

**WALTON/OKALOOSA/SANTA ROSA  
REGIONAL UTILITY AUTHORITY**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2019**

**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY  
TABLE OF CONTENTS  
SEPTEMBER 30, 2019**

---

<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3
<b>FINANCIAL STATEMENTS</b>	
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Net Position	8
Statement of Cash Flows	9
Notes to the Financial Statements	10
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule of Expenditures of State Financial Assistance	17
Notes to the Schedule of Expenditures of State Financial Assistance	18
<b>COMPLIANCE SECTION</b>	
Independent Accountants' Report on an Examination of Compliance Requirements In Accordance With Chapter 10.550, <i>Rules of the Auditor         General</i>	19
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20
Independent Auditors' Report on Compliance for the Major State Project and on Internal Control Over Compliance Required by Chapter 10.550, <i>Rules         of the Auditor General</i>	22
Schedule of Findings and Questioned Costs	25
<b>MANAGEMENT LETTER</b>	27

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Walton/Okaloosa/Santa Rosa Regional Utility Authority

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Walton/Okaloosa/Santa Rosa Regional Utility Authority (RUA) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the RUA's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Walton/Okaloosa/Santa Rosa Regional Utility Authority as of September 30, 2019, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2020, on our consideration of the Walton/Okaloosa/Santa Rosa Regional Utility Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Walton/Okaloosa/Santa Rosa Regional Utility Authority's internal control over financial reporting and compliance.

*Warren Averett, LLC*

Destin, Florida  
June 16, 2020

## **WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

This section of the Walton/Okaloosa/Santa Rosa Regional Utility Authority's (RUA) annual financial report presents our discussion and analysis of the Board's financial performance during the fiscal year ended September 30, 2019.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of two parts; management's discussion and analysis and basic financial statements. The financial statements also include notes that explain in more detail some of the information in the financial statements.

### **REQUIRED FINANCIAL STATEMENTS**

The basic financial statements of the RUA report information about the RUA using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The statement of net position includes all of the RUA's assets, deferred outflows, liabilities, and deferred inflows and provides information about the nature and amounts of investments in resources (assets) and the consumption of resources applicable to a future reporting period (deferred outflows of resources) and the obligations to creditors (liabilities) and the acquisition of resources applicable to a future period (deferred inflows of resources). It also provides the basis for computing rate of return, evaluating the capital structure of the RUA and assessing the liquidity and financial flexibility of the RUA. All of the current year revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the RUA's operations over the past year and can be used to determine whether the RUA has successfully recovered its costs through user fees and other charges, profitability, and credit worthiness. The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the RUA's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing, and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balances during the reporting period.

### **FINANCIAL ANALYSIS OF THE RUA**

The basic financial statements of the RUA begin on page 7. The statement of net position and the statement of revenues, expenses, and changes in net position report the net position of the RUA and related changes. The net position, the difference between assets, deferred outflows, liabilities and deferred inflows, is one way to measure the financial health or financial position. Over time, increases or decreases in the RUA's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors should be considered such as economic conditions, population growth, and changing government legislation.

**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**NET POSITION**

The following table summarizes the statements of net position (in thousands) as of September 30:

	<u>2019</u>	<u>2018</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 30	\$ 33
Cash – restricted for debt service	232	204
Due from utility companies	<u>772</u>	<u>947</u>
Total current assets	1,034	1,184
<b>NON-CURRENT ASSETS</b>		
Due from utility companies – long-term	<u>11,377</u>	<u>10,153</u>
<b>TOTAL ASSETS</b>	<u>12,411</u>	<u>11,337</u>
<b>CURRENT LIABILITIES</b>		
Accrued liabilities	129	86
State revolving fund loans payable	<u>909</u>	<u>1,102</u>
Total current liabilities	1,038	1,188
<b>NON-CURRENT LIABILITIES</b>		
State revolving fund loans payable – long-term	<u>11,377</u>	<u>10,153</u>
<b>TOTAL LIABILITIES</b>	<u>12,415</u>	<u>11,341</u>
<b>NET POSITION</b>		
Unrestricted (deficit)	<u>(4)</u>	<u>(4)</u>
<b>TOTAL NET POSITION</b>	<u>\$ (4)</u>	<u>\$ (4)</u>

As can be seen from the table above, total assets and total liabilities increased by approximately \$1.1 million from one year prior. The increase in total assets and total liabilities is due to increased amounts due from utility companies and increased liabilities, both resulting from new state revolving loans obtained during the year. Net position remained the same from year to year. See the following discussion regarding further analysis of the lack of change in net position.

