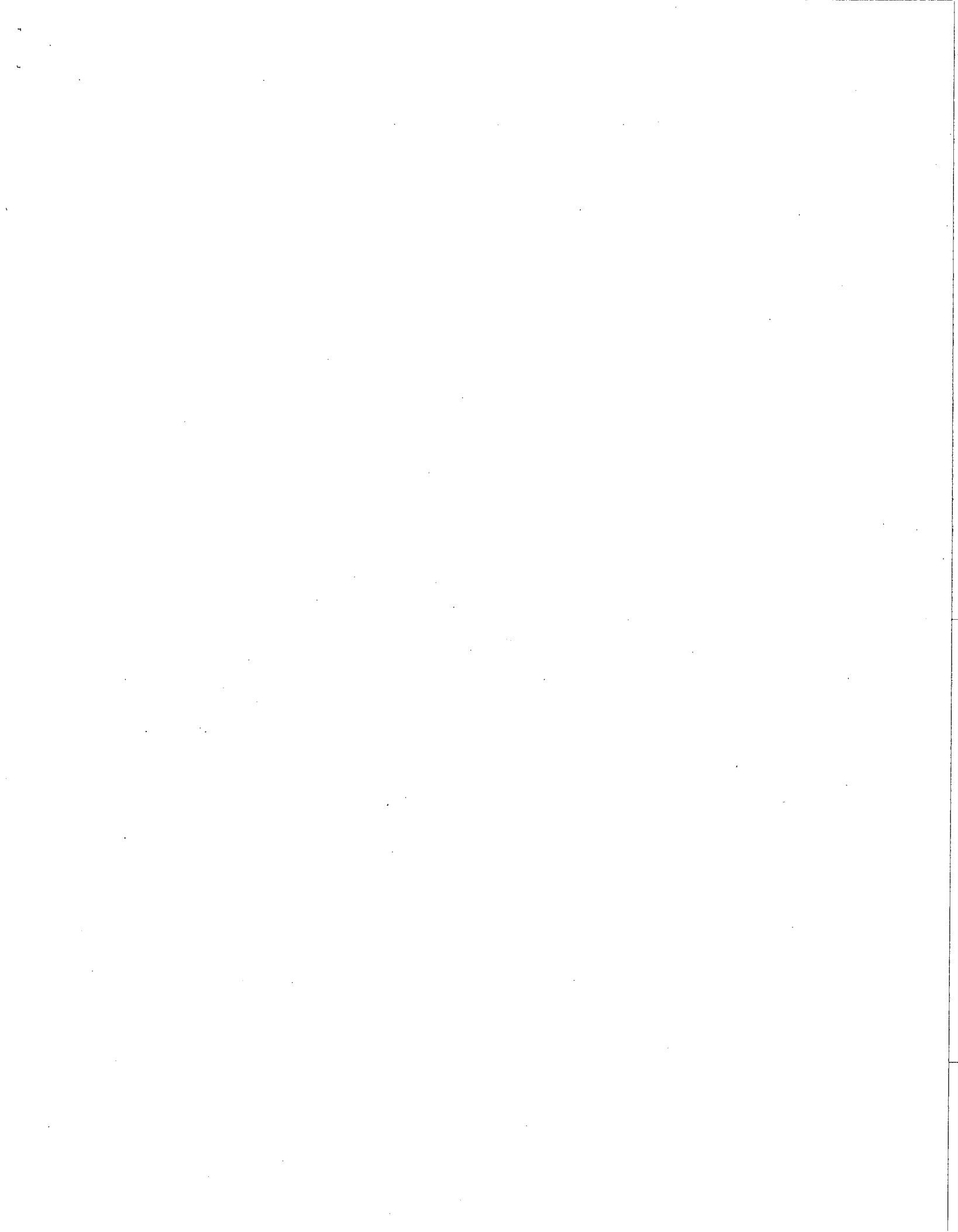


**SOUTH WALTON UTILITY
COMPANY, INC.**

**Financial Statements and
Supplemental Information**

September 30, 2007 and 2006



**SOUTH WALTON UTILITY
COMPANY, INC.**

**Financial Statements and
Supplemental Information**

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36474A Emerald Coast Parkway, Suite 1201, Destin, FL 32541 (850) 837-0398

Board of Directors
South Walton Utility Company, Inc.
Miramar Beach, Florida

INDEPENDENT AUDITOR'S REPORT

We have audited the balance sheets of South Walton Utility Company, Inc. as of September 30, 2007 and 2006 and the related statements of operations, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2007 and 2006, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

O'Sullivan Creel, LLP

November 19, 2007

RSM McGladrey Network
An Independently Owned Member

South Walton Utility Company, Inc.
BALANCE SHEETS
September 30, 2007 and 2006

	2007	2006
ASSETS		
UTILITY PLANT IN SERVICE, NET (See Note 2)	\$ 49,251,940	\$ 49,015,455
RESTRICTED AND DESIGNATED ASSETS		
Cash - restricted	103,629	103,371
Investments - designated (See Note 4)	9,815,569	9,538,742
Investments - restricted (See Note 4)	1,130,076	1,090,271
Total restricted and designated assets	11,049,274	10,732,384
CURRENT ASSETS		
Cash	2,002,619	1,646,287
Investments (See Note 4)	4,060,567	960,876
Accounts receivable, net (See Note 6)	603,399	586,878
Other receivables (See Note 6)	94,388	132,353
Grants receivable	-	1,620,000
Due from other utility companies (See Note 7)	229,166	215,988
Prepaid expenses	212,716	290,714
Inventory	185,230	279,239
Total current assets	7,388,085	5,732,335
OTHER ASSETS		
Debt issue costs, net of accumulated amortization of \$45,920 in 2007 and \$38,860 in 2006	169,261	176,322
Investment in WRP, Inc. (See Note 5)	11,831	13,112
Due from other utility companies (See Note 7)	3,816,358	4,049,756
Total other assets	3,997,450	4,239,190
TOTAL ASSETS	\$ 71,686,749	\$ 69,719,364

Continued...

The accompanying notes are an integral
part of these financial statements.

