

SOUTH WALTON UTILITY COMPANY, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2024 AND 2023

SOUTH WALTON UTILITY COMPANY, INC.
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SEPTEMBER 30, 2024 AND 2023

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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, 2024 and 2023, 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, 2024 and 2023, 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. 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 22-29 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 nor provide any assurance on it.

Warren Averett, LLC

Destin, Florida
November 21, 2024

SOUTH WALTON UTILITY COMPANY, INC.
BALANCE SHEETS
SEPTEMBER 30, 2024 AND 2023

ASSETS		
	<u>2024</u>	<u>2023</u>
UTILITY PLANT IN SERVICE, NET (see Note 2)	\$ 47,881,106	\$ 50,325,252
RESTRICTED AND DESIGNATED ASSETS		
Cash and cash equivalents – designated (see Note 1)	12,444,276	8,684,199
Investments – designated (see Note 4)	3,465,178	3,351,185
Investments – restricted (see Note 4)	<u>650,792</u>	<u>772,892</u>
Total restricted and designated assets	16,560,246	12,808,276
CURRENT ASSETS		
Cash and cash equivalents	7,158,825	5,465,134
Accounts receivable, net	1,579,753	1,607,536
Other receivables	12,807	16,082
Prepaid expenses	598,235	587,508
Inventory	<u>410,739</u>	<u>404,864</u>
Total current assets	9,760,359	8,081,124
OTHER ASSETS		
Prepaid debt service deposit	153,504	153,504
Investment in WRP, Inc. (see Note 6)	<u>7,877,149</u>	<u>8,113,474</u>
Total other assets	<u>8,030,653</u>	<u>8,266,978</u>
TOTAL ASSETS	<u><u>\$ 82,232,364</u></u>	<u><u>\$ 79,481,630</u></u>

See notes to the financial statements.

SOUTH WALTON UTILITY COMPANY, INC.
BALANCE SHEETS
SEPTEMBER 30, 2024 AND 2023

LIABILITIES AND MEMBERS' EQUITY		
	<u>2024</u>	<u>2023</u>
MEMBERS' EQUITY		
Contributions in aid of construction		
Designated for future expansion	\$ 8,487,549	\$ 5,588,741
Undesignated	58,241,956	58,241,956
Accumulated amortization	<u>(34,142,412)</u>	<u>(32,833,662)</u>
Total contributions in aid of construction	32,587,093	30,997,035
Retained earnings		
Undesignated	<u>40,936,253</u>	<u>38,425,872</u>
Total members' equity	73,523,346	69,422,907
LONG-TERM LIABILITIES		
Customer deposits	342,145	361,590
Prepaid tap fees	483,342	488,342
Due to WRP, Inc. (see Note 6)	2,415,046	2,684,557
RUA debt obligation, net (see Note 8)	<u>3,752,202</u>	<u>4,526,310</u>
Total long-term liabilities	6,992,735	8,060,799
CURRENT LIABILITIES		
Accounts payable	143,962	164,907
Other payable WRP true-up	862	1,180
Due to WRP, Inc. (see Note 6)	252,656	246,590
Accrued wages and benefits	182,599	166,394
Note payable (see Note 7)	-	196,760
RUA debt obligation (see Note 8)	787,407	764,622
Accrued interest payable	<u>348,797</u>	<u>457,471</u>
Total current liabilities	<u>1,716,283</u>	<u>1,997,924</u>
TOTAL LIABILITIES	<u>8,709,018</u>	<u>10,058,723</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u><u>\$ 82,232,364</u></u>	<u><u>\$ 79,481,630</u></u>

See notes to the financial statements.

SOUTH WALTON UTILITY COMPANY, INC.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
REVENUE FROM OPERATIONS	\$ 12,181,789	\$ 11,708,776
OPERATING EXPENSES		
Operating and maintenance	8,825,297	7,768,285
Depreciation and amortization	<u>1,468,274</u>	<u>1,418,483</u>
Total operating expenses	<u>10,293,571</u>	<u>9,186,768</u>
OPERATING INCOME	1,888,218	2,522,008
OTHER REVENUES (EXPENSES)		
Loss from investment in WRP, Inc.	(270,855)	(270,857)
Interest income	813,437	514,441
Interest expense	(225,901)	(260,530)
Investment income	234,718	108,236
Miscellaneous income	<u>70,764</u>	<u>45,283</u>
Total other revenues, net	<u>622,163</u>	<u>136,573</u>
NET INCOME	<u><u>\$ 2,510,381</u></u>	<u><u>\$ 2,658,581</u></u>

See notes to the financial statements.

SOUTH WALTON UTILITY COMPANY, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION		
Beginning balance	\$ 30,997,035	\$ 31,595,416
Tap contributions	2,898,809	760,753
Amortization	<u>(1,308,751)</u>	<u>(1,359,134)</u>
Ending balance	<u>32,587,093</u>	<u>30,997,035</u>
RETAINED EARNINGS		
Beginning of year	38,425,872	35,767,291
Net income	<u>2,510,381</u>	<u>2,658,581</u>
End of year	<u>40,936,253</u>	<u>38,425,872</u>
TOTAL MEMBERS' EQUITY	<u><u>\$ 73,523,346</u></u>	<u><u>\$ 69,422,907</u></u>

See notes to the financial statements.