**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**NET POSITION – CONTINUED**

The following table summarizes the RUA's statements of revenues, expenses, and change in net position (in thousands) for the year ended September 30:

	<b>2019</b>	<b>2018</b>
<b>REVENUES</b>		
Operating revenues	\$ 18	\$ 20
Non-operating revenues	321	322
Total revenues	339	342
<b>EXPENSES</b>		
Operating expenses	18	20
Non-operating expenses	321	322
Total expenses	339	342
<b>CHANGE IN NET POSITION</b>	-	-
<b>NET POSITION AT BEGINNING OF YEAR</b>	(4)	(4)
<b>NET POSITION AT END OF YEAR</b>	\$ (4)	\$ (4)

While the statements of net position show the change in financial position, the statements of revenues, expenses, and changes in net position provide answers as to the nature and source of these changes. As can be seen in the table above, there was no change in net position for the year ended September 30, 2019. The lack of change in net position resulted from the fact that the RUA serves as a pass-through entity for its members and generates revenues only to the extent necessary to cover its expenses on an annual basis.

**LONG-TERM DEBT**

During fiscal year 2019, payments on South Walton Utility Company's (SWUC) SRF Loan WW643071 and Destin Water User's (DWU) SRF Loans WW170400 and WW170410 continued on schedule. In March 2019, additional funding was received on DWU SRF Loan WW170420 and WW170430 in the amounts of \$660,449 and \$1,196,882, respectively. Future payment of all long-term debt on the books of the RUA is tied to amounts owed to the RUA by DWU and SWUC under their respective interlocal agreements with the RUA. The RUA is in compliance with all debt covenant requirements under the terms of the five SRF loans as of September 30, 2019. Final maturity on the SRF loans is scheduled for the fiscal year ending September 30, 2039. For more information on the RUA's long-term debt, see Note 4 to the financial statements.

**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**FUTURE ECONOMIC FACTORS**

Future financial activity for the RUA is expected to consist of monthly payments from DWU and SWUC with accumulated loan payments made semiannually to FDEP through the year 2038.

**CONTACTING THE RUA**

This financial report is designed to provide our members with a general overview of the RUA's finances and to demonstrate accountability for its funding. If you have questions about this report or need additional information, contact the RUA's Chief Financial Officer, 4801 E. Olive Road, Suite A, Pensacola, Florida 32514; e-mail address: dawn.schwartz@ECRC.org; phone number: (850) 332-7976 ext. 202 or toll free 1-800-226-8914 ext. 202.



**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2019**

---

**CURRENT ASSETS**

Cash	\$ 29,701
Cash – restricted for debt service	232,103
Due from utility companies	<u>772,413</u>
Total current assets	1,034,217

**NON-CURRENT ASSETS**

Due from utility companies – long-term	<u>11,377,288</u>
--	-------------------

**TOTAL ASSETS**

12,411,505

**CURRENT LIABILITIES**

Interest received in advance	13,574
Principal received in advance	40,955
Accrued interest payable	44,168
Project advances	29,701
State revolving fund loans payable	<u>909,379</u>
Total current liabilities	1,037,777

**NON-CURRENT LIABILITIES**

State revolving fund loans payable – long-term	<u>11,377,288</u>
--	-------------------

**TOTAL LIABILITIES**

12,415,065

**NET POSITION**

Unrestricted (deficit)	<u>(3,560)</u>
------------------------	----------------

**TOTAL NET POSITION**

\$ (3,560)

See notes to the financial statements.

**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

<b>OPERATING REVENUES</b>	
Membership fees	\$ 4,776
Member reimbursements	13,259
Total operating revenues	<u>18,035</u>
<b>OPERATING EXPENSES</b>	
Personnel costs	8,052
Professional services	8,021
Office expense	1,962
Total operating expenses	<u>18,035</u>
<b>OPERATING INCOME</b>	<u>-</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest income	320,783
Interest expense	(320,783)
Total non-operating revenues (expenses)	<u>-</u>
<b>CHANGE IN NET POSITION</b>	-
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>(3,560)</u>
<b>NET POSITION AT END OF YEAR</b>	<u><u>\$ (3,560)</u></u>

See notes to the financial statements.