South Walton Utility Company, Inc.
BALANCE SHEETS
September 30, 2007 and 2006

	2007	2006
LIABILITIES AND MEMBERS' EQUITY		
MEMBERS' EQUITY		
Contributed capital		
Designated for future expansion	\$ 6,140,634	\$ 5,718,982
Undesignated	46,220,507	44,486,387
Amortization	(10,523,340)	(9,052,162)
Retained earnings		
Undesignated	<u>17,110,878</u>	<u>15,838,213</u>
Total members' equity	<u>58,948,679</u>	<u>56,991,420</u>
LONG-TERM LIABILITIES		
Customer deposits	319,648	335,469
Loan deposits	366,506	348,253
Prepaid tap fees	674,887	722,371
Notes payable (See Note 8)	8,161,589	8,627,762
Due to other utility company (See Note 7)	<u>1,698,491</u>	<u>1,800,617</u>
Total long-term liabilities	<u>11,221,121</u>	<u>11,834,472</u>
CURRENT LIABILITIES		
Accounts payable	275,153	71,495
Contracts payable	460,127	114,918
Retainage payable	60,723	35,507
Accrued wages and benefits	55,809	42,199
Accrued annual leave	45,196	40,593
Notes payable (See Note 8)	458,904	436,730
Due to other utility company (See Note 7)	93,664	80,634
Accrued interest payable	<u>67,373</u>	<u>71,396</u>
Total current liabilities	<u>1,516,949</u>	<u>893,472</u>
Total liabilities	<u>12,738,070</u>	<u>12,727,944</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 71,686,749</u>	<u>\$ 69,719,364</u>

The accompanying notes are an integral
part of these financial statements.

South Walton Utility Company, Inc.
STATEMENTS OF OPERATIONS
Years Ended September 30, 2007 and 2006

	2007	2006
REVENUE FROM OPERATIONS	\$ 5,950,993	\$ 5,711,794
OPERATING EXPENSES		
Operating and maintenance	4,411,555	3,805,593
Depreciation and amortization	698,105	642,051
Total operating expenses	5,109,660	4,447,644
OPERATING INCOME	841,333	1,264,150
OTHER REVENUES (EXPENSES)		
Gains (losses) on disposal of assets	(21,383)	(37,841)
Gains (losses) on investment in WRP, Inc.	(1,281)	(78,853)
Interest income	640,073	377,796
Interest expense	(224,365)	(236,507)
Miscellaneous income	38,288	102,686
Total other revenues (expenses)	431,332	127,281
NET INCOME	\$ 1,272,665	\$ 1,391,431

The accompanying notes are an integral
part of these financial statements.

South Walton Utility Company, Inc.
STATEMENTS OF MEMBERS' EQUITY
Years Ended September 30, 2007 and 2006

	2007	2006
CONTRIBUTED CAPITAL		
Beginning balance	\$ 41,153,207	\$ 39,125,512
Tap contributions	1,386,787	1,806,761
Grant contribution	500,000	1,620,000
Other contributions	227,335	22,520
Developer contributions	41,650	36,797
Amortization	<u>(1,471,178)</u>	<u>(1,458,383)</u>
Ending balance	<u>41,837,801</u>	<u>41,153,207</u>
RETAINED EARNINGS		
Beginning of year	15,838,213	14,446,782
Net income	<u>1,272,665</u>	<u>1,391,431</u>
End of year	<u>17,110,878</u>	<u>15,838,213</u>
TOTAL MEMBERS' EQUITY	<u>\$ 58,948,679</u>	<u>\$ 56,991,420</u>

The accompanying notes are an integral
part of these financial statements.

South Walton Utility Company, Inc.
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenue	\$ 6,192,657	\$ 5,696,259
Interest income	640,073	377,796
Miscellaneous income	38,288	102,686
Operating and maintenance expenses	(4,106,773)	(4,131,237)
Interest expense	(224,365)	(233,995)
Net cash flows from operating activities	2,539,880	1,811,509
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of fixed assets	(2,094,904)	(1,672,713)
Proceeds (refunds) from customer deposits	(15,821)	(141)
Loan deposits	18,253	13,579
Proceeds from held-to-maturity investments	2,820,000	1,300,000
Purchases of held-to-maturity investments	(6,202,042)	(3,189,868)
Net cash flows from investing activities	(5,474,514)	(3,549,143)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds (conversions) of prepaid tap fees	(47,484)	29,972
Principal payments on notes payable	(443,999)	(429,580)
Capital contributed by members	1,435,374	1,657,982
Capital contributed from grants	2,120,000	-
Capital contributed from related party	166,863	-
Capital contributed from other sources	60,470	-
Net cash flows from financing activities	3,291,224	1,258,374
NET CHANGE IN CASH	356,590	(479,260)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,749,658	2,228,918
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,106,248	\$ 1,749,658
RECONCILIATION OF CASH		
Cash - undesignated	\$ 2,002,619	\$ 1,646,287
Cash - restricted	103,629	103,371
Total cash and cash equivalents	\$ 2,106,248	\$ 1,749,658
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 228,388	\$ 239,019
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Developer contribution of water and sewer facilities	\$ 41,650	\$ 36,797
Amortization of bond issue costs	\$ 7,700	\$ 7,700

Continued...

The accompanying notes are an integral part of these financial statements.

South Walton Utility Company, Inc.
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,272,665	\$ 1,391,431
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation and amortization	698,105	642,051
Loss (Gain) on disposal of assets	21,383	37,841
Loss (Gain) on investment in WRP, Inc.	1,281	78,853
(Increase) decrease in operating assets		
Receivables	21,444	(15,536)
Due from other utility companies	220,220	238,712
Prepaid expenses	77,998	(184,847)
Inventory	94,009	(101,968)
Increase (decrease) in operating liabilities		
Accounts payable	203,658	(198,893)
Accrued wages and benefits	13,612	3,232
Accrued annual leave	4,601	7,905
Accrued interest payable	-	(2,512)
Due to other utility company	(89,096)	(84,760)
Net cash flows from operating activities	\$ 2,539,880	\$ 1,811,509

The accompanying notes are an integral part of these financial statements.

South Walton Utility Company, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Background

South Walton Utility Company, Inc. (hereinafter referred to as the Company) was organized on August 9, 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 Statutes 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.

As fully explained in Note 7, the Company has joint operations with Destin Water Users, Inc. and Regional Utilities, Inc. pertaining to water supply and water line capacity.

B. 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.

C. Restricted Cash and Restricted and Designated Investments

Cash has been restricted pursuant to the requirements of the loan from the Florida Department of Environmental Protection Loan Fund. Additionally, investments have been restricted pursuant to the requirements of the Florida Department of Environmental Protection Loan Fund, meter deposits held for customers, and by agreement for the Wellfield Project.

The Board has designated investment monies for future water and sewer expansion needs, emergency reserves, operating reserves, and renewal and replacement reserves. Investment securities designated for future expansion correspond to the amount of designated capital for future expansion in Members' Equity. Designated capital for future expansion was \$6,140,634 and \$5,718,982 for the fiscal years ended September 30, 2007, and September 30, 2006, respectively. These amounts are specifically designated within investments as displayed in Note 4. Similarly, Board designations

South Walton Utility Company, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Restricted Cash and Restricted and Designated Investments (Continued)

relating to emergency reserves, operating reserves, and replacement reserves were \$3,674,935 and \$3,819,814 for the fiscal years ended September 30, 2007, and September 30, 2006, respectively.

D. Financial Instruments

The following methods and assumptions were used by the Company to estimate the fair value of financial instruments as disclosed herein.