SOUTH WALTON UTILITY COMPANY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 12,264,166	\$ 11,518,757
Interest income	813,437	514,441
Cash paid to suppliers and customers	(8,837,192)	(8,238,451)
Interest expense	(334,575)	(380,372)
Net cash provided by operating activities	<u>3,905,836</u>	<u>3,414,375</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of utility plant in service	(325,265)	(1,161,332)
Proceeds from sale of vehicles	-	59,750
Investment in WRP, Inc.	(297,975)	(291,986)
Proceeds from investments	2,504,825	2,679,500
Purchases of investments	(2,262,000)	(2,726,000)
Net cash used in investing activities	<u>(380,415)</u>	<u>(1,440,068)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(200,841)	(195,025)
Principal payments on RUA debt obligation	(764,621)	(742,496)
Capital contributed by members	2,893,809	755,253
Net cash provided by (used in) financing activities	<u>1,928,347</u>	<u>(182,268)</u>
NET CHANGE IN CASH	5,453,768	1,792,039
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>14,149,333</u>	<u>12,357,294</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 19,603,101</u></u>	<u><u>\$ 14,149,333</u></u>
COMPOSITION OF CASH AND CASH EQUIVALENTS:		
Designated	\$ 12,444,276	\$ 8,684,199
Unrestricted	7,158,825	5,465,134
TOTAL CASH AND CASH EQUIVALENTS	<u><u>\$ 19,603,101</u></u>	<u><u>\$ 14,149,333</u></u>

See notes to the financial statements.

SOUTH WALTON UTILITY COMPANY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,510,381	\$ 2,658,581
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,468,274	1,418,483
Loss (gain) on disposal of assets	9,765	(35,564)
Loss from investment in WRP, Inc.	270,855	270,857
Credit loss expense	2,075	3,781
Unrealized gain on investments	(234,718)	(108,236)
(Increase) decrease in operating assets:		
Accounts receivable, net	25,708	(218,330)
Other receivables	3,275	12,687
Other receivable – WRP true-up	-	197
Prepaid expenses	(10,727)	(417,820)
Inventory	(5,875)	10,603
Increase (decrease) in operating liabilities:		
Accounts payable	(20,945)	(41,548)
Other payable – WRP true-up	(318)	1,180
Customer deposits	(19,445)	(33,440)
Accrued wages and benefits	16,205	12,786
Accrued interest payable	(108,674)	(119,842)
Net cash provided by operating activities	<u>\$ 3,905,836</u>	<u>\$ 3,414,375</u>

See notes to the financial statements.

SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024 AND 2023

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, 2024 and 2023, was \$12,444,276 and \$8,684,199, 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, 2024 AND 2023

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 \$1,392,987 at September 30, 2022.

Management treats uncollectible accounts receivable as credit losses. The methods, inputs, and assumptions used to estimate when balances are considered uncollectible include closely monitoring outstanding account balances and reviewing the Company's historical losses based on the aging of receivables. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Company. The Company believes that historical loss information is a reasonable starting point for calculating the expected allowance for credit losses. The Company has an allowance for credit losses of \$11,700 at September 30, 2024 and 2023.

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, 2024 AND 2023**

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 \$195,066 and \$238,874 at September 30, 2024 and 2023, respectively.

The following is a summary of debt issue costs as of September 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Debt issue costs	\$ 266,000	\$ 327,187
Less accumulated amortization	(195,066)	(238,874)
	<u>\$ 70,934</u>	<u>\$ 88,313</u>

Customer Deposits

This account represents deposits made by customers utilizing water and sewer services provided by the Company. The liability is funded by restricted investments.

Loan Deposits

This account represents deposits made by 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 ten years. From ten to fifteen 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.

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024 AND 2023**

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued guidance FASB ASC 326, which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by the Company that are subject to the guidance in FASB ASC 326 were accounts receivable.

The Company adopted the standard effective October 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new/enhanced disclosures only.

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 conform to the current year presentation.

Subsequent Events

The Company has evaluated events and transactions that occurred between September 30, 2024, and November 21, 2024, 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 \$1,468,274 (depreciation of \$2,777,025, net of amortization of \$1,308,751) and \$1,418,483 (depreciation of \$2,777,617, net of amortization of \$1,359,134) for 2024 and 2023, respectively.

SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024 AND 2023

The following is a summary of utility plant in service as of September 30, 2024 and 2023:

	2024	2023
Land	\$ 2,286,624	\$ 2,286,624
Plant	93,521,614	92,947,102
Buildings	5,750,297	5,750,297
Computer equipment and software	343,475	316,970
Furniture and fixtures	102,535	102,535
Equipment	1,560,103	1,560,103
Vehicles	796,042	799,325
Construction in progress	93,304	525,074
	104,453,994	104,288,030
Less accumulated depreciation	(56,572,888)	(53,962,778)
	<u>\$ 47,881,106</u>	<u>\$ 50,325,252</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 \$18,750,000 and \$13,620,000 were held in the sweep account at September 30, 2024 and 2023, 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, 2024 and 2023, cash held within brokerage accounts totaled \$12,444,276 and \$8,684,199, respectively.

SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024 AND 2023

4. INVESTMENTS

Investments as of September 30, 2024 and 2023, consist of the following:

	2024	2023
Federal Agency Securities	\$ 1,329,709	\$ 1,616,396
U.S. Treasury	453,734	353,267
Certificates of deposit	2,332,527	2,154,414
Total investments	<u>4,115,970</u>	<u>4,124,077</u>
Less amounts designated:		
Amount designated for future expansion	<u>(3,465,178)</u>	<u>(3,351,185)</u>
Total investments – designated	<u>(3,465,178)</u>	<u>(3,351,185)</u>
Less amounts restricted:		
Amount restricted for customer deposits	(342,145)	(361,590)
Amount restricted for loan repayment	-	(102,655)
Amount restricted for plant construction	<u>(308,647)</u>	<u>(308,647)</u>
Total investments – restricted	<u>(650,792)</u>	<u>(772,892)</u>
Total available investments – unrestricted	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Investment returns were as follows:

	2024	2023
Interest income	\$ 160,705	\$ 87,651
Realized loss on investments	(10,081)	(7,249)
Unrealized gain on investments	<u>84,094</u>	<u>27,834</u>
Total investment income	<u><u>\$ 234,718</u></u>	<u><u>\$ 108,236</u></u>

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).

