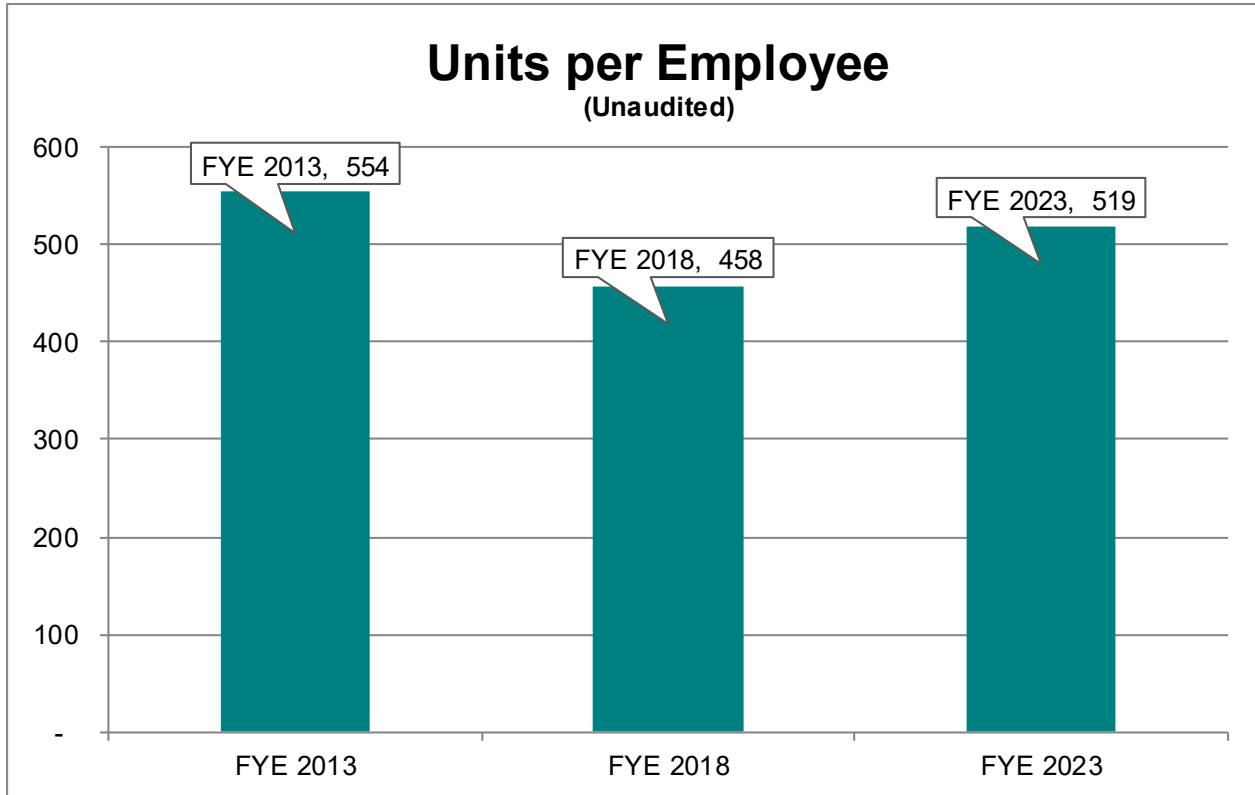
See independent auditors' report.

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



See independent auditors' report.

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



See independent auditors' report.