Cash - The carrying amount approximates fair value because of the short period to maturity of the instruments.

Designated Cash - The funds are comprised of operating and emergency reserve funds as well as board designated funds corresponding to designated capital. The carrying amount approximates the fair market value because of the short period to maturity of the instruments.

Restricted Cash - Cash segregated by debt covenants is classified as restricted.

E. Statements of Cash Flows

For purposes of the Statements of Cash Flows, the Company considers all funds received and deposited in operating and money market bank accounts as cash or cash equivalents.

F. Investments

Management determines the appropriate classification of investment securities at the time they are acquired and evaluates the appropriateness of such classifications at each balance sheet date. The classification of those securities and the related accounting policies are as follows.

- All of the securities held by the Company are classified as held-to-maturity and reported at cost.
- Investments in which the Company has a 50% interest are carried at cost, adjusted for the Company's proportionate share of the undistributed earnings and losses, in accordance with the equity method of accounting for investments.

South Walton Utility Company, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Customer Receivables

Customer receivables are due the second work day of the following month (month 1). If an account is not paid by the second work day of the following month a late fee of 10% of the unpaid water and sewer charges is attached to the next month's (month 2) billings. If not paid by the following month (month 3) a work order is prepared to cut off the water. If the account is not paid (month 4) a final billing is generated. 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.

Management has determined the allowance for doubtful accounts by doing an analysis of prior period write-offs. Annually the Board approves writing off accounts deemed uncollectible.

H. Inventory

Inventories are priced at the lower of: cost, using the first in, first out (FIFO) method, or market. 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.

I. Contributed Capital

This account represents the total amount or value of contributions received from customers and/or developers, including Destin Water Users (DWU) and Regional Utilities (RU), 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. Contributed capital is reported net of the related cost and is amortized over the life of the improvement or the length of the Water Supply Agreement and the RU Pipeline Use Agreement.

For the fiscal year ended September 30, 2007, the Company received \$750,826 and \$682,068 respectively, for water and sewer connection fees. For the fiscal year ended September 30, 2006, the Company received \$1,243,488 and \$414,494 respectively for water and sewer connection fees. These amounts are designated for future expansion and represent the primary component of contributed capital.

South Walton Utility Company, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. 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 recorded as other assets, net of accumulated amortization.

K. 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.

L. Loan Deposits

This account represents deposits made by Destin Water Users and Regional Utilities for their representative portions of the sinking fund required by the state loan from the Florida Department of Environmental Protection. The monies are held as restricted investments.

M. 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. Prepaid tap fees were of \$674,887 and \$722,371, respectively for 2007, and 2006.

N. Annual and Sick Leave

Annual leave is earned from date of hire, but may not be utilized until the employee has completed one year of service. Employees earn annual leave at the rate of eight (8) hours per month of employment, up to 10 years. From 10 to 15 years, annual leave is accrued at fifteen (15) days per year. From 15 to 20 years of service, annual leave is accrued at twenty (20) days per year. After 20 years of service, employees earn twenty-five (25) days per year. An employee may not accrue more than one hundred sixty (160) hours earned annual leave into the next calendar year.

The policy of the Company is that full-time employees will accrue sick leave at a rate of eight 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 FINANCIAL STATEMENTS
September 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Basis of Accounting

The Company prepares its financial statements on the accrual basis of accounting. The Company recognizes revenue for services as they are billed monthly to members, connection fees are deferred and capitalized until they are used, and capital contributions are recorded at cost and are amortized over the life of the improvement.

P. 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.

Q. Reclassifications

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year presentation. Such reclassifications have no effect on net income previously reported.

NOTE 2 - UTILITY PLANT IN SERVICE, NET

Annual provisions for depreciation of Utility Plant In Service total \$698,105 (depreciation of \$2,169,283 net of amortization of \$1,471,178) and \$642,051 (depreciation of \$2,100,434 net of amortization of \$1,458,383) for 2007 and 2006, respectively.

South Walton Utility Company, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

NOTE 2 - UTILITY PLANT IN SERVICE, NET (CONTINUED)

The following is a summary of Utility Plant In Service as of September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Land	\$ 2,330,421	\$ 2,330,421
Plant	54,655,186	54,541,437
Buildings	523,743	523,743
Computer equipment and software	169,531	149,006
Furniture and fixtures	87,860	78,149
Equipment	1,060,907	1,052,086
Vehicles	456,198	435,803
Transmission line	5,285,828	5,285,828
Construction in progress	<u>2,684,439</u>	<u>650,848</u>
	67,254,113	65,047,321
Less accumulated depreciation	<u>(18,002,173)</u>	<u>(16,031,866)</u>
	<u>\$ 49,251,940</u>	<u>\$ 49,015,455</u>

The amount of interest capitalized as part of the cost of property plant and equipment in the related schedule above was \$193,816 and \$193,816 for the years ended September 30, 2007, and September 30, 2006. These amounts are being amortized over the lives of the associated property, plant, and equipment.

Construction in progress consists of several projects the Company is undertaking. The following is a summary of construction in progress activity for the year ended September 30, 2007.

	Construction in Progress 10/01/2006	Additions	Transfers/ Reclassifications	Construction in Progress 9/30/2007
Field Operations Building	832	114,459	(28,790)	86,501
Wetlands Disposal Project	140,515	124,767	-	265,282
WWTP Improvements	509,503	74,584	(66,824)	517,263
Destination Treatment Plant	-	21,750	-	21,750
Wellfield Phase III	-	349,559	-	349,559
Open gulf sewer	-	3,345	-	3,345
WSP Phase II	-	1,263	-	1,263
Plant reuse system	-	65,051	-	65,051
Plant AWT Upgrade	-	624,044	-	624,044
Phase III Wells 11 & 12	-	114,855	-	114,855
Phase III GST 3 & 4	-	336,743	-	336,743
Phase III Mains & Roadways	-	298,783	-	298,783
	<u>\$ 650,850</u>	<u>\$ 2,129,203</u>	<u>\$ (95,614)</u>	<u>\$ 2,684,439</u>

South Walton Utility Company, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

NOTE 3 - CONCENTRATIONS

The Company maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Company (FDIC) up to \$100,000. At September 30, 2007 and 2006, the Company exceeded the FDIC insured limits at financial institutions by a total of \$1,926,299 and \$668,552 respectively, which is the amount of the Company's exposure to credit loss.

