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June 23, 2022

VIA Electronic Filing to the Office of Commission Clerk Florida Public Service Commission Office of Commission Clerk 2540 Shumard Oak Boulevard Tallahassee, FL 32399-0850

Re: Docket No. 20220063-WS - Application for transfer of water and wastewater facilities of Tradewinds Utilities, Inc., water Certificate No. 405-W, and wastewater Certificate No. 342-S to CSWR-Florida Utility Operating Company, LLC, in Marion County.

Dear Commission Clerk:

With this cover letter, Applicant CSWR-Florida Utility Operating Company, LLC ("CSWR-Florida UOC") files a redacted copy of the 2020 and 2021 consolidated financial statements of CSWR, LLC and its subsidiaries. These updated consolidated financial statements are submitted to supplement Exhibit D to the Application and in response to discovery requests for the same from the Office of Public Counsel. An unredacted and highlighted copy will be hand delivered to the Clerk's office along with a related Request for Confidential Classification. Thank you for your continued assistance with this docket.

Sincerely,
/s/ Thomas A. Crabb
Thomas A. Crabb
Susan F. Clark
Attorneys for CSWR-Florida UOC

cc: Mary Wessling, Esq., Office of Public Counsel (wessling.mary@leg.state.fl.us) Charles deMenzes (charlie@altfo.com)

# CSWR, LLC and Subsidiaries

**Consolidated Financial Statements** 

December 31, 2021 and 2020



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## Independent Auditor's Report

RSMUSLLP

Board of Directors CSWR, LLC and Subsidiaries

## Report on the Audit of the Financial Statements Opinion

We have audited the consolidated financial statements of CSWR, LLC and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, the related consolidated statements of operations, member's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

# **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to
  fraud or error, and design and perform audit procedures responsive to those risks. Such procedures
  include examining, on a test basis, evidence regarding the amounts and disclosures in the financial
  statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures
  that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the
  effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant
  accounting estimates made by management, as well as evaluate the overall presentation of the
  financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that
  raise substantial doubt about the Company's ability to continue as a going concern for a reasonable
  period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying consolidating balance sheet as of December 31, 2021, and the related consolidating statement of operations for the year then ended is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

St. Louis, Missouri March 31, 2022

# **Consolidated Balance Sheets**

**Current Assets** Cash Accounts Receivable, Net Other Current Assets **Total Current Assets** Property, Plant and Equipment, Net Non-Current Assets Preliminary Survey and Investigation Other Long-Term Assets **Total Non-Current Assets** Goodwill Intangible Assets **Total Assets Current Liabilities** Accounts Payable Notes Payable - Current

2021

2020

Long-Term Liabilities

Notes Payable, Net of Current Portion Contributions in Aid of Construction

Other Long-Term Liabilities

Other Current Liabilities

Total Long-Term Liabilities

Total Current Liabilities

Commitments and Contingencies (See Note 10)

Member's Equity

Paid-In Capital Retained Deficit

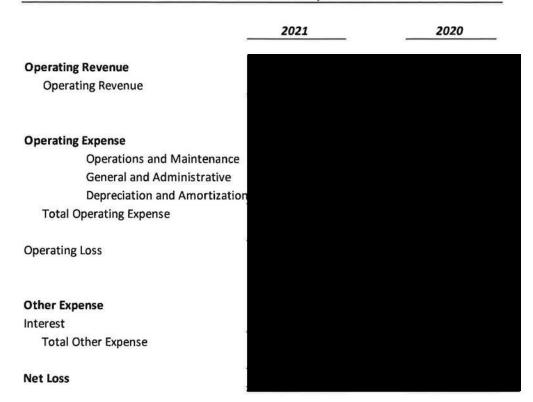
Total Member's Equity

Total Liabilities and Member's Equity

# **CSWR, LLC and Subsidiaries**

For the years ended December 31, 2021 and 2020

# **Consolidated Statements of Operations**



# Consolidated Statements of Member's Equity

Total Member's Paid-In Capital Retained Deficit Equity

Balance at December 31, 2019 Capital Contributions Net Loss

Balance at December 31, 2020

Capital Contributions Net Loss

Balance at December 31, 2021



## CSWR, LLC and Subsidiaries

For the years ended December 31, 2021 and 2020

## **Consolidated Statements of Cash Flows**

2021 2020

## **Cash Flows from Operating Activities**

**Net Loss** 

Adjustments to reconcile net loss to net cash used in operating activities

Depreciation and amortization

Amortization of deferred financing costs to interest expense

Loss on disposal of preliminary survey and investigation expense

Loss on disposal of property, plant and equipment

Interest capitalized to notes payable

Interest capitalized to deferred financing costs

Change in assets (increase) decrease

Accounts receivable, net

Other current assets

Other long-term assets

Change in liabilities - increase (decrease)