**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from members	\$ 18,035
Cash paid to vendors	(21,717)

Net cash used in operating activities	(3,682)
---------------------------------------	---------

**CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES**

Interest paid	(317,859)
Proceeds from state revolving fund loans	1,857,331
Payments on state revolving fund loans	(825,641)

Net cash provided by non-capital financing activities	713,831
---	---------

**CASH FLOWS FROM INVESTING ACTIVITIES**

Due from utility companies, net	(1,050,155)
Interest received	364,154

Net cash used in investing activities	(686,001)
---------------------------------------	-----------

<b>NET INCREASE IN CASH</b>	24,148
-----------------------------	--------

<b>CASH AT BEGINNING OF YEAR</b>	237,656
----------------------------------	---------

<b>CASH AT END OF YEAR</b>	\$ 261,804
----------------------------	------------

**COMPOSITION OF CASH**

Cash	\$ 29,701
Cash – restricted for debt service	232,103

<b>TOTAL CASH</b>	\$ 261,804
-------------------	------------

**RECONCILIATION OF CHANGE IN NET POSITION TO  
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ -
Adjustments to reconcile operating income to net cash used in operating activities:	
Decrease in Project Advances	3,682

Net cash provided by operating activities	\$ 3,682
---	----------

See notes to the financial statements.

**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF GOVERNMENT**

**Reporting Entity**

The Walton/Okaloosa/Santa Rosa Regional Utility Authority (RUA) was created by way of an Interlocal Agreement in 1986 and designated as a Regional Water Supply Authority. A revised Interlocal Agreement was implemented in 1999, pursuant to the provisions of Section 373.1962, Florida Statutes. The RUA is comprised of the Counties of Walton, Okaloosa, and Santa Rosa and the municipalities of Destin, Fort Walton Beach, Gulf Breeze, Mary Esther, and Niceville. The RUA was formed to provide financing for water supply needs and protection of water sources on a regional level. The primary function of the RUA is to ensure future water supply and to provide for adequate solid waste and treated sewage effluent disposal. The West Florida Regional Planning Council operates, administers, and maintains the RUA on behalf of the counties and municipalities.

**Measurement Focus and Basis of Accounting**

The RUA's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Operating revenues and expenses generally result from providing services in connection with the RUA's principal ongoing operations. The principal operating revenues of the RUA are participation fees from its member governments. Operating expenses of the RUA include expenses related to personnel and administrative costs in order to properly manage the functions of the RUA.

**Basis of Presentation**

The financial statements of the RUA include a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. Net position is classified into three components which are defined as follows:

Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation.

Restricted – This component of net position consists of restrictions placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component consists of net position that do not meet the definition of “net investment in capital assets” or “restricted.”

**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

---

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

When both restricted and unrestricted resources are available for use, it is the RUA's policy to use restricted resources first, then unrestricted resources as they are needed. As of September 30, 2019, the RUA had only unrestricted (deficit) net position.

**Project Advances**

The RUA reports deferred revenue when funding has been received but not yet earned. Project advances as of September 30, 2019, represents remaining project funds from an uncompleted salinity transfer model available for a future RUA project.

**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.

**2. DEPOSITS**

The RUA maintains its deposits restricted for debt service within an account in its name at a financial institution. All other cash deposits are held on behalf of the RUA within an account in the name of the West Florida Regional Planning Council. The deposits are in compliance with Chapter 280, Florida Statutes. The deposits are either in "Qualified Public Depositories" as defined in Chapter 280, Florida Statutes or are in institutions which meet the exemption requirements of Chapter 280. The exemptions qualify under section 280.03(e) or 280.03(f) as a deposit made in accordance with 17.57(g). The provisions of statute 280 allow "Qualified Public Depositories" to participate in a multiple financial institution collateral pool to ensure the security for public deposits. All Qualified Public Depositories must place with the Treasurer of the State of Florida, securities which have a market value equal to 50% of all public funds on deposit at the end of each month in excess of any applicable deposit insurance. In the event of default by a qualified public institution, the State Treasurer will pay public depositors all losses. Losses in excess of insurance and collateral will be paid through assessments between all Qualified Public Depositories. Under this method, all deposits are fully insured or collateralized with securities held by the State Treasurer.