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024 AND 2023**

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 methodology used for assets measured at fair value at September 30, 2024 and 2023:

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 totaled \$4,115,970 and \$4,124,077 at September 30, 2024 and 2023, 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, 2024 AND 2023**

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, 2024, WRP had total principal outstanding of \$7,209,169 on the SRF loan, of which \$2,667,702 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, 2024, the Company owed WRP \$2,667,702 (\$2,415,046 included in long-term liabilities), which includes the Company's share of the SRF loan and accrued interest. As of September 30, 2023, the Company owed WRP \$2,931,147 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, 2024:

	<u>Amount</u>
2025	\$ 252,656
2026	276,305
2027	283,256
2028	290,382
2029	297,687
Thereafter	<u>1,267,416</u>
Total due to WRP, Inc.	<u>\$ 2,667,702</u>

During the year ended September 30, 2024, the Company contributed \$34,529 to WRP related to the costs of the Phase IV Project and recognized its share of WRP's net loss of \$270,860. 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 50% share of WRP's net loss of \$270,857. The Company's investment in WRP totaled \$7,877,149 and \$8,113,474 at September 30, 2024 and 2023, respectively.

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024 AND 2023**

The following is a summary of the Company's investment in WRP, Inc. as of September 30, 2024 and 2023:

	2024	2023
Beginning balance	\$ 8,113,474	\$ 8,349,325
Contributions to WRP, Inc.	34,530	35,006
Amortization of contributed capital	(231,128)	(231,130)
WRP, Inc. net loss	(39,727)	(39,727)
SWU's Investment in WRP, Inc.	<u>\$ 7,877,149</u>	<u>\$ 8,113,474</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

	2024	2023
ASSETS		
Cash	\$ 654,047	\$ 584,987
Other receivable – SWU true-up	862	1,180
Due from SWU	2,667,702	2,931,147
Due from DWU	4,496,205	4,940,221
Property and equipment, net	15,077,160	15,603,476
TOTAL ASSETS	<u>\$ 22,895,976</u>	<u>\$ 24,061,011</u>
LIABILITIES		
Accrued interest payable	\$ 29,699	\$ 31,170
Other payable – DWU true-up	862	1,180
SRF loan payable, net	7,058,705	7,747,741
Contributed capital – DWU	7,806,810	8,004,967
Contributed capital – SWU	7,754,397	7,950,997
Retained earnings	245,503	324,956
TOTAL LIABILITIES AND EQUITY	<u>\$ 22,895,976</u>	<u>\$ 24,061,011</u>

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024 AND 2023**

	Year ended 2024	Year ended 2023
Revenue	\$ 15,860	\$ 14,908
Expenses	(95,313)	(94,361)
Net loss	<u>\$ (79,453)</u>	<u>\$ (79,453)</u>
SWU's share (50%) of WRP, Inc. net loss	\$ (39,727)	\$ (39,727)
Less amortization of contributed capital	(231,128)	(231,130)
SWU's recognized loss on investment in WRP, Inc.	<u>\$ (270,855)</u>	<u>\$ (270,857)</u>

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, 2024, the balance of the reserve account was \$0, as the loan was repaid during 2024. The outstanding note balance at September 30, 2024 and 2023, was \$0 and \$200,840, respectively.

	2024 Short-Term	2023 Short-Term	2024 Long-Term	2023 Long-Term
SRL Phase II	\$ -	\$ 200,840	\$ -	\$ -
Less unamortized debt issue costs	-	(4,080)	-	-
Total note payable, net	<u>\$ -</u>	<u>\$ 196,760</u>	<u>\$ -</u>	<u>\$ -</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 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.

SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024 AND 2023

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, 2024 and 2023, was \$4,610,543 and \$5,375,165, respectively.

	2024	2023	2024	2023
	Short-Term	Short-Term	Long-Term	Long-Term
Note payable for RUA	\$ 787,407	\$ 764,622	\$3,823,136	\$ 4,610,543
Less unamortized debt issue costs	-	-	(70,934)	(84,233)
Total note payable for RUA, net	<u>\$ 787,407</u>	<u>\$ 764,622</u>	<u>\$3,752,202</u>	<u>\$ 4,526,310</u>

Maturities of the RUA debt obligation are as follows:

	Amount
2025	\$ 787,407
2026	810,872
2027	835,035
2028	859,919
2029	885,544
Thereafter	431,766
	<u>\$ 4,610,543</u>

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 the amount, if any, shall be deemed an employer nonelective contribution based on three groups of participants. The participant groups are based on the individual employee's length of service with the Company and are as follows:

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

**SOUTH WALTON UTILITY COMPANY, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024 AND 2023**

The Company's contributions for the years ended September 30, 2024 and 2023, were \$281,803 and \$270,006, respectively.

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

Years of Service	Vesting Percentages
Less than 2 years	0%
2 years	20%
3 years	40%
4 years	60%
5 years	80%
6 years	100%

Forfeitures under the plan are used to reduce the Company's contribution in the succeeding year.

SUPPLEMENTARY INFORMATION

SOUTH WALTON UTILITY COMPANY, INC.
STATEMENT OF OPERATIONS – COMPARISON OF BUDGET TO ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2024