NOTE 4 - INVESTMENTS

Investments are recorded at amortized cost, which approximates fair value, are classified as held-to-maturity and consist of the following:

	2007	<u>2006</u>
Due within one year	\$ 6,626,734	\$ 2,598,465
Due after one year through three years	5,598,239	3,999,208
Due after three years through five years	2,528,973	3,251,586
Due after five years	<u>252,265</u>	<u>1,740,630</u>
Total held-to-maturity investments	<u>\$ 15,006,211</u>	<u>\$ 11,589,889</u>
Federal Home Loan Bonds and FNMA Mortgage Notes	\$ 4,664,449	\$ 5,151,396
Money Market Funds	524,967	129,302
Certificates of Deposit	<u>9,816,795</u>	<u>6,309,191</u>
Total investments	<u>15,006,211</u>	<u>11,589,889</u>
Less amounts designated:		
Amount designated for operating reserves	(3,674,935)	(3,819,814)
Amount designated for future expansion	<u>(6,140,634)</u>	<u>(5,718,928)</u>
Total investments - designated	<u>(9,815,569)</u>	<u>(9,538,742)</u>
Less amounts restricted:		
Amount restricted for customer deposits	(319,648)	(335,468)
Amount restricted for loan repayment	(676,838)	(643,173)
Amount restricted for plant construction	<u>(133,590)</u>	<u>(111,630)</u>
Total investments - restricted	<u>(1,130,076)</u>	<u>(1,090,271)</u>
Total available investments - unrestricted	<u>\$ 4,060,566</u>	<u>\$ 960,876</u>

NOTE 5 - INVESTMENT IN WRP, INC.

South Walton Utility Company, Inc. (the Company) and Destin Water Users, Inc. (DWU) agreed to work together and pursue collective solutions to future water supply needs.

South Walton Utility Company, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

NOTE 5 - INVESTMENT IN WRP, INC. (CONTINUED)

On August 13, 1996, WRP, Inc. was incorporated with the State of Florida. WRP, Inc. is owned 50% each by the Company and DWU. The initial work of WRP, Inc. was to explore two alternative methods of obtaining water for the members of the Company and DWU. The investment is accounted for under the equity method of accounting.

Pertinent financial information for WRP, Inc. as of Sept. 30, is as follows:

	2007	2006
Balance sheet		
Cash	\$ 478	\$ 3,040
Land held for sale	24,411	24,411
Total assets	\$ 24,889	\$ 27,451
Liabilities	110	110
Equity	24,779	27,341
Total liabilities and equity	\$ 24,889	\$ 27,451
	Year ended 9/30/2007	Year ended 9/30/2006
Statement of operations and gains		
Revenues	\$ -	\$ 4,303
Expenses	(2,562)	(5,763)
Excess of revenues over expenses	(2,562)	(1,460)
	x	x
	50 %	50 %
Company's share of excess of WRP, Inc. revenues over expenses	\$ (1,281)	\$ (730)

The financial statements of WRP, Inc. presented above are representative of information attained from WRP's records as of September 30, 2007. A complete copy of the financial statements of WRP, Inc. can be obtained from the Company.

South Walton Utility Company, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

NOTE 6 - RECEIVABLES

At September 30, 2007, and 2006, receivables consist of the following:

	<u>2007</u>	<u>2006</u>
Accounts, net of allowance for doubtful accounts of \$11,700 in 2007 and 2006	\$ 603,399	\$ 586,878
Connection fees	2,326	2,380
Receivable from WRP, Inc.	1,056	1,056
Interest	60,492	57,417
Miscellaneous	<u>30,515</u>	<u>71,500</u>
Total receivables	<u>\$ 697,788</u>	<u>\$ 719,231</u>

NOTE 7 - RELATED PARTY AGREEMENTS

During the year ended September 30, 2000, the Company entered into an agreement with Regional Utilities to use 60% of its water line capacity beginning on June 1, 2001, and continuing for twenty years. This agreement resulted in an initial payment for the extension of the water line. Concurrently, Destin Water Users also entered into the agreement with Regional Utilities. In the same year, Destin Water Users, Inc., agreed to pay the Company one-half of the initial payment for the extension and one-half of the water line capacity for the twenty-year period in exchange for joint use of the water line. The Company capitalizes payments from DWU and amortizes them over the term of the debt. Amounts paid in prior years for the extension and amounts due from DWU for future payments are included in contributed capital. The pipeline lease agreement with RU bears interest at 5.00%. Interest payments received by the Company from DWU are netted with interest expense paid to RU by the Company for income statement presentation.

In fiscal year ending September 30, 2002, South Walton Utility Company, Inc., completed the Phase I Water Supply Project. Destin Water Users and Regional Utilities Inc. are paying 54% of the cost of this project, including the debt acquired by the Company. Amounts paid in prior years for Phase I and amounts due from DWU and RU for future payments on debt are included in contributed capital. The Company capitalizes payments from DWU and RU and amortizes them over the life of the debt.

South Walton Utility Company, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

NOTE 7 - RELATED PARTY AGREEMENTS (CONTINUED)

The Company has recorded amounts due from DWU and RU for their share of the Florida Department of Environmental Protection loan (see Note 8) acquired by the Company for the Phase I Water Supply Project. The debt bears interest at 3.46%. Interest payments received by the Company from DWU and RU are netted with the interest expense paid by the Company on the debt for income statement presentation. Additionally there is a long term and short term amount.

Due from other utility companies

	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	<u>Short term</u>	<u>Short term</u>	<u>Long term</u>	<u>Long term</u>
Due from DWU for Phase I	\$ 153,951	\$ 148,747	\$ 2,506,209	\$ 2,660,162
Due from RU for Phase I	28,383	27,424	462,045	490,428
Due from DWU for RU pipeline	<u>46,832</u>	<u>39,817</u>	<u>848,104</u>	<u>899,166</u>
Total due from other utility	<u>\$ 229,166</u>	<u>\$ 215,988</u>	<u>\$ 3,816,358</u>	<u>\$ 4,049,756</u>

The Company has recorded a liability on the balance sheet, due to other utility company, for the future payments due to RU for 60% use of the RU pipeline.

<i>Due to other utility company</i>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	<u>Short term</u>	<u>Short term</u>	<u>Long term</u>	<u>Long term</u>
Due to RU for pipeline	<u>\$ 93,664</u>	<u>\$ 80,634</u>	<u>\$ 1,698,491</u>	<u>\$ 1,800,617</u>

Future minimum payments due to the related party are as follows:

	<u>Amount</u>
2008	\$ 181,020
2009	181,020
2010	181,020
2011	181,020
2012	181,020
2013 through 2021	<u>1,568,840</u>
Total minimum payments of the related party agreement	2,473,940
Less: Amount representing interest	<u>(681,785)</u>
Total remaining amount of pipeline agreement	<u>\$ 1,792,155</u>

South Walton Utility Company, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

NOTE 8 - DEBT

Line of Credit

The Company renewed a \$50,000 line of credit in May 2007. The line of credit is in accordance with the franchise ordinance with the City of Destin. As of September 30, 2007, the company has not drawn any funds on the line of credit.