Current liabilities

Other long-term liabilities

Net cash used in Operating Activities

## **Cash Flows from Investing Activities**

Purchase of property, plant and equipment

Acquisition of preliminary survey and investigation

Net cash used in Investing Activities

## Cash Flows from Financing Activities

Payments on notes payable

Contributions in aid of construction

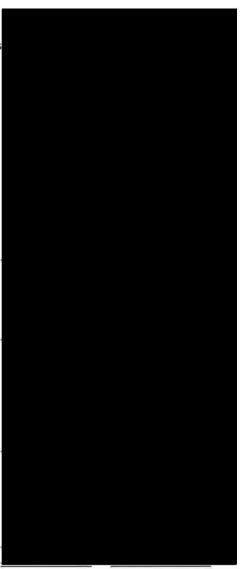
Capital contributions

Net cash provided by Financing Activities

Net Increase in Cash

Cash, Beginning of Period

Cash, End of Period



#### NOTE 01: NATURE OF OPERATIONS AND BASIS OF PRESENTATION

# Principles of Consolidation

The accompanying consolidated financial statements include the accounts of CSWR, LLC ("CSWR") and its wholly owned subsidiaries, Missouri Central States Water Resources, LLC ("Missouri Central States"), Arkansas Central States Water Resources, LLC ("Arkansas Central States"), Kentucky Central States Water Resources, LLC ("Kentucky Central States"), Texas Central States Water Resources, LLC ("Texas Central States"), Louisiana Central States Water Resources, LLC ("Louisiana Central States"), Arizona Central States Water Resources, LLC ("Arizona Central States"), North Carolina Central States Water Resources, LLC ("Mississippi Central States") and Tennessee Central States Water Resources, LLC ("Tennessee Central States"), collectively "the Company".

The accounts of Missouri Central States' wholly owned subsidiaries are included. Those subsidiaries are: Hillcrest Utility Holding Company, Inc. ("Hillcrest"), Raccoon Creek Utility Holding Company, Inc. ("Raccoon Creek"), Indian Hills Utility Holding Company, Inc. ("Indian Hills"), Elm Hills Utility Holding Company, Inc. ("Elm Hills"), Confluence Rivers Utility Holding Company, Inc. ("Confluence Rivers") and Osage Utility Holding Company, Inc. ("Osage"), which in turn each own operating subsidiaries that carry out day-to-day operations of the Company.

The accounts of Arkansas Central States' wholly owned subsidiaries are also included. Those subsidiaries are: Hayden's Place Utility Holding Company, LLC ("Hayden's Place"), St. Joseph's Glen Utility Holding Company, LLC ("St. Joseph's Glen"), Sebastian Lake Utility Holding Company, LLC ("Sebastian Lake"), Eagle Ridge Utility Holding Company, LLC ("Eagle Ridge"), Flushing Meadows Utility Operating Company, LLC ("Flushing Meadows") and Oak Hill Utility Holding Company, LLC ("Oak Hill"), which in turn each own operating subsidiaries that carry out day-to-day operations of the Company.

The accounts of Kentucky Central States' wholly owned subsidiary, Bluegrass Water Utility Holding Company, LLC ("Bluegrass") are included. Bluegrass owns an operating subsidiary that carries out the day-to-day operations of the Company.

The accounts of Texas Central States' wholly owned subsidiary, CSWR-Texas Utility Holding Company, LLC ("CSWR-Texas") are included. CSWR-Texas owns an operating subsidiary that carries out the day-to-day operations of the Company.

The accounts of Louisiana Central States' wholly owned subsidiary, Magnolia Water Utility Holding Company, LLC ("Magnolia") are included. Magnolia owns an operating subsidiary that carries out the day-to-day operations of the Company.

The accounts of Arizona Central States' wholly owned subsidiary, Cactus State Water Utility Holding Company, LLC ("Cactus State") are included. Cactus State owns an operating subsidiary that carries out the day-to-day operations of the Company.