	(Unaudited) Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Water	\$ 5,727,797	\$ 5,707,740	\$ (20,057)
Sewer	5,933,032	5,894,503	(38,529)
Wholesale water	367,008	393,069	26,061
Other	155,500	186,477	30,977
Total operating revenues	<u>12,183,337</u>	<u>12,181,789</u>	<u>(1,548)</u>
OPERATING EXPENSES			
Credit losses	3,000	2,075	925
Chemicals	151,350	170,519	(19,169)
Contributions	6,500	10,775	(4,275)
Depreciation and amortization	1,667,028	1,468,274	198,754
Education and travel	57,007	45,619	11,388
Engineering and fees	44,512	40,625	3,887
Insurance – employees and other	1,595,091	1,563,124	31,967
Lab supplies	40,275	27,560	12,715
Legal and accounting	60,000	68,000	(8,000)
License and fees	133,389	121,943	11,446
Miscellaneous	63,028	21,592	41,436
Office expenses	14,278	14,999	(721)
Operating supplies	498,326	389,662	108,664
Payroll taxes	237,985	218,458	19,527
Professional fees	198,950	513,828	(314,878)
Repairs and maintenance	1,447,554	1,412,220	35,334
Retirement plans	284,530	281,803	2,727
Salaries	3,201,179	2,914,446	286,733
Telephone and sanitation	87,365	81,893	5,472
Uniforms	17,625	15,555	2,070
Utilities	976,498	892,044	84,454
WRP operating expenses	-	8,792	(8,792)
(Gain)/loss on disposal of assets	(20,000)	9,765	(29,765)
Total operating expenses	<u>10,765,470</u>	<u>10,293,571</u>	<u>471,899</u>
OPERATING INCOME	<u>1,417,867</u>	<u>1,888,218</u>	<u>470,351</u>
OTHER REVENUES (EXPENSES)			
Loss from investment in WRP, Inc.	(240,000)	(270,855)	(30,855)
Interest income	500,000	974,142	474,142
Interest expense	(225,901)	(225,901)	-
Investment income	-	74,013	74,013
Miscellaneous income	30,040	70,764	40,724
Total other revenues	<u>64,139</u>	<u>622,163</u>	<u>558,024</u>
NET INCOME	<u>\$ 1,482,006</u>	<u>\$ 2,510,381</u>	<u>\$ 1,028,375</u>

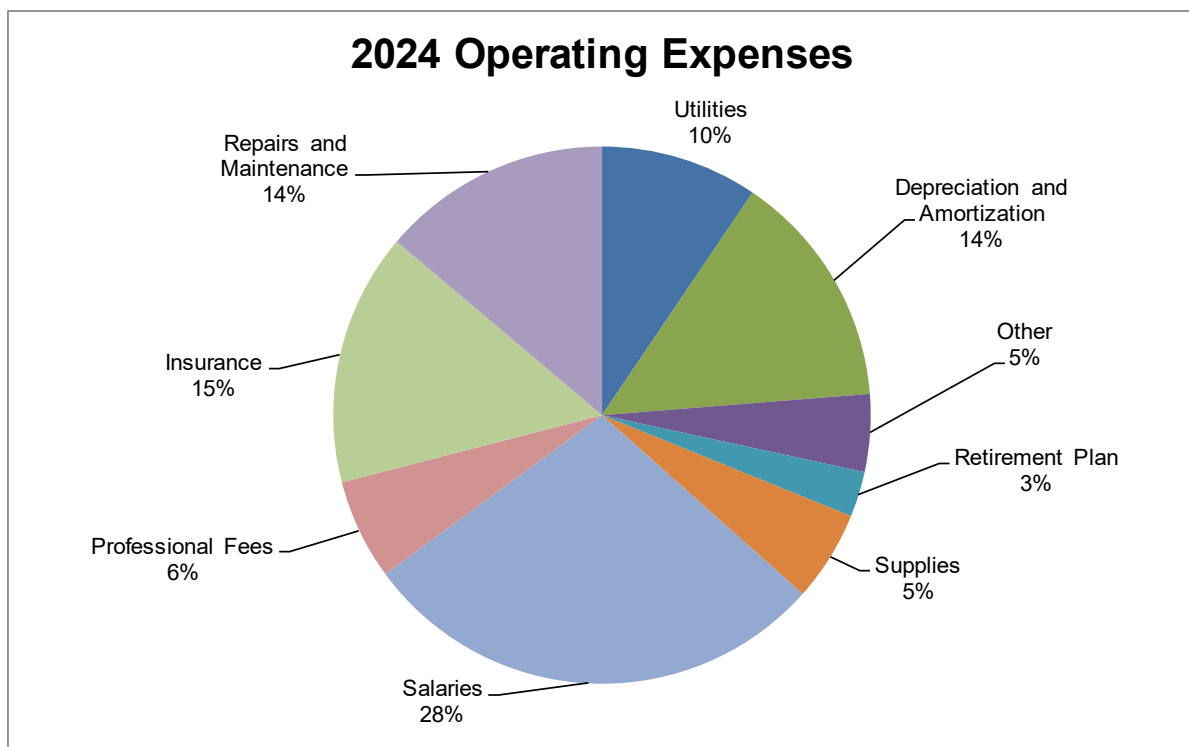
See independent auditors' report.