Capitalization Grants for Drinking Water State Revolving Fund

The Company obtained a \$6,836,855 twenty-year revolving note in September 2000 from the Florida Department of Environmental Protection ("FDEP") to fund the majority of the Phase I Water Supply Project. The note bears interest at a rate of 3.52% and is secured by pledged revenues. In October 2001, the company amended the note, providing additional funding for the Water Supply Project in the amount of \$1,251,087. The note amendment bears interest at a rate of 3.05%. The total note from the FDEP was \$7,553,465. Principal and interest payments of \$267,525 are due semiannually on June 15 and December 15, with a final installment equal to the remaining principal and interest balance due on June 15, 2021. The Company began paying back the note on December 15, 2001. The outstanding note balances at September 30, 2007, and 2006, respectively, were \$5,893,382 and \$6,215,506.

The Company obtained a \$3,021,280 twenty-year revolving note in December 2003 from the Florida Department of Environmental Protection ("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. Principal and interest payments of \$102,873 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 \$515,609. As of September 30, 2007, the balance of the compensating account was \$676,838. The Company began paying back the note on February 15, 2005. The outstanding note balances at September 30, 2007, and 2006, was \$2,727,111 and \$2,848,986, respectively.

State Revolving Loan

<i>Note Payable</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<u><i>Short term</i></u>	<u><i>Short term</i></u>	<u><i>Long term</i></u>	<u><i>Long term</i></u>
SRL Phase I	\$ 333,394	\$ 316,633	\$ 5,559,988	\$ 5,898,873
SRL Phase II	<u>125,510</u>	<u>120,097</u>	<u>2,601,601</u>	<u>2,728,889</u>
Total note payable for SRL	<u>\$ 458,904</u>	<u>\$ 436,730</u>	<u>\$ 8,161,589</u>	<u>\$ 8,627,762</u>

South Walton Utility Company, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

NOTE 8 - DEBT (CONTINUED)

Maturities of the notes are as follows:

	<u>Amount</u>
2008	\$ 458,904
2009	474,312
2010	490,240
2011	506,708
2012	523,731
2013 through 2017	2,894,846
2018 through 2022	2,875,887
2023 through 2025	395,865
	<u>\$ 8,620,493</u>

NOTE 9 - RETIREMENT PLAN

The Company adopted a 401(k) retirement plan effective April 18, 1997. The plan covers all employees who have completed one year of service or was a participant in the previous retirement plan prior to the effective date of the new plan. The Company matches employee contributions up to 8%. The Company's contribution for the year ended September 30, 2007, and 2006, was \$60,072 and \$62,171, respectively.

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

<u>Years of service</u>	<u>Vesting Percentages</u>
Less than 2 years	0%
2 years	20%
3 years	40%
4 years	60%
5 years	80%
6 years	100%

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

In August 2007, a supplemental contribution plan was approved. The contributions would vary depending on the individual employee's length of service with the Company. However, the plan has not been finalized nor implemented as of September 30, 2007.

South Walton Utility Company, Inc.
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

NOTE 10 - CONSTRUCTION COMMITMENTS

At September 30, 2007, the Company had several active construction projects in progress. Many of these projects included contracts and commitments with vendors not yet completed as of September 30, 2007. These amounts are listed below as "construction commitments".

	Remaining Commitment
South Walton Utility Company Inc. Projects	
Phase III: Wells 11 & 12	\$ 1,294,611
Phase III: GST 3 & 4	1,204,933
Phase III: Mains & Roadways	1,759,201
Phase III: Wellfield	67,000
Totals	\$ 4,325,745

NOTE 11 - SUBSEQUENT EVENTS

During September 2007 the Company entered into an inter-local agreement with the Walton/Okaloosa/Santa Rosa Regional Utility Authority to facilitate the expansion of the Company's wastewater treatment plant and expand its reclaimed water disposal system due to environmental demands to support the projected growth of the area. The terms of the interlocal agreement call for the Company to transfer by warranty deed, title to the land and existing plant over to the RUA. In turn, the RUA will make application for funding through the Florida Department of Environmental Protection Clean Water Act State Revolving Fund Program to obtain funding to enable these improvements are made. The Company, at the same time, will lease these same facilities back from the RUA. Under the lease, the Company will make payments to the RUA in an amount covering the debt obtained by the RUA and administrative costs. Once the debt is paid in full, the RUA will deed the land and plant back to the Company.

Additionally, in October 2007, the Company entered into a contract for construction on the administrative addition on the field maintenance facility. The contract was with a local construction company and totaled \$835,179.



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Board of Directors
South Walton Utility Company, Inc.
Miramar Beach, Florida

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

Our report on the audits of the basic financial statements of South Walton Utility Company, Inc. for 2007 and 2006, and for the years then ended, appears on page 1. Those audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Statement of Operations - Comparison of Budget to Actual on page 22 and the statistical information on pages 23 - 27 have been prepared for the purpose of additional analysis and are not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

O'Sullivan Creel, LLP

November 19, 2007

RSM McGladrey Network
An Independently Owned Member

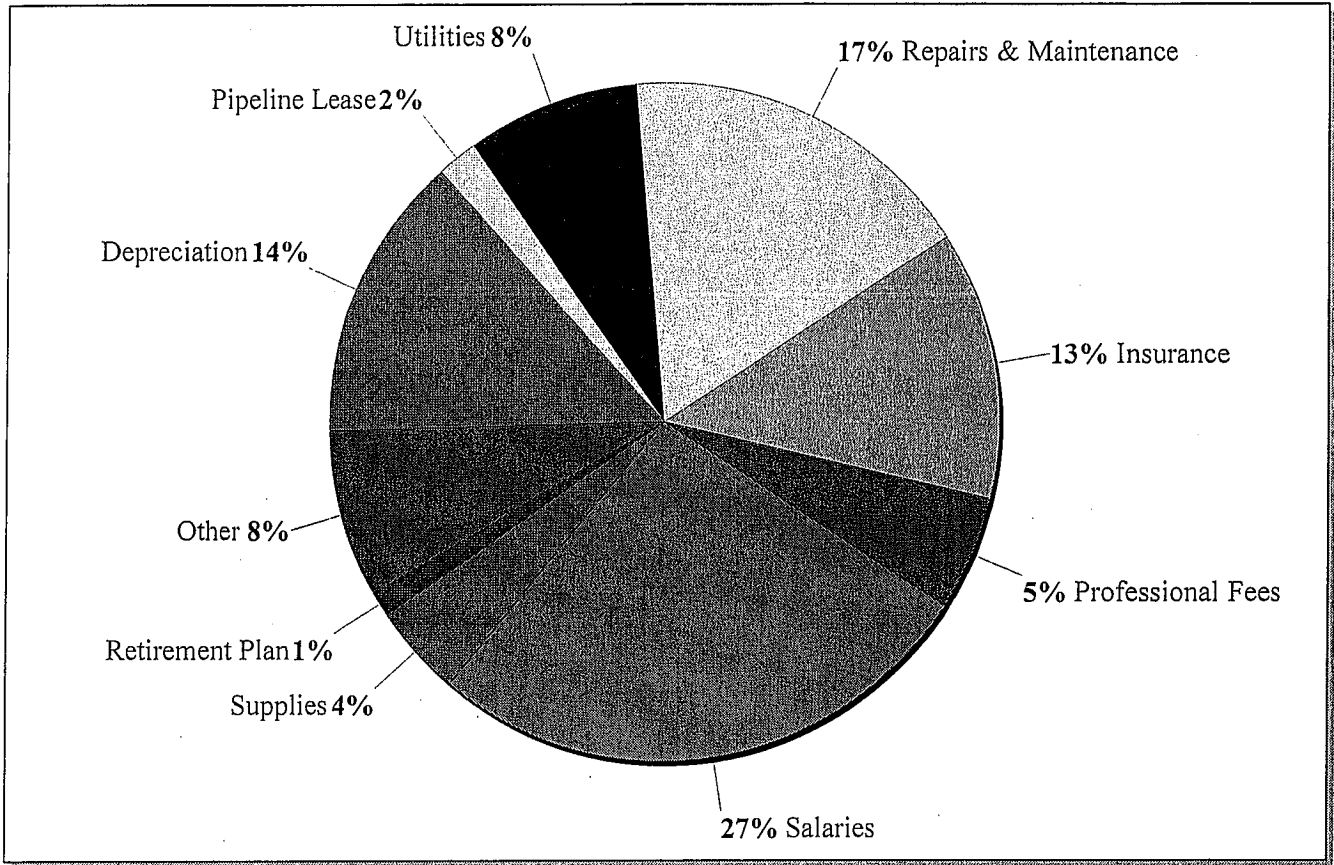
South Walton Utility Company, Inc.
STATEMENT OF OPERATIONS - COMPARISON OF BUDGET TO ACTUAL
Year Ended September 30, 2007

