

MOSSY HEAD WATER WORKS, INC.

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2022 AND 2021



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The report accompanying this deliverable was issued
by Warren Averett, LLC.

MOSSY HEAD WATER WORKS, INC.
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SEPTEMBER 30, 2022 AND 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mossy Head Water Works, Inc.

Opinion

We have audited the accompanying financial statements of Mossy Head Water Works, Inc. (the Company), 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 the Company as of September 30, 2022 and 2021, and the changes in its net assets 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 the Company 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 the Company'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 the Company'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 the Company'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.

Warren Averett, LLC

Destin, Florida
January 17, 2023

**MOSSY HEAD WATER WORKS, INC.
BALANCE SHEETS
SEPTEMBER 30, 2022 AND 2021**

	2022	2021
ASSETS		
UTILITY PLANT IN SERVICE, NET	\$ 5,129,291	\$ 5,276,759
RESTRICTED ASSETS		
Investments	162,485	145,048
CURRENT ASSETS		
Cash	652,597	648,788
Investments	1,558,527	1,322,899
Receivables, net	162,975	134,893
Prepaid expenses	13,673	13,673
Total current assets	2,387,772	2,120,253
TOTAL ASSETS	\$ 7,679,548	\$ 7,542,060
LIABILITIES AND MEMBERS' EQUITY		
MEMBERS' EQUITY		
Contributions in aid of construction	\$ 196,875	\$ 203,125
Capacity replacement fees	416,680	240,620
Retained earnings	3,183,344	3,084,328
Total members' equity	3,796,899	3,528,073
LONG-TERM LIABILITIES		
Notes payable	3,561,751	3,685,395
Customer deposits	162,485	145,048
Total long-term liabilities	3,724,236	3,830,443
CURRENT LIABILITIES		
Accounts payable	11,007	40,083
Accrued expenses	4,644	4,688
Deferred revenue	15,438	15,438
Prepaid tap fees	3,120	3,120
Current maturities of notes payable	124,204	120,215
Total current liabilities	158,413	183,544
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 7,679,548	\$ 7,542,060

See notes to the financial statements.

**MOSSY HEAD WATER WORKS, INC.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
REVENUE FROM OPERATIONS		
Water services	\$ 915,888	\$ 848,774
Tap fees	163,633	126,415
Other services	<u>76,432</u>	<u>21,100</u>
Total operating revenue	1,155,953	996,289
OPERATING EXPENSES		
Operating and maintenance	682,092	524,419
Depreciation and amortization	<u>258,002</u>	<u>247,383</u>
Total operating expenses	<u>940,094</u>	<u>771,802</u>
OPERATING INCOME	215,859	224,487
OTHER REVENUES (EXPENSES)		
Investment income, including unrealized gain	3,412	14,202
Interest expense	(125,355)	(122,697)
Gain on disposal	<u>5,100</u>	<u>22,000</u>
Total other revenues (expenses)	<u>(116,843)</u>	<u>(86,495)</u>
NET INCOME	<u>\$ 99,016</u>	<u>\$ 137,992</u>

See notes to the financial statements.

**MOSSY HEAD WATER WORKS, 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 of year	\$ 203,125	\$ 209,375
Amortization	<u>(6,250)</u>	<u>(6,250)</u>
Ending balance	196,875	203,125
CAPACITY REPLACEMENT FEES		
Beginning of year	240,620	107,780
Capacity replacement fees	<u>176,060</u>	<u>132,840</u>
Ending balance	416,680	240,620
RETAINED EARNINGS		
Beginning of year	3,084,328	2,946,336
Net income	<u>99,016</u>	<u>137,992</u>
End of year	<u>3,183,344</u>	<u>3,084,328</u>
TOTAL MEMBERS' EQUITY	<u><u>\$ 3,796,899</u></u>	<u><u>\$ 3,528,073</u></u>

See notes to the financial statements.