At September 30, 2019, the carrying amounts of the RUA's deposits held in QPDs were \$261,804, and therefore are not exposed to credit risk.

**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

---

**3. DUE FROM UTILITY COMPANIES**

**Due from South Walton Utility Company, Inc.**

On September 5, 2007, the RUA entered into an Interlocal Agreement with South Walton Utility Company (SWUC), Inc. to assist SWUC with funding its Advanced Wastewater Treatment Facility Project (the Project). By way of this agreement, the RUA applied for a Clean Water Act State Revolving Fund (SRF) Construction Loan through the State of Florida Department of Environmental Protection (FDEP) to fund the Project. In exchange for the approved SRF loan in the amount of \$13.3 million, approximately 6.43 acres of SWUC's property was deeded to the RUA. The property is leased back to SWUC under a capital lease arrangement that remains in effect for the life of the SRF loan; providing reasonable assurance that the RUA will not be held responsible or accountable if the loan is not paid in full or defaults. The lease agreement between the RUA and SWUC calls for monthly rent payments in an amount sufficient to service the semi-annual payments required on the SRF loan. Upon payoff of the SRF loan, title to the property reverts back to SWUC. The deeding of the property to the RUA and the lease back to SWUC have been accounted for as a collateral arrangement in the accompanying financial statements.

The amount due from SWUC at September 30, 2019, represents the unpaid principal balance of the SRF loan less the principal portion of monthly debt service deposits collected by the RUA in advance of the next required semi-annual SRF loan payment.

**Due from Destin Water Users, Inc.**

On March 1, 2011, the RUA entered into an Interlocal Agreement with Destin Water Users (DWU), Inc. to assist DWU with funding its Wastewater Treatment Facility and Reclaimed Water Disposal System Projects (the Projects). By way of this agreement, the RUA applied for two SRF loans through the FDEP to fund the Projects. In exchange for the approved SRF loans totaling over \$3.13 million, a portion of DWU's real property was deeded to the RUA. The agreement had an amendment in 2017 to include additional SRF loans in the arrangement for \$2.25 million. The property is leased back to DWU under a capital lease arrangement that remains in effect for the life of the SRF loans; providing reasonable assurance that the RUA will not be held responsible or accountable if the loan is not paid in full or defaults. The lease agreement between the RUA and DWU calls for monthly rent payments in an amount sufficient to service the semi-annual payments required on the SRF loans. Upon payoff of the SRF loans, title to the property reverts back to DWU. The deeding of the property to the RUA and the lease back to DWU has been accounted for as a collateral arrangement in the accompanying financial statements.

The amount due from DWU at September 30, 2019, represents the unpaid principal on the SRF loans less the principal portion of monthly rents collected by the RUA in advance of the next required semi-annual SRF loan payment.

**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**3. DUE FROM UTILITY COMPANIES – CONTINUED**

Due from utility companies at September 30, 2019, consisted of the following:

Due from SWUC, secured by net wastewater utility system revenues, including wastewater connection fees, and title to real property	\$ 8,110,620
Due from DWU, secured by net wastewater utility system revenues, including wastewater connection fees, and title to real property	<u>4,039,080</u>
Total due from utility companies	12,149,700
Less current portion	<u>(772,413)</u>
Due from utility companies – long-term	<u><u>\$ 11,377,287</u></u>

Future maturities of amounts due from utility companies are as follows:

Year Ending September 30	Principal	Interest	Total
2020	\$ 772,413	\$ 315,355	\$ 1,087,768
2021	934,490	290,269	1,224,759
2022	960,270	264,462	1,224,732
2023	986,822	237,911	1,224,733
2024	1,014,139	210,594	1,224,733
2025-2029	5,508,880	629,585	6,138,465
2030-2034	1,462,947	68,755	1,531,702
2034-2039	<u>509,739</u>	<u>12,436</u>	<u>522,175</u>
	<u><u>\$ 12,149,700</u></u>	<u><u>\$ 2,029,367</u></u>	<u><u>\$ 14,179,067</u></u>

**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

---

**4. STATE REVOLVING FUND LOANS PAYABLE**

As disclosed in Note 3, the RUA received funding from SRF loans on behalf of SWUC and DWU through Interlocal Agreements with both utility companies. As of September 30, 2019, the state revolving fund loans payable consisted of the following:

SRF loan WW643071, bearing interest at a rate of 2.87% per annum, with required semi-annual payments of \$458,886, maturing February 15, 2030, secured by SWUC net wastewater utility system revenues, including wastewater connection fees.	\$ 8,222,583
SRF loan WW170400, bearing interest at a rate of 2.74% per annum, with required semi-annual payments of \$51,318, maturing August 15, 2031, secured by DWU net wastewater utility system revenues, including wastewater connection fees.	1,080,121
SRF loan WW170410, bearing interest at a rate of 2.74% per annum, with required semi-annual payments of \$40,381, maturing January 15, 2032, secured by DWU net wastewater utility system revenues, including wastewater connection fees.	849,928
SRF loan WW170420, bearing interest at a rate of 1.40% per annum, with required semi-annual payments of \$28,386, maturing September 15, 2038, secured by DWU net wastewater utility system revenues, including wastewater connection fees.	944,254
SRF loan WW170430, bearing interest at a rate of 0.92% per annum, with required semi-annual payments of \$33,395, maturing November 15, 2038, secured by DWU net wastewater utility system revenues, including wastewater connection fees.	1,189,781
Total state revolving fund loans payable	12,286,667
Less current portion	(909,379)
State revolving fund loans payable – long-term	<u>\$ 11,377,288</u>



**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

**4. STATE REVOLVING FUND LOANS PAYABLE – CONTINUED**

The annual requirements to amortize SRF loans payable are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 909,379	\$ 315,355	\$ 1,224,734
2021	934,490	290,269	1,224,759
2022	960,270	264,462	1,224,732
2023	986,822	237,911	1,224,733
2024	1,014,139	210,594	1,224,733
2025-2029	5,508,880	629,585	6,138,465
2030-2034	1,462,947	68,755	1,531,702
2034-2039	509,740	12,436	522,176
	<u>\$ 12,286,667</u>	<u>\$ 2,029,367</u>	<u>\$ 14,316,034</u>

**Changes in Long-Term Debt Liabilities**

SRF loan activity for the year ended September 30, 2019, is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
SRF Loan WW643071	\$ 8,880,883	\$ -	\$ (658,300)	\$ 8,222,583	\$ 678,035
SRF Loan WW170400	1,151,687	-	(71,566)	1,080,121	73,540
SRF Loan WW170410	906,242	-	(56,314)	849,928	57,867
SRF Loan WW170420	316,165	660,449	(32,360)	944,254	43,706
SRF Loan WW170430	-	1,196,882	(7,101)	1,189,781	56,231
	<u>\$ 11,254,977</u>	<u>\$ 1,857,331</u>	<u>\$ (825,641)</u>	<u>\$ 12,286,667</u>	<u>\$ 909,379</u>

The RUA's outstanding State Revolving Fund notes payable related to direct borrowings of \$12,286,667 contain provisions that in an event of default, the State could either accelerate the repayment schedule or increase the financing rate on the unpaid principal of the loan to as much as 1.667 times the financing rate, collect fees and apply the revenues to the reduction of the obligations, sue for payment amounts due plus interest and costs of collection, intercept the delinquent amounts plus penalties and interest, or notify financial market credit rating agencies and potential creditors.

**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

---

**4. STATE REVOLVING FUND LOANS PAYABLE – CONTINUED**

**Rate Coverage Ratios**

Under each of the SRF loan agreements, the DWU and SWUC must maintain rates and charges for the sewer system sufficient to provide net revenues equal to or exceeding 1.15 times the sum of the semiannual loan payments in such fiscal year. For the year ended September 30, 2019, the net revenues of the sewer system for DWU and SWUC were in compliance with this debt service coverage ratio.

**Debt Service Fund Deposits**

Under the terms of the SRF loan agreements, between each semiannual loan payment, the RUA must make monthly deposits into a restricted debt service fund equal to 1/6 of the semiannual loan payment amount. As of September 30, 2019, the RUA was in compliance with this requirement through the \$232,103 reflected as cash–restricted for debt service on the statement of net position.

**5. SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared the novel strain of the coronavirus (“COVID-19”) a pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production and services across a range of industries. The extent of the impact of COVID-19 on the Company’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our citizens, employees and vendors, and economical mitigation measures to be taken by federal and state government, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Company’s financial condition or results of operations is uncertain and cannot be estimated.