	(Unaudited) Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Water	\$ 3,000,000	\$ 2,904,542	\$ (95,458)
Sewer	2,600,000	2,475,005	(124,995)
Wholesale water	307,000	331,642	24,642
Other	160,000	239,804	79,804
Total operating revenues	<u>6,067,000</u>	<u>5,950,993</u>	<u>(116,007)</u>
OPERATING EXPENSES			
Bad debts	5,500	-	5,500
Chemicals	88,500	83,513	4,987
Contributions	40,000	30,770	9,230
Depreciation and amortization	621,259	698,105	(76,846)
Education and travel	32,500	23,802	8,698
Engineering and fees	123,500	49,265	74,235
Freight charges	-	2,353	(2,353)
Insurance - employees and other	672,000	654,474	17,526
Lab supplies	17,200	21,729	(4,529)
Legal and accounting	70,000	54,550	15,450
Licenses and fees	22,400	16,172	6,228
Miscellaneous	55,000	8,081	46,919
Office expenses	45,050	28,291	16,759
Operating supplies	211,000	225,227	(14,227)
Payroll taxes	107,983	107,227	756
Professional fees	237,000	176,608	60,392
Repairs and maintenance	707,500	880,855	(173,355)
Retirement plans	79,701	60,072	19,629
Salaries	1,568,700	1,372,694	196,006
Telephone and sanitation	61,500	55,513	5,987
Uniforms	24,550	19,383	5,167
Utilities	332,483	430,516	(98,033)
Pipeline lease expense	105,000	98,556	6,444
R & R deposit	22,620	-	22,620
True-up expense	-	11,904	(11,904)
Total operating expenses	<u>5,250,946</u>	<u>5,109,660</u>	<u>141,286</u>
OPERATING INCOME	<u>816,054</u>	<u>841,333</u>	<u>25,279</u>
OTHER REVENUES (EXPENSES)			
Gains (losses) on disposal of assets	-	(21,383)	(21,383)
Gains (losses) on investment in WRP, Inc.	-	(1,281)	(1,281)
Interest income	318,000	640,073	322,073
Interest expense	(515,000)	(224,365)	290,635
Miscellaneous income	41,600	38,288	(3,312)
Total other revenues (expenses)	<u>(155,400)</u>	<u>431,332</u>	<u>586,732</u>
NET INCOME	<u>\$ 660,654</u>	<u>\$ 1,272,665</u>	<u>\$ 612,011</u>

See independent auditor's report
on supplemental information.