The accounts of North Carolina Central States' wholly owned subsidiary, Red Bird Water Utility Holding Company, LLC ("Red Bird") are included. Red Bird owns an operating subsidiary that carries out the day-to-day operations of the Company.

## NOTE 01: NATURE OF OPERATIONS AND BASIS OF PRESENTATION (continued)

The accounts of Mississippi Central States' wholly owned subsidiary, Great River Utility Holding Company, LLC ("Great River") are included. Great River owns an operating subsidiary that carries out the day-to-day operations of the Company.

The accounts of Tennessee Central States' wholly owned subsidiary, Limestone Water Utility Holding Company, LLC ("Limestone") are included. Limestone owns an operating subsidiary that carries out the day-to-day operations of the Company.

The Company has additional, inactive subsidiaries which, while included in the Company's financial statements, are immaterial to the consolidated financial results.

All significant inter-company transactions and account balances have been eliminated in consolidation.

## **Nature of Operations and Acquisition**

The Company is a private water and wastewater utility company. The Company's primary purpose, through its subsidiaries, is to establish and maintain compliant water and wastewater treatment facilities for underserved communities and private facility owners by creating economically viable options compliant with the Clean Water Act and the Safe Drinking Water Act. The Company holds certificates of public convenience and necessity granted by the Missouri Public Service Commission, ("Missouri PSC"), under which the Company provides water and wastewater services in Missouri. In the state of Kentucky, the Company holds certificates of public convenience and necessity granted by the Kentucky Public Service Commission, ("Kentucky PSC"), under which the Company provides water and wastewater services in Kentucky. In the state of Texas, the Company holds certificates of public convenience and necessity granted by the Public Utility Commission of Texas, ("Texas PUCT"), under which the Company provides water and wastewater services in Texas. In the state of Louisiana, the Company has been granted authority to operate water and wastewater systems by the Louisiana Public Service Commission, ("Louisiana PSC"). In the state of Arizona, the Company holds certificates of public convenience and necessity granted by the Arizona Corporation Commission, ("Arizona ACC"), under which the Company provides water and wastewater services in Arizona. In the state of North Carolina, the Company holds certificates of public convenience and necessity granted by the North Carolina Public Service Commission, ("North Carolina PSC"), under which the Company provides water services in North Carolina. In the state of Mississippi, the Company holds certificates of public convenience and necessity granted by the Mississippi Public Service Commission, ("Mississippi PSC"), under which the Company provides water and wastewater services in Mississippi. In the state of Tennessee, the Company holds certificates of public convenience and necessity granted by the Tennessee Public Service Commission, ("Tennessee PSC"), under which the Company provides water and wastewater services in Tennessee. The Company also provides water and wastewater services in Arkansas; however, Arkansas Central States' subsidiaries are currently under the water and sewer revenue threshold that requires rate regulation from the Arkansas Public Service Commission, ("Arkansas PSC").

The Company is a wholly owned subsidiary of US Water Systems, LLC. (the "Parent").

#### NOTE 02: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Accounting**

The Company's policy is to prepare its consolidated financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Company also maintains its accounts in accordance with the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners as modified and adopted by the regulatory commissions in the states where it operates. The Company also applies the accounting guidance for regulated operations.

#### **Use of Estimates**

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, the actual results could differ from those estimates.

#### **Recognition of Revenue**

The Company recognizes revenue in accordance with Accounting Standards Codification ("ASC") 606. Under ASC 606, a performance obligation is a promise within a contract to transfer a distinct good or service, or a series of distinct goods and services, to a customer. Revenue is recognized when performance obligations are satisfied and the customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration which the Company expects to be entitled to receive in exchange for goods or services. Under the standard, a contract's transaction price is allocated to each distinct performance obligation. For contracts within the scope of ASC 606, the Company recognizes revenue through the following steps: 1) identifies the contract with a customer; 2) identifies the performance obligations within the contract; 3) determines the transaction price; 4) allocates the transaction price to the performance obligations in the contract; and 5) recognizes revenue when, or as, the Company satisfies each performance obligation.

The Company's revenues from contracts with customers are discussed below. Customer payments for contracts are generally due within 30 days of billing and none of the contracts with customers have payment terms that exceed one year; therefore, the Company elects to apply the significant financing component practical expedient, and no amount of consideration has been allocated as a financing component.