MOSSY HEAD WATER WORKS, 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		
Net income	\$ 99,016	\$ 137,992
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	258,002	247,383
Net unrealized / realized gain on investments	(2,014)	(11,484)
Gain on disposal	(5,100)	(22,000)
(Increase) decrease in operating assets:		
Receivables, net	(28,082)	(14,889)
Increase (decrease) in liabilities:		
Accounts payable	(29,076)	34,112
Accrued expenses	(44)	(6)
Deferred revenue	-	5,336
Customer deposits	17,437	17,329
Net cash flows provided by operating activities	310,139	393,773
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of property and equipment	(116,784)	(140,628)
Proceeds from sales and maturities of investments	1,682,671	2,330,373
Purchase of investments	(1,933,722)	(2,251,455)
Proceeds from sale of property and equipment	5,100	22,000
Net cash flows used in investing activities	(362,735)	(39,710)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	-	3,911,927
Principal payments of long-term debt	(119,655)	(4,011,322)
Proceeds from capacity replacement fees	176,060	132,840
Net cash flows provided by financing activities	56,405	33,445
NET CHANGE IN CASH	3,809	387,508
CASH AT BEGINNING OF YEAR	648,788	261,280
CASH AT END OF YEAR	<u>\$ 652,597</u>	<u>\$ 648,788</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 125,355</u>	<u>\$ 122,697</u>

See notes to the financial statements.

**MOSSY HEAD WATER WORKS, INC.
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED SEPTEMBER 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF BUSINESS

Background and Basis of Accounting

Mossy Head Water Works, Inc., (hereinafter referred to as the Company) was incorporated in the state of Florida on April 25, 1969, as a not-for-profit corporation to provide water utility services under retail and wholesale agreements to members in Walton County near Mossy Head, Florida. The service area is 120 square miles, 77 square miles of which are currently being served. The Company's primary funding sources are from sales of water service, infrastructure constructed and donated by developers, and tap fees. 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 Statutes, the Company is also exempt from sales tax and ad valorem taxes.

The Company prepares its financial statements on the accrual basis of accounting.

Revenue Recognition, Contract Assets and Contract Liabilities

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

The Company recognizes revenue when performance obligations are satisfied. Generally, the Company's performance obligations are satisfied, control of water and sewer services are transferred, and utility revenues are based on cycle billings rendered to customers monthly. The Company accrues an estimate of revenue at year end for services provided but not yet billed. The Company accrued approximately \$50,000 for the years ended September 30, 2022, 2021 and 2020, respectively. 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). For tap fees, the Company's performance obligations are satisfied when the services are connected and started. Capacity replacement fees are one-time charges paid by new water system customers for service capacity. The receipts from this charge are used to finance the development of growth-related water facilities. Capacity replacement fees are recorded as part of members' equity and reduced as these accumulated funds are spent on capacity related projects.

MOSSY HEAD WATER WORKS, INC.
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED SEPTEMBER 30, 2022

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

Utility Plant In-Service and Depreciation

Utility plant and other property are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. In accordance with generally accepted accounting principles, property contributed by developers is recorded at estimated fair value at the time of acceptance by the Company. The cost of maintenance and repairs is charged to expense as incurred while significant renewals and betterments are capitalized. Estimated useful lives of utility plant in-service are as follows:

	<u>Useful Life</u>
Buildings and improvements	10 to 25 years
Utility system	25 to 50 years
Office, plant and shop equipment	5 to 10 years
Vehicles	5 years

Restricted Investments

Certain investments have been classified as restricted pursuant to the requirements of long-term debt agreements and for customer deposits.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash equivalents include all investments with original maturities of three months or less when purchased.

Investments

Investments held by the Company consist of certificates of deposit and deposits with the certificate of deposit account registry service. These investments are considered to be held to maturity and are recorded at cost.

Customer Receivables

Customer receivables are due when bills are rendered. Bills not paid in full by the 10th of the following month will be assessed a late fee. Bills not paid in full by the close of business of the 15th of the month will be locked for non-payment and a reconnect fee will be charged. The Company provides for doubtful accounts based on an analysis of individual accounts. When specific amounts are determined to be uncollectible, they are written off by charging the allowance and crediting accounts receivable. The allowance for doubtful accounts as of September 30, 2022, 2021 and 2020, was \$5,487.