SOUTH WALTON UTILITY COMPANY, INC.
STATISTICAL INFORMATION

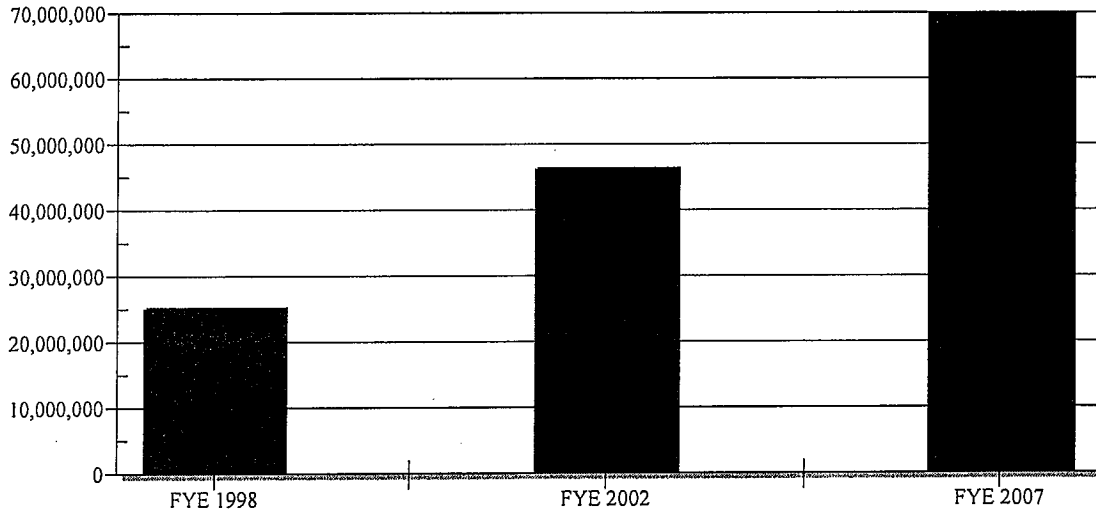
2007 OPERATING EXPENSES



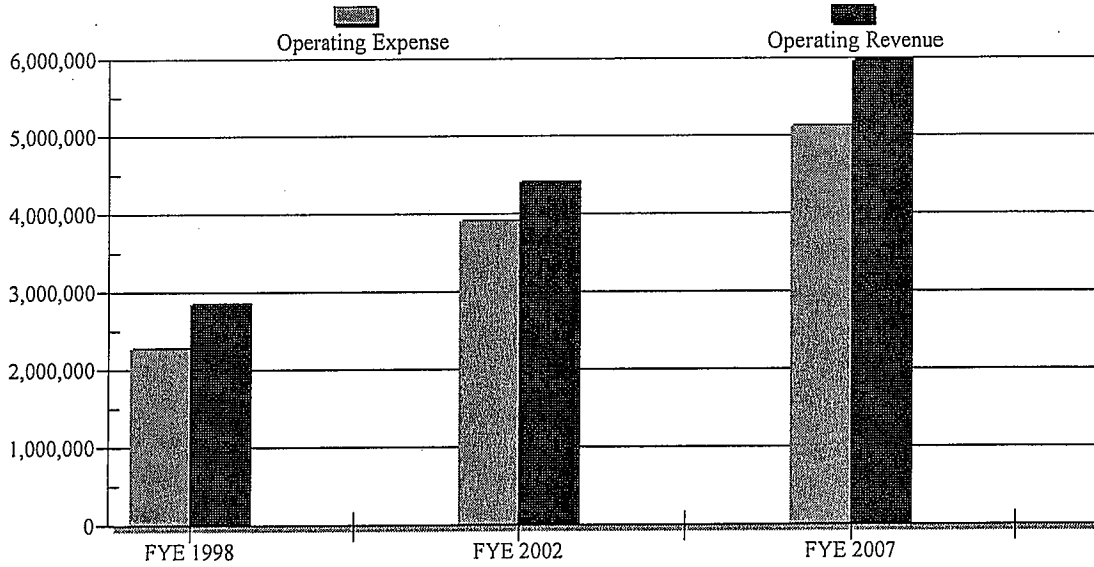
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on supplemental information.

SOUTH WALTON UTILITY COMPANY, INC.
STATISTICAL INFORMATION

Total Assets



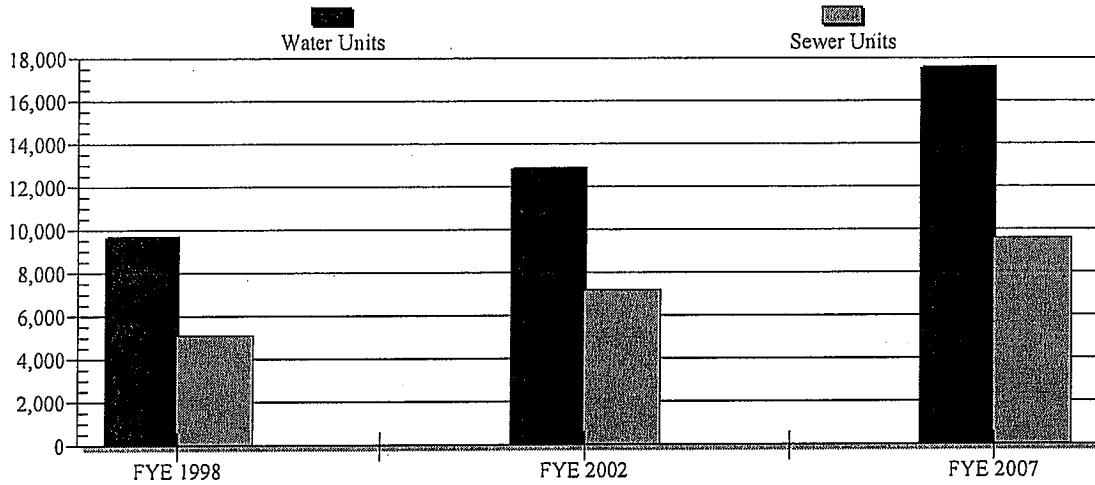
Operating Revenue & Expenses



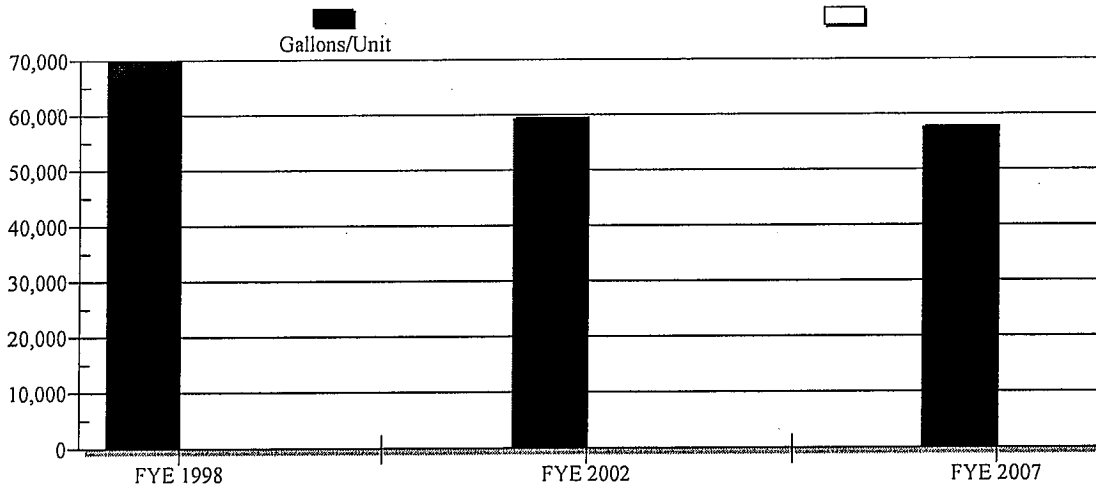
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SOUTH WALTON UTILITY COMPANY, INC.
STATISTICAL INFORMATION

Growth in Units
(Unaudited)



Annual Water Usage
(Unaudited)

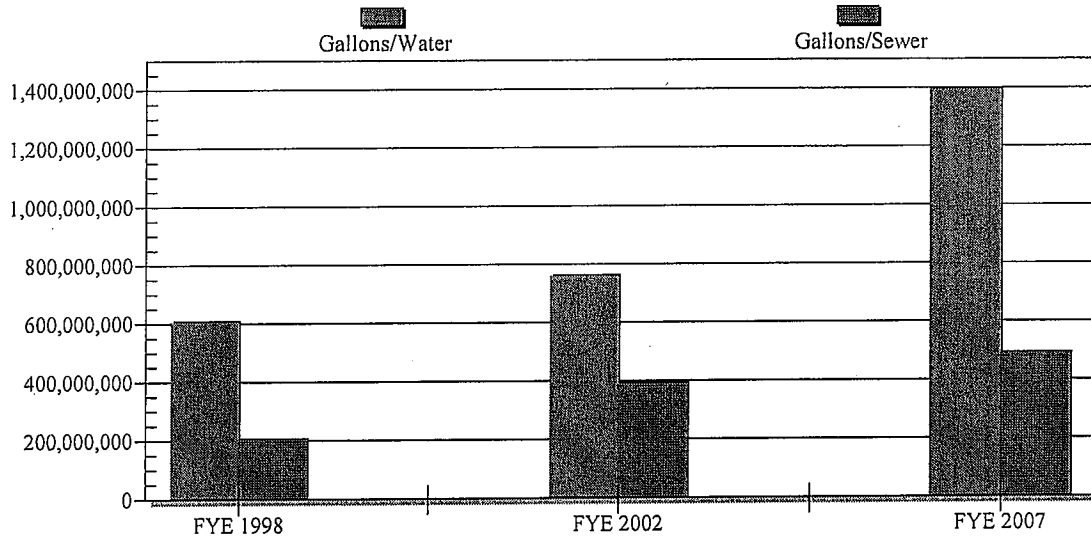


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on supplemental information.