The Company's revenue is generated from water and wastewater services delivered to customers. These contracts contain a single performance obligation, the delivery of water and wastewater services, as the promise to transfer the individual service is not separately identifiable from other promises within the contract and is not distinct. Revenue is recognized over time, as water and sewer services are provided, and includes amounts billed to customers on a cycle basis and unbilled amounts based on one month of service. The amounts the Company has a right to invoice are determined by a periodic flat fee, metered usage or both where applicable, indicating that the invoice amount corresponds directly to the value transferred to the customer. The Company elects to use the right to invoice and the disclosure of remaining performance obligations practical expedients for these revenues.

#### **Income Taxes**

CSWR, LLC has elected to be treated as a partnership for federal income tax purposes and does not record income taxes. Instead, its taxable earnings and losses are allocated in accordance with the Operating

Agreement and are included in the income tax returns of the member. Accordingly, no provision is made for federal and state income taxes in the consolidated financial statements. The Company's subsidiaries have elected to be treated as "C" Corporations. Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due, plus deferred taxes related primarily to net operating loss timing differences.

The Company and subsidiaries have assessed their federal and state tax positions and determined there were no uncertainties or possible related effects that need to be recorded as of or for the periods ended December 31, 2021 and 2020.

The federal and state income tax returns of the Company for the years ended December 31, 2021 and 2020 are subject to examination by the respective taxing authorities, generally for three years after they were filed.

#### Fair Value of Financial Instruments

In accordance with ASC 820, the carrying value of cash and cash equivalents, accounts receivable, accounts payable and notes payable approximates fair value. There are no assets and liabilities that are measured and recognized at fair value as of December 31, 2021 and 2020, on a recurring basis.

#### **Accounts Receivable**

Accounts receivable includes utility customer accounts receivable, which represent amounts billed to water and wastewater customers on a cycle basis. Accounts receivable also includes unbilled revenue for services provided but not yet billed to customers. Credit is extended based on the guidelines of the applicable state regulatory body and collateral is generally not required.

The Company provides an allowance for doubtful accounts equal to the estimated losses that will be incurred in the collection of accounts receivable. This estimate is based on historical experience coupled with a review of the current status of existing receivables. The allowance and associated accounts receivable are reduced when the receivables are determined to be uncollectible. The allowance at December 31, 2021 and 2020 was and and provided in the respectively.

#### Property, Plant and Equipment

Property, plant and equipment is generally stated at cost. Major additions and improvements are capitalized and, where rate regulated, placed in service subject to review and revaluation by the applicable state regulatory body, while maintenance and repairs are expensed as incurred. When assets are sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Any gain or loss arising from such disposition is included as income or expense in the period of disposition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated lives for computing depreciation on property, plant and equipment are:

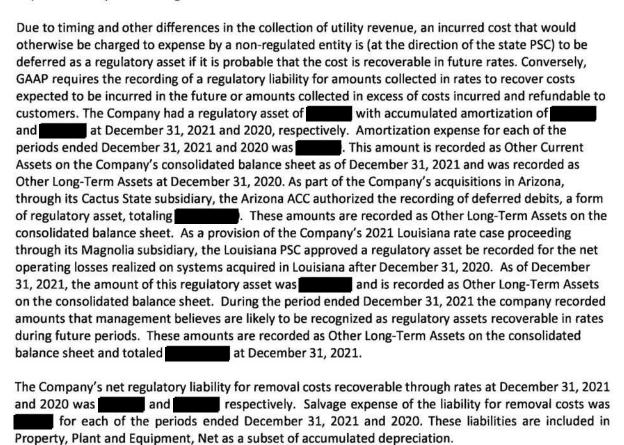
Utility Plant in Service - Sewer 10-50 Years
Utility Plant in Service - Water 10-50 Years
Furniture, Fixtures, and Other 7-20 Years

#### **Preliminary Survey and Investigation Charges**

The Company capitalizes all expenditures for preliminary surveys, plans, investigations and other expenditures made for the purpose of determining the feasibility of the acquisition of system assets. When the acquisition of system assets occurs, these costs are reclassified to the appropriate utility plant account. If the initiative is abandoned, the costs are expensed in the period in which Management makes the determination.