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

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

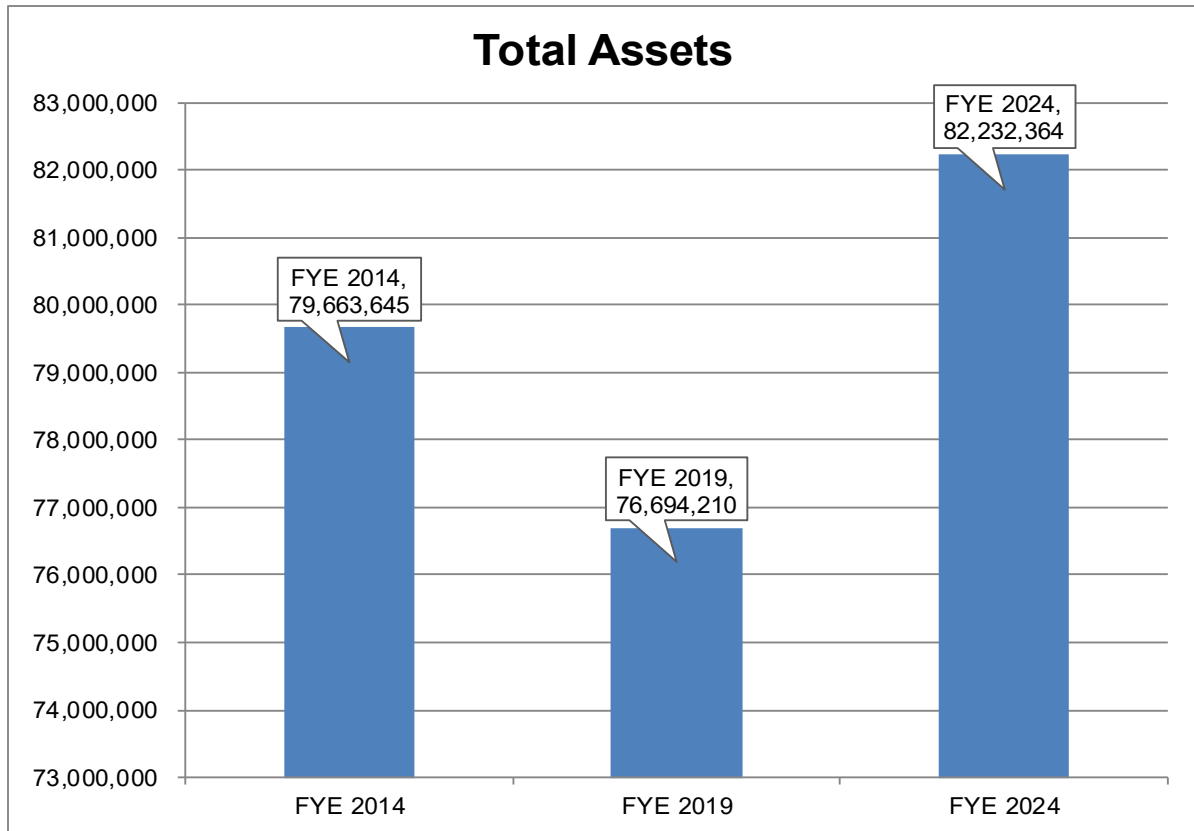
The table below compares total water consumption for fiscal years 2024 and 2023.

	Fiscal Year 2024	Fiscal Year 2023
Water consumption	1,126,245,000	1,168,302,000
Wholesale water	1,103,817,000	1,012,281,000
Number of units – water	20,421	20,280
Number of units – sewer	10,916	10,901
Number of members	10,675	10,598



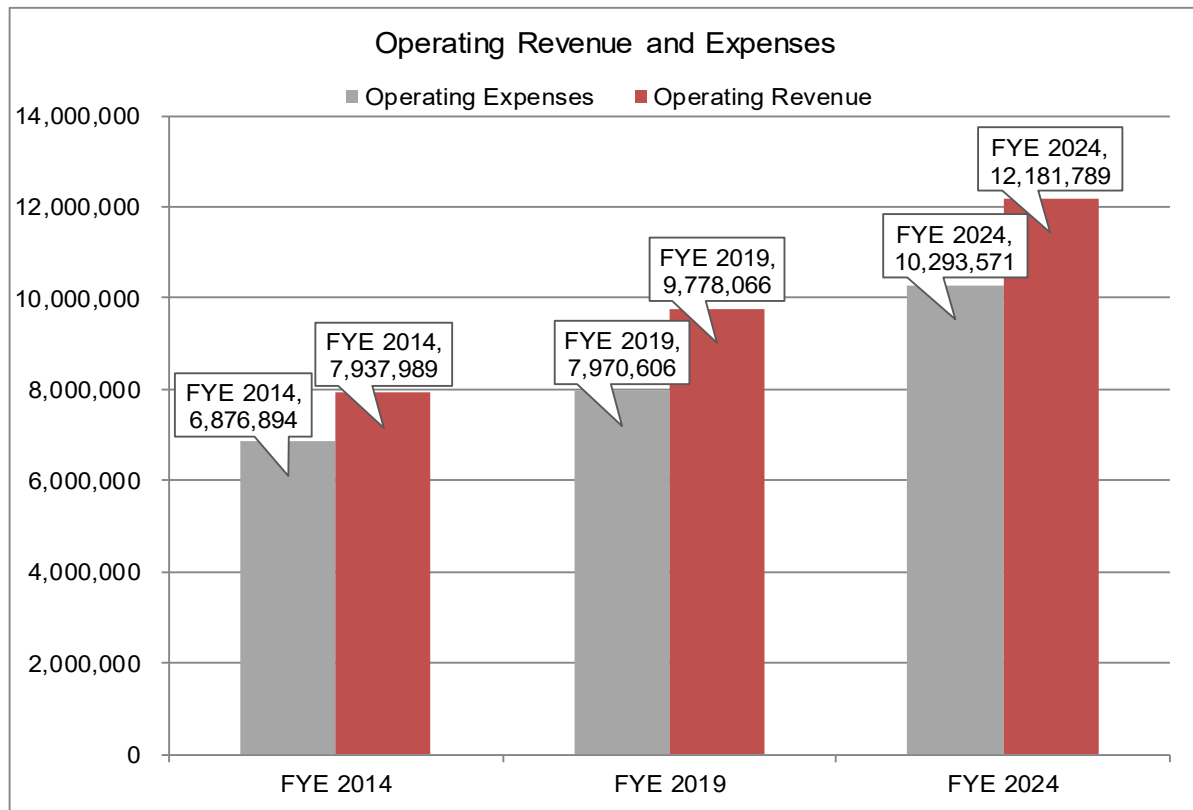
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**SOUTH WALTON UTILITY COMPANY, INC.
STATISTICAL INFORMATION**