SOUTH WALTON UTILITY COMPANY, INC.
STATISTICAL INFORMATION

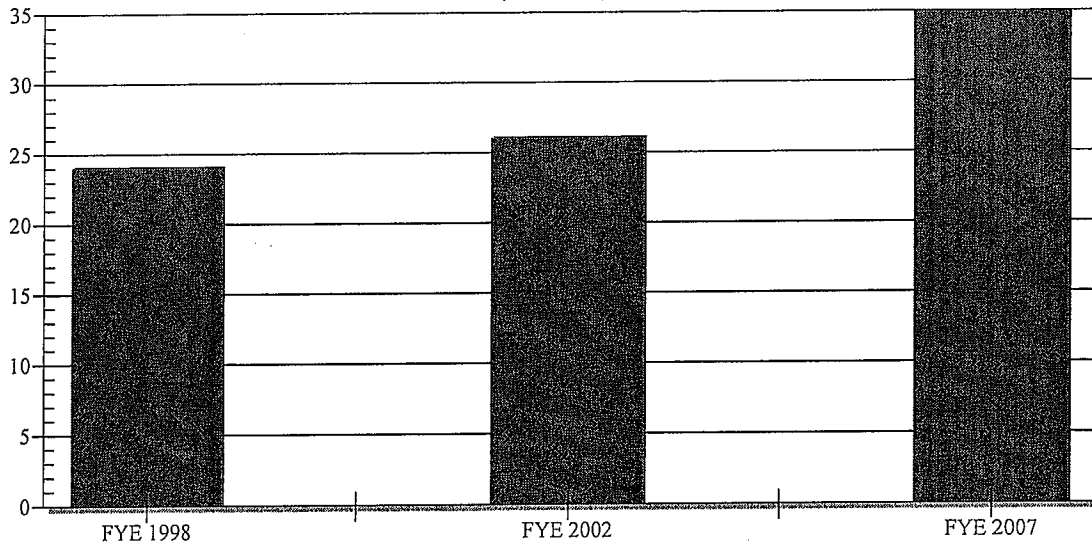
Gallons Produced & Treated

(Unaudited)



Employees

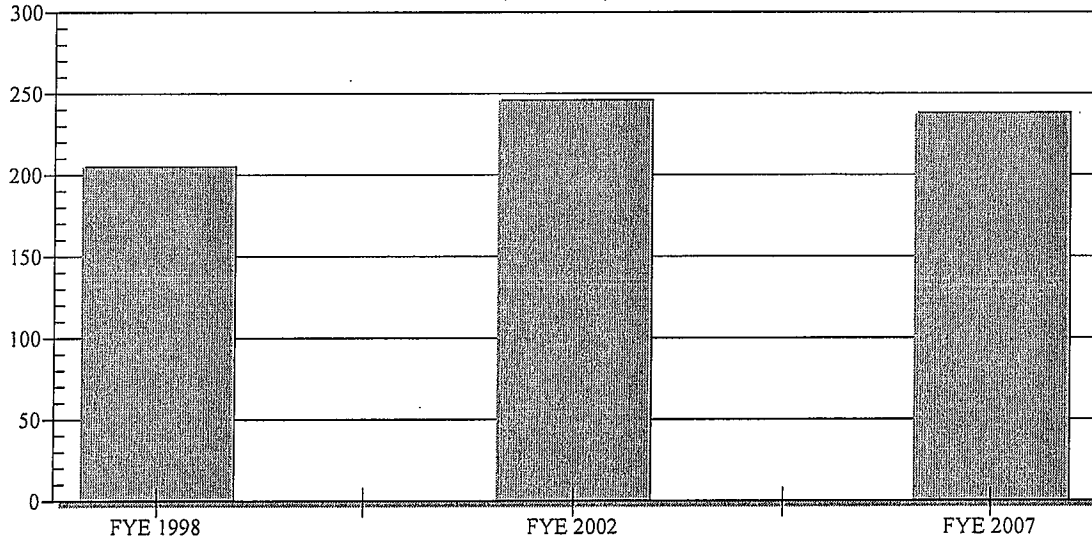
(Unaudited)



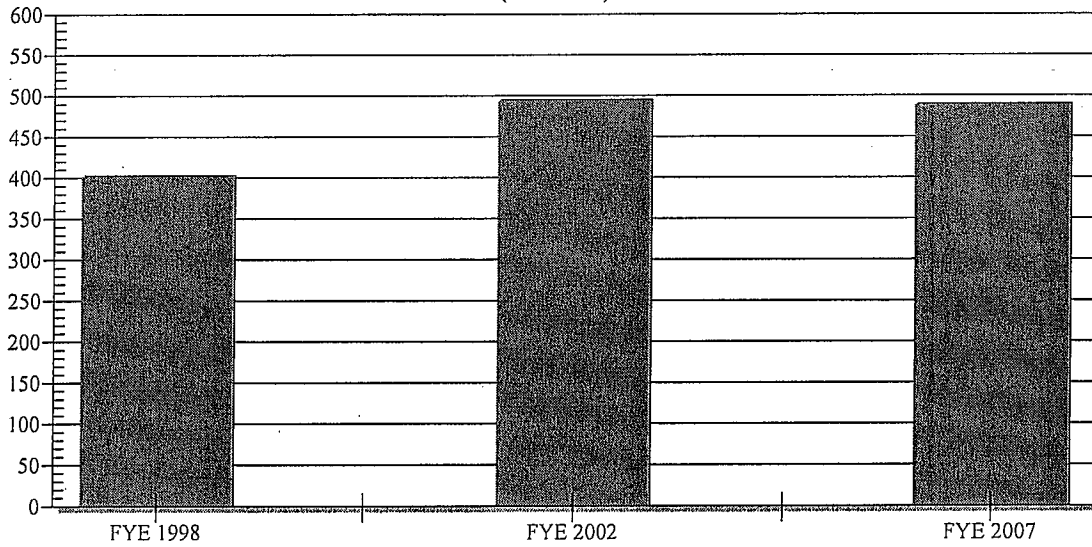
See independent auditor's report
on supplemental information.

SOUTH WALTON UTILITY COMPANY, INC.
STATISTICAL INFORMATION

Members per Employee
(Unaudited)



Units per Employee
(Unaudited)



See independent auditor's report
on supplemental information.