The Company has evaluated subsequent events through June 16, 2020, the date which the financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY  
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

<b>State Agency Pass-Through Entity State Project</b>	<b>CSFA Number</b>	<b>Contract Number</b>	<b>Expenditures</b>	<b>Pass Through to Subrecipients</b>
Florida Department of Environmental Protection Direct programs				
Wastewater Treatment Facility Construction	37.077	WW170420	\$ 658,970	\$ 658,970
Wastewater Treatment Facility Construction	37.077	WW170430	<u>1,196,882</u>	<u>1,196,882</u>
Total Florida Department of Environmental Protection			<u>1,855,852</u>	<u>1,855,852</u>
<b>TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE</b>			<u><u>\$ 1,855,852</u></u>	<u><u>\$ 1,855,852</u></u>

**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

---

**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of State Financial Assistance (the Schedule) includes the state grant activity of Walton/Okaloosa/Santa Rosa Regional Utility Authority (RUA) for the year ended September 30, 2019. The information in this schedule is presented in accordance with the requirements of Chapter 69I-5, *Schedule of Expenditures of State Financial Assistance*, Rules of the Department of Financial Services and Chapter 10.550, *Rules of the Auditor General*. Because the Schedule presents only a selected portion of the operations of the Company, it is not intended to and does not present the financial position, changes in net position, or cash flows of RUA.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Chapter 69I-5, *Schedule of Expenditures of State Financial Assistance*, Rules of the Department of Financial Services and Chapter 10.550, *Rules of the Auditor General*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

## **COMPLIANCE SECTION**

**INDEPENDENT ACCOUNTANTS' REPORT ON AN EXAMINATION OF  
COMPLIANCE REQUIREMENTS IN ACCORDANCE WITH CHAPTER  
10.550, RULES OF THE AUDITOR GENERAL**

To the Board of Directors  
Walton/Okaloosa/Santa Rosa Regional Utility Authority

We have examined the Walton/Okaloosa/Santa Rosa Regional Utility Authority's (RUA) compliance with Section 218.415, Florida Statutes, in regard to investments for the year ended September 30, 2019.

Management is responsible for RUA's compliance with those requirements. Our responsibility is to express an opinion on the RUA's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether RUA complied, in all material respects, with the specified requirements. An examination involves performing procedures to obtain evidence about whether RUA is in compliance with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including the assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination of RUA's compliance with specified requirements.

In our opinion, the Walton/Okaloosa/Santa Rosa Regional Utility Authority complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2019.

*Warren Averett, LLC*

Destin, Florida  
June 16, 2020

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Walton/Okaloosa/Santa Rosa Regional Utility Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Walton/Okaloosa/Santa Rosa Regional Utility Authority (RUA) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the RUA's basic financial statements, and have issued our report thereon dated June 16, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the RUA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RUA's internal control. Accordingly, we do not express an opinion on the effectiveness of RUA's internal control.

*A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.*

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether RUA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Warren Averett, LLC*

Destin, Florida  
June 16, 2020

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE  
MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY CHAPTER 10.550, RULES OF THE  
AUDITOR GENERAL**

To the Board of Directors  
Walton/Okaloosa/Santa Rosa Regional Utility Authority

**Report on Compliance of Major State Project**

We have audited the Walton/Okaloosa/Santa Rosa Regional Utility Authority's (RUA) compliance with the types of requirements described in the Department of Financial Services' *State Projects Compliance Supplement*, that could have a direct and material effect on the RUA's major State project for the year ended September 30, 2019. The RUA's major State project is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with State statutes, regulations, and the terms and conditions of its State assistance applicable to its State projects.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for the RUA's major State project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Chapter 10.550, *Rules of the Auditor General*. Those standards and Chapter 10.550, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State project occurred. An audit includes examining, on a test basis, evidence about the city's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major State project. However, our audit does not provide legal determination of the RUA's compliance.

**Opinion on the Major State Project**

In our opinion, the RUA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major State project for the year ended September 30, 2019.