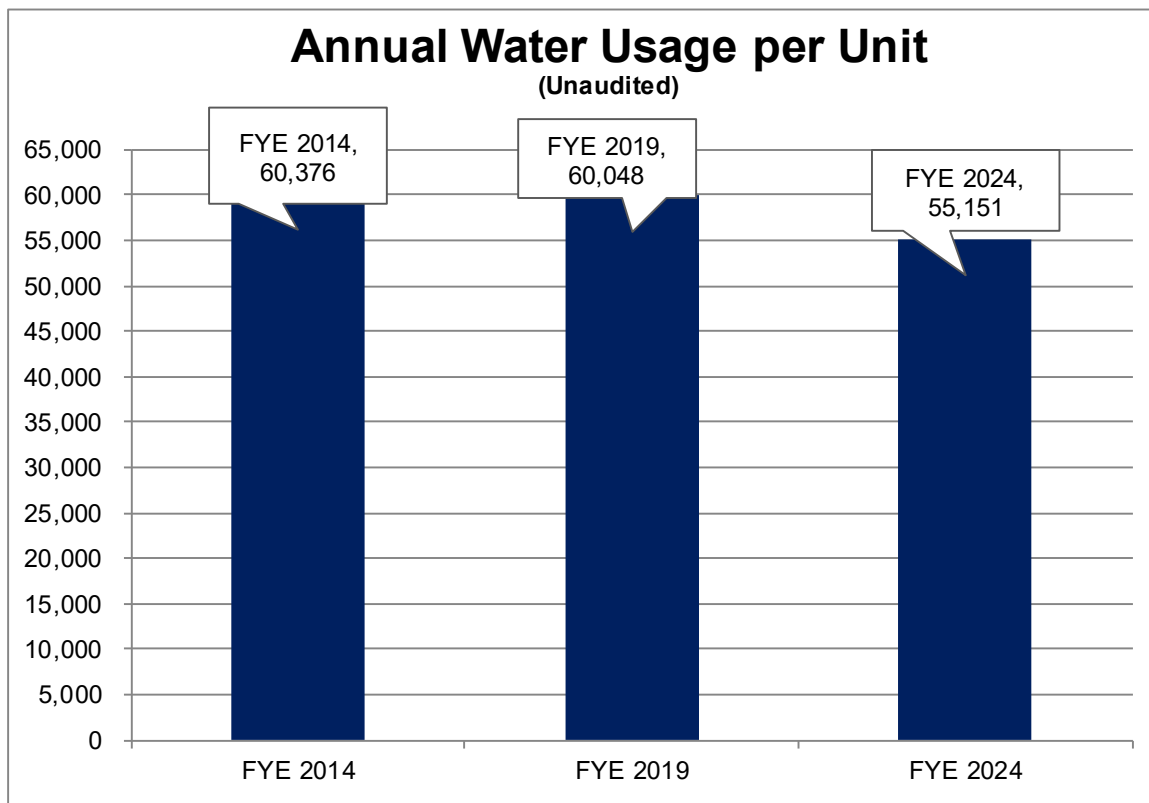
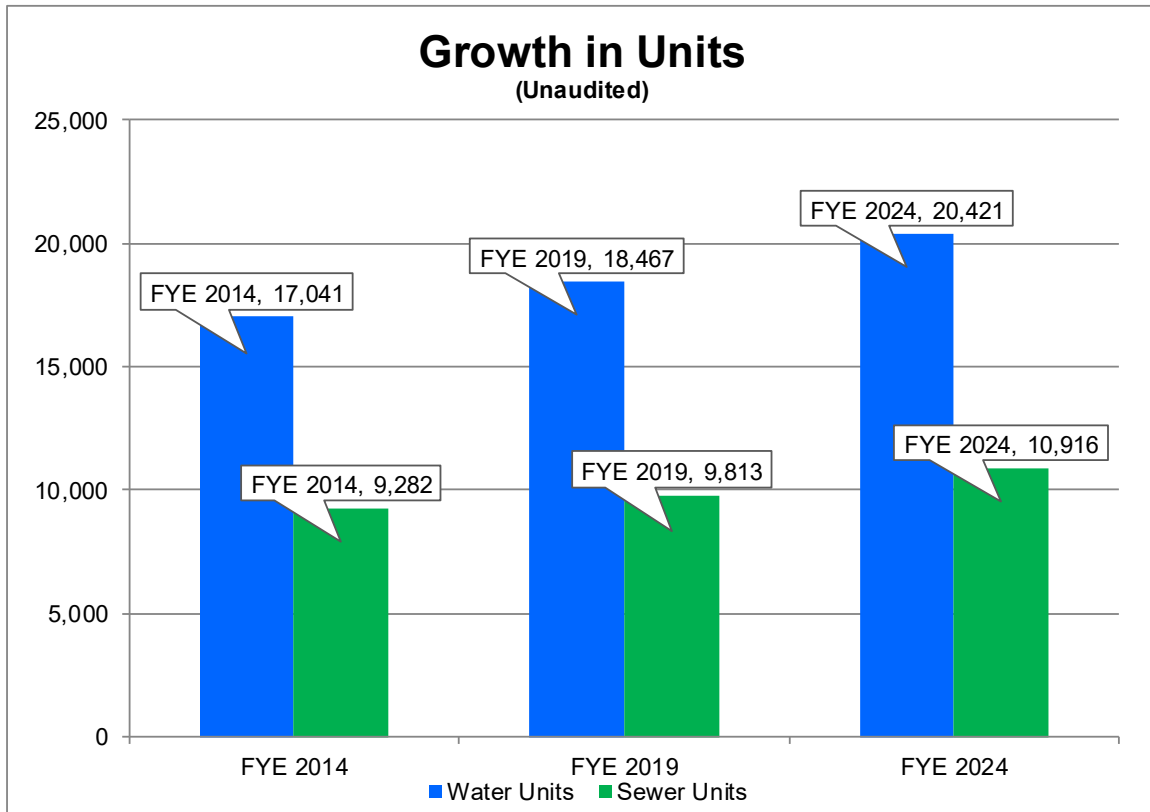
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STATISTICAL INFORMATION**