Contributions in Aid of Construction

Contributions in aid of construction consist of state and federal grants and contributions by developers toward the cost of the water system. Property contributed by developers is recorded as contributions in aid of construction at its estimated fair value at the date received. These contributions are amortized using the straight-line method over the estimated useful lives of the contributed assets, generally 40 years. The amortization is offset against depreciation charged to operations.

**MOSSY HEAD WATER WORKS, INC.
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED SEPTEMBER 30, 2022**

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

Capacity Replacement Fees

Capacity replacement fees are water and/or sewer connection fees paid by individuals, businesses, and developers and are utilized for capital projects and utility plant expansion. As such, these tap fees are treated as contributed capital for financial reporting purposes.

Recently Issued Accounting Pronouncements

The FASB issued Accounting Standard Update (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, which means this guidance will be effective for the Company in fiscal year 2023. Management is currently evaluating the impact of this pronouncement on the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and revenues and expenses during the reporting period. 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 January 17, 2023, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

2. INVESTMENTS

At September 30, 2022, the restricted investments balance of \$162,485 consisted of one certificate of deposit account registry service (CDARS) that bears interest at .10% and matures January 2023. At September 30, 2022, the unrestricted investments balance of \$1,558,527 consists of two certificates of deposits and seven deposits with the CDARS that bear interest ranging from 0.05% to 1.10% and mature between October 2022 and September 2023.

**MOSSY HEAD WATER WORKS, INC.
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED SEPTEMBER 30, 2022**

2. INVESTMENTS – CONTINUED

At September 30, 2021, the restricted investments balance of \$145,048 consisted of one CDARS that bears interest at .08% and matures September 2022. At September 30, 2021, the unrestricted investments balance of \$1,322,899 consists of three certificates of deposits and six deposits with the CDARS that bear interest ranging from 0.05% to 0.20% and mature between February 2022 and June 2022.

3. UTILITY PLANT IN-SERVICE, NET

The following is a summary of utility plant in-service as of September 30:

	<u>2022</u>	<u>2021</u>
Utility plant	\$ 8,464,038	\$ 8,379,254
Land	39,430	39,430
Buildings	177,822	177,822
Equipment	309,548	309,548
Improvements other than buildings	14,057	14,057
Vehicles	<u>169,367</u>	<u>187,463</u>
	9,174,262	9,107,574
Less accumulated depreciation	<u>(4,044,971)</u>	<u>(3,830,815)</u>
	<u>\$ 5,129,291</u>	<u>\$ 5,276,759</u>

Annual provisions for depreciation of utility plant in-service, net of amortization of contributions in aid of construction, total \$258,002 (depreciation of \$264,252 and amortization of \$6,250) and \$247,383 (depreciation of \$253,633 and amortization of \$6,250) for the years ended September 30, 2022 and 2021, respectively.

4. CUSTOMER DEPOSITS

A customer deposit is required for each customer account and is held until that account is closed. The fee is either applied toward the final billing or returned after the final payment has been received. These deposits are presented as a long-term liability on the balance sheet. Customer deposits held on accounts were \$162,485, \$145,048 and \$127,719 as of September 30, 2022, 2021 and 2020, respectively. This liability is funded by restricted investments.

**MOSSY HEAD WATER WORKS, INC.
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED SEPTEMBER 30, 2022**

5. LONG-TERM DEBT

The Company's long-term debt consisted of the following as of September 30:

	2022	2021
Note payable to CoBank T01 secured by facilities and equipment; interest rate 3.10% per annum; payable in 240 monthly installments of \$8,071 including interest; note matures in 2040.	\$ 1,339,014	\$ 1,393,534
Note payable to CoBank T02 secured by facilities and equipment; interest rate 3.40% per annum; payable in 300 monthly installments of \$12,244 including interest; note matures in 2046.	2,346,941	2,412,076
	3,685,955	3,805,610
Less current portion included in current liabilities	(124,204)	(120,215)
Long-term portion	\$ 3,561,751	\$ 3,685,395

Aggregate maturities of long-term debt at September 30, 2022, are as follows:

	Amount
2023	\$ 124,204
2024	128,003
2025	132,573
2026	136,973
2027	141,520
Thereafter	3,022,682
	\$ 3,685,955