### **Report on Internal Control Over Compliance**

Management of the RUA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the RUA's internal control over compliance with the types of requirements that could have a direct and material effect on the major State project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major State project and to test and report on internal control over compliance in accordance with Chapter 10.550, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the RUA's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a State project on a timely basis. *A material weakness in internal control over compliance* is a deficiency or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with the type of compliance requirement of a State project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Report on Schedule of Expenditures of State Awards Required by the Uniform Guidance**

We have audited the financial statements of the business-type activities of Walton/Okaloosa/Santa Rosa Regional Utility Authority, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the RUA's basic financial statements. We issued our report thereon dated June 16, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic 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 basic financial statements. The information 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and results of that testing based on the requirements of Chapter 10.550, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purposes.

*Warren Averett, LLC*

Destin, Florida  
June 16, 2020

**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
SEPTEMBER 30, 2019**

---

**I. SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- |   |           |         |                |
|---|-----------|---------|----------------|
| • Material weakness(es) identified?   | _____ Yes | _____ X | No             |
| • Significant deficiency(ies) identified that are not considered to be material weakness(es)? | _____ Yes | _____ X | None           |
| Noncompliance material to financial statements noted?   | _____ Yes | _____ X | Reported<br>No |

***State Projects***

Internal control over major programs:

- |  |           |         |                  |
|--|-----------|---------|------------------|
| • Material weakness(es) identified?  | _____ Yes | _____ X | No               |
| • Significant deficiency(ies) identified that is/are not considered to be material weakness(es)? | _____ Yes | _____ X | None<br>Reported |

Type of auditors' report issued on compliance for major project:

Unmodified

- |  |           |         |    |
|--|-----------|---------|----|
| • Any audit findings disclosed that are required to be reported in accordance with Chapter 10.550, <i>Rules of the Auditor General</i> ? | _____ Yes | _____ X | No |
|--|-----------|---------|----|

Identification of major State project:

<b>State CSFA Number</b>	<b>Name of State Project</b>
<u>37.077</u>	<u>Water Treatment Facility Construction</u>

Dollar threshold used to distinguish between type A and type B

State projects: \$750,000

- |  |           |         |    |
|--|-----------|---------|----|
| Auditee qualified as a state low-risk auditee? | _____ Yes | _____ X | No |
|--|-----------|---------|----|

**WALTON/OKALOOSA/SANTA ROSA REGIONAL UTILITY AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED  
SEPTEMBER 30, 2019**

---

**II. FINDINGS – FINANCIAL STATEMENTS**

The results of our audit of the Walton/Okaloosa/Santa Rosa Regional Utility Authority did not disclose any findings required to be reported under *Generally Accepted Governmental Auditing Standards*.

**III. FINDINGS – MAJOR STATE PROJECT**

The results of audit of the Walton/Okaloosa/Santa Rosa Regional Utility Authority did not disclose any findings required to be reported under Chapter 10.550, *Rules of the Auditor General*.

## MANAGEMENT LETTER

To the Board of Directors  
Walton/Okaloosa/Santa Rosa Regional Utility Authority

### **Report on the Financial Statements**

We have audited the financial statements of Walton/Okaloosa/Santa Rosa Regional Utility Authority (RUA), as of and for the fiscal year ended September 30, 2019, and have issued our report thereon dated June 16, 2020.

### **Auditors' Responsibility**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Chapter 10.550, *Rules of the Auditor General*.

### **Other Reporting Requirements**

We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with *Government Auditing Standards* and our Independent Accountants' Report on an Examination of Compliance Requirements in Accordance with Chapter 10.550, *Rules of the Auditor General*. Disclosures in those reports, which are dated June 16, 2020, should be considered in conjunction with this management letter.

### **Prior Audit Findings**

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine as to whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no recommendations made in the preceding audit report.

### **Official Title and Legal Authority**

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The information can be found in Note 1 of the accompanying financial statements.

### **Financial Condition and Management**

Sections 10.554(1)(i)5.a. and 10.556(7), *Rules of the Auditor General*, require that we apply appropriate procedures and report the results of our determination as to whether or not the RUA has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the RUA did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c., and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures for the RUA. It is management's responsibility to monitor the RUA's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. Our assessment was performed as of September 30, 2019.

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we communicate any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

**Additional Matters**

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material, but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

**Purpose of this Letter**

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Directors, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

We greatly appreciate the assistance and cooperation extended to us during our audit.

*Warren Averett, LLC*

Destin, Florida  
June 16, 2020