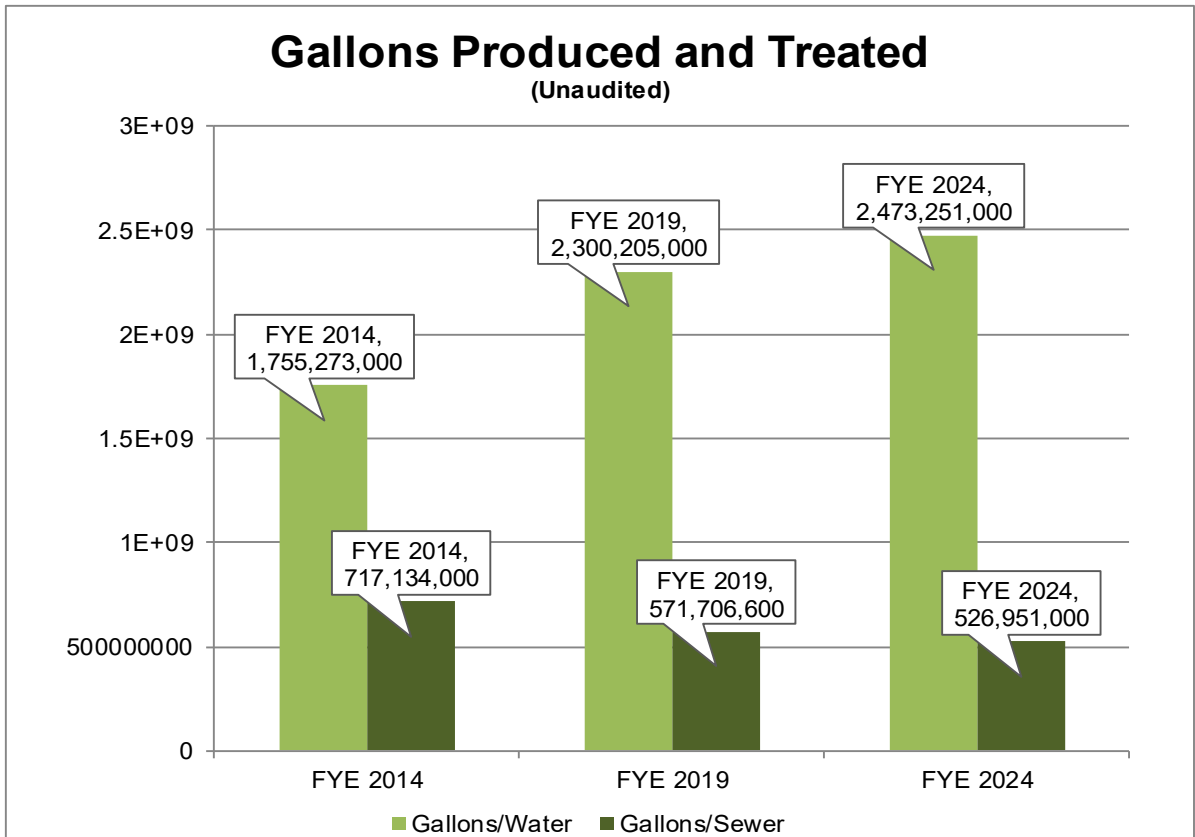
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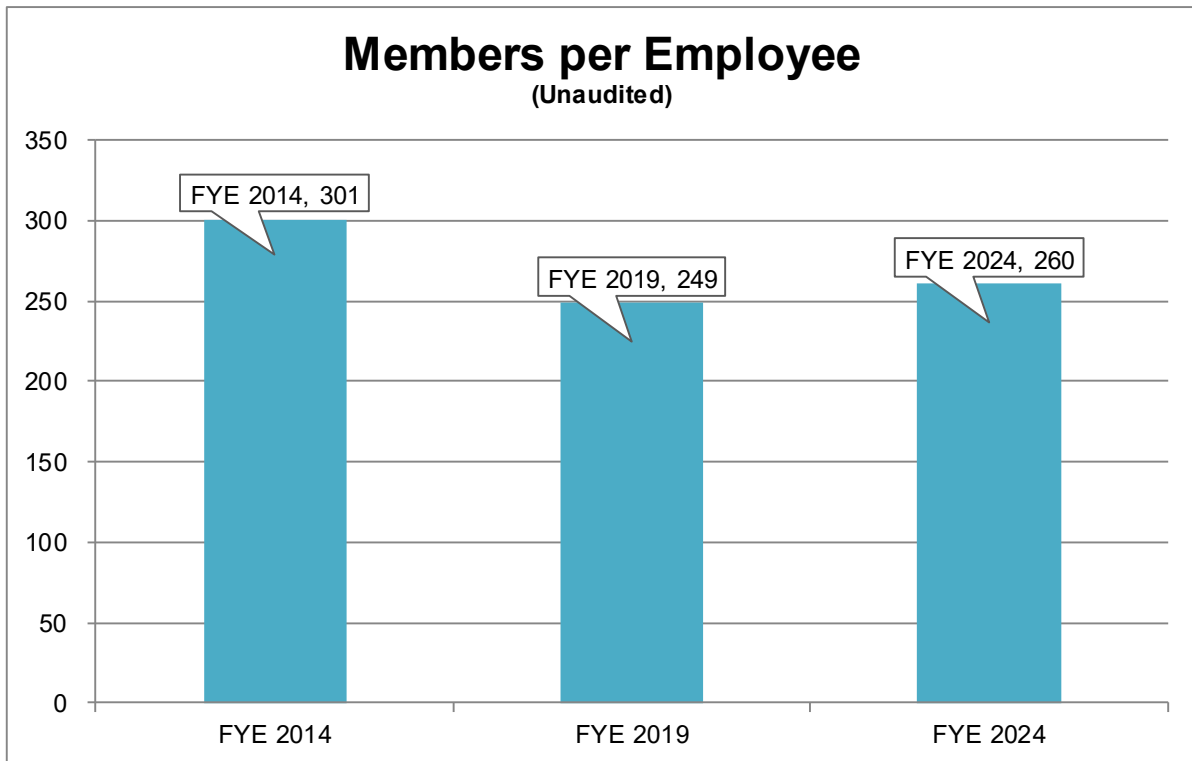
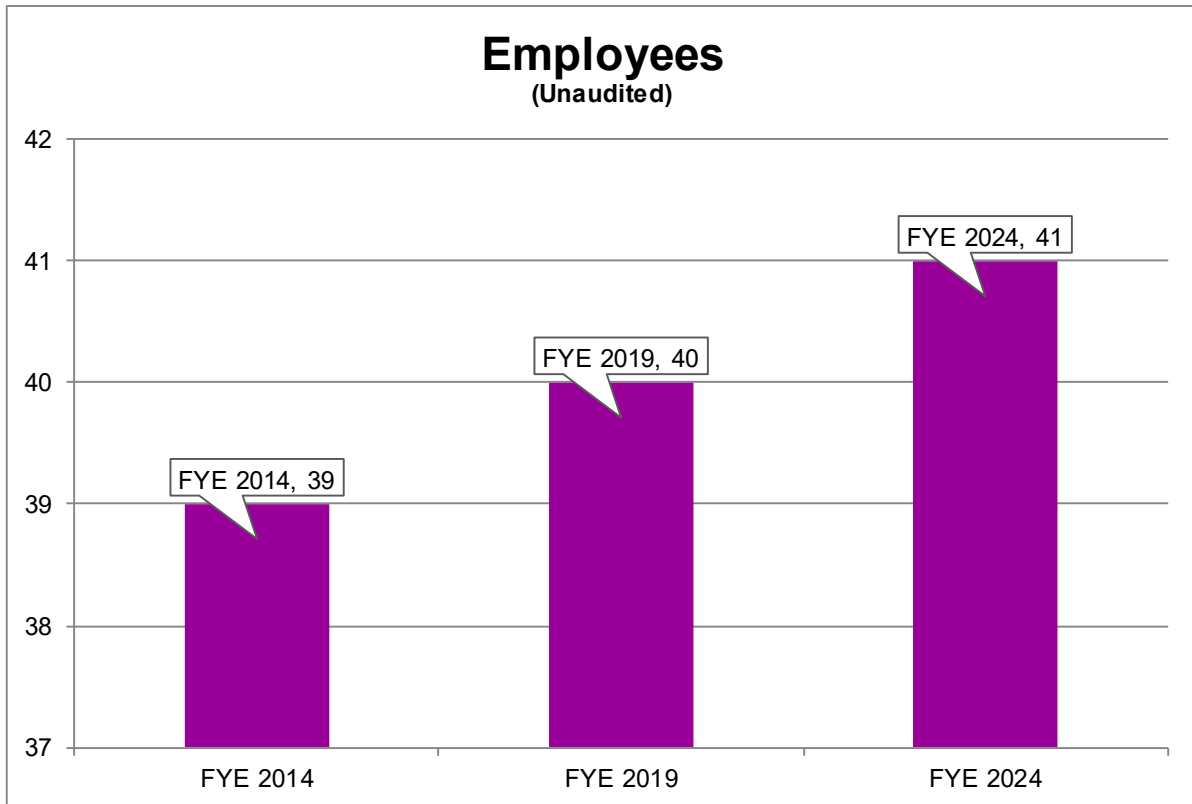
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STATISTICAL INFORMATION**