#### Regulation

The Company's Missouri, Kentucky, Texas, Louisiana, Mississippi, Tennessee, Arizona and North Carolina utilities are subject to economic regulation by the respective PSCs. The Missouri PSC, Kentucky PSC, Texas PUC, Louisiana PSC, Mississippi PSC, Tennessee PSC, Arizona ACC and North Carolina PSC generally authorize revenue at levels intended to recover the estimated costs of providing service, plus a return on net investments, or rate base. The Missouri PSC approved a rate increase April 8, 2020 with an effective date of July 1, 2020 for Confluence Rivers and a rate increase December 30, 2020 with an effective date of January 29, 2021 for Elm Hills. The Kentucky PSC approved a rate increase August 2, 2021 with an effective date of August 1, 2021 for Bluegrass. The Louisiana PSC approved a rate increase November 2, 2021 with an effective date of December 1, 2021 for Magnolia. Regulators may also impose certain penalties or grant certain incentives.



# **Contributions in Aid of Construction**

Regulated utilities may receive advances for construction and/or contributions in aid of construction from customers, home builders, real estate developers, home-owners associations, etc., to fund construction necessary to extend or enhance services or operating facilities to new areas. Advances that are no longer refundable are reclassified as contributions of capital. Contributions are permanent collections of plant assets or cash for a specific capital construction project. For tariff ratemaking purposes, the amount of such contributions generally serves as a rate base reduction since the contributions represent non-investor supplied funds. Generally, the Company depreciates utility plants funded by contributions and amortizes its contributions balance as a reduction to depreciation and amortization expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions. Amortization of contributions in aid of construction was and for the periods ended December 31, 2021 and December 31, 2020, respectively.

## **Goodwill and Other Intangible Assets**

Included in the Company's financials are goodwill and intangible assets which are the result of pushdown accounting from its parent. Goodwill arising from business combinations is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. The Company has selected December 31 as the date to perform the annual impairment test. The Company has recognized no impairment losses to date. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill, the Trade Name and Certificate of Convenience and Necessity have an indefinite life on the consolidated balance sheets. There are no intangible assets with a definite life on the consolidated balance sheets.

# Impairment of Long-Lived Assets

Long-lived assets of the Company, which consist primarily of property, plant and equipment, intangible assets and regulatory assets are reviewed for impairment when changes in circumstances or events occur. These circumstances or events could include a decline in the market value or physical condition of a long-lived asset, an adverse change in the way long-lived assets are used, changes in macroeconomic conditions, industry and market conditions, or overall financial performance. In the case of regulatory assets, this could include regulatory disallowances or abandonments. When these circumstances or events occur, the Company determines whether it is more likely than not that the fair value of those assets is less than their carrying amount. If the Company determines this to be likely, an impairment charge would be recognized. During the periods ended December 31, 2021 and 2020, no impairment charges were recognized.

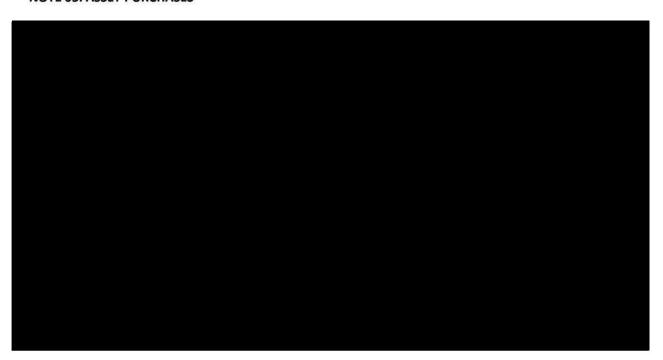
#### **New Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases, which amends the existing guidance on accounting for leases, and is effective for fiscal years beginning after December 15, 2021 for entities other than public business entities. This ASU requires the recognition of lease assets and liabilities on the consolidated balance sheet and the disclosure of key information about leasing arrangements. Early adoption is permitted and modified

retrospective application is required for leases that exist or are entered into after the beginning of the earliest comparative period in the consolidated financial statements. The Company is currently evaluating the impact, if any, of adopting ASU 2016-02 on the Company's consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses. The standard requires financial assets (including accounts receivable) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the consolidated statement of operations will reflect the measurement of credit losses for newly recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard is effective for fiscal years beginning after December 15, 2022. The Company is currently in the process of evaluating the impact, if any, of adoption of this ASU on the consolidated financial statements.