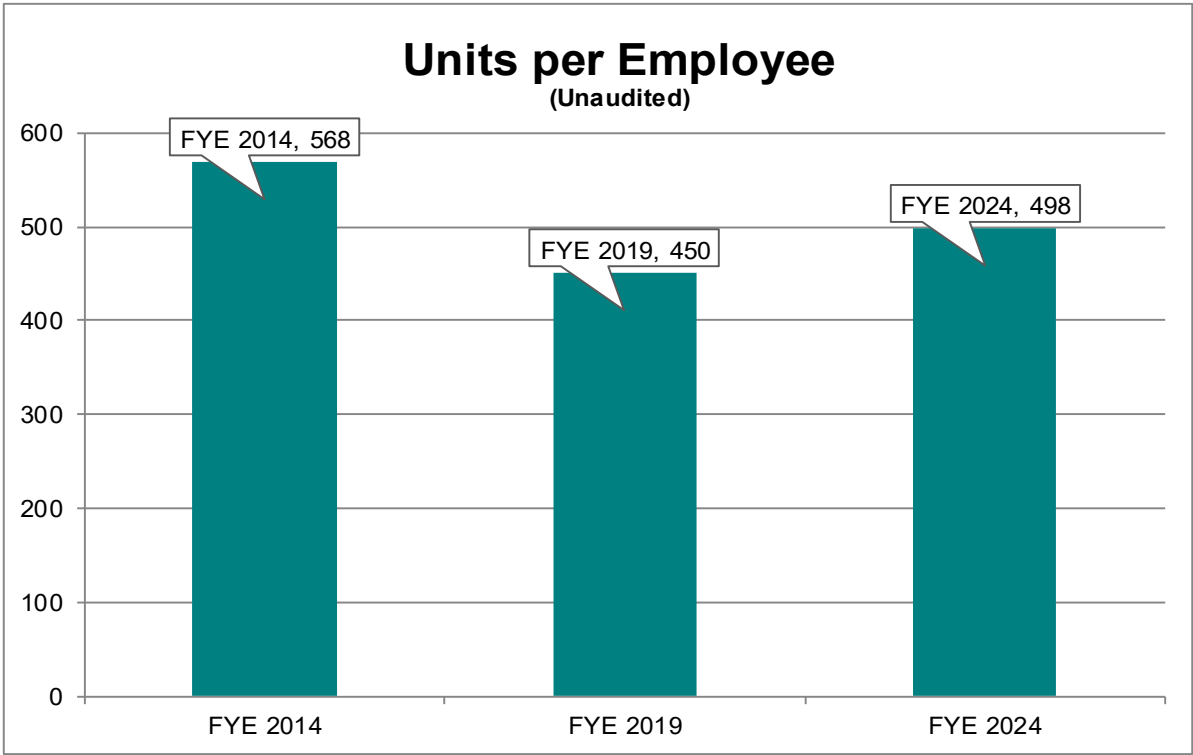
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