## **NOTE 03: ASSET PURCHASES**



## NOTE 04: CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash paid for interest during the pe	riods ending December 31, 2021	1 and December 31, 2020 was
and respectively. The Co	mpany did not have any cash pa	aid for income taxes during the periods
ended December 31, 2021 and 202	0.	
As of December 31, 2021,	in property, plant and equ	ipment and in preliminary
survey and investigation charges	were funded by accounts p	payable and other current liabilities.
Preliminary survey and investigation	n charges totaling	vere reclassified to property, plant, and

#### NOTE 04: CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

equipment during the period ending December 31, 2021. The asset purchases during the period ending December 31, 2021 included of assets which had previously been funded by contributions in aid of construction.

As of December 31, 2020, in property, plant and equipment and in preliminary survey and investigation charges were funded by accounts payable and current liabilities. Preliminary survey and investigation charges totaling were reclassified to property, plant, and equipment during the period ending December 31, 2020.

#### NOTE 05: CASH CONCENTRATION

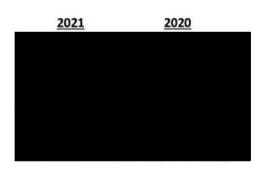
As of December 31, 2021 and 2020, the Company's cash balance per depositor exceeded federally insured limits.

# NOTE 06: PROPERTY, PLANT AND EQUIPMENT

Depreciation has been computed over the estimated useful life of each asset using the straight-line method. Interest costs have been capitalized based on the average outstanding capital expenditures. In addition, certain technical and engineering related studies associated with the project have also been capitalized and included in the basis of the assets.

Major classes of property, plant and equipment consist of the following:

Utility Plant in Service - Sewer
Utility Plant in Service - Water
Furniture, Fixtures and Other
Less: Accumulated Depreciation
In Service Property, Plant and Equipment - Net
Construction Work in Progress
Property, Plant & Equipment Net



Depreciation and amortization expense for the periods ended December 31, 2021 and 2020 totaled and and which consisted of and and in depreciation on property, plant and equipment, net amortization expense of the regulatory assets and liabilities and respectively, as disclosed in Note 2, and and in reduction of expense for amortization of contributions in aid of construction as disclosed in Note 2, respectively.

#### NOTE 07: NOTES PAYABLE - RELATED PARTY

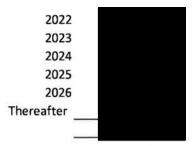
The Company, through its subsidiaries, entered into agreements with party through common ownership, at various times between 2016 and 2018, for a maximum principal amount of amount of amount. Associated with the agreements were construction notes payable to provide financing for the construction, improvements, and equipment for the Company's subsidiaries. During the construction period, all interest accrued on the loan was rolled into the principal balance of the loan. Interest is accrued at fixed rates of 13% or 14%. For some of these construction notes payable, the Company was not obligated to make any payments of interest or principal on the accrued interest or the principal amount owed until the first calendar month immediately following the construction completion date, at which point principal and interest payments are due monthly at various maturities between October 2036 and December 2041. As of December 31, 2021 and 2020, the outstanding loan balance, including accrued interest and origination fee, was and and unamortized deferred financing costs were and origination fee, less unamortized financing costs is as follows as of December 31:

Notes Payable balance, including accrued interest and origination fee Unamortized deferred financing costs Current portion of notes payable Notes Payable, net of current portion



Future maturities of notes payable are as follows:

Periods ending December 31,



The agreements are secured by specific portions of the Company's subsidiaries' assets and require adherence to specific restrictive covenants. For the periods ending December 31, 2021 and 2020 the Company had not satisfied certain covenant obligations. Through the date of issuance of the independent auditors report the debt has not been called and as of December 31, 2021, the lender provided written covenant waivers evidencing that no event of default has occurred which would cause the lender to exercise before April 1, 2023, its options to pursue the remedies outlined in the loan agreements.

## NOTE 07: NOTES PAYABLE -RELATED PARTY (continued)

# **Deferred Financing Costs**

Costs incurred in connection with financing activities are deferred and amortized to interest expense using the straight-line method over the terms of the related debt agreement. The straight-line method approximates the deferred interest method. Unamortized deferred financing costs of and are included in the accompanying consolidated balance sheets as a reduction of debt at December 31, 2021 and 2020, respectively. Amortization expense included in interest expense was for the periods ended December 31, 2021 and 2020.

#### NOTE 08: OPERATING LEASE

The Company has a lease agreement for office space. During 2020, the prior lease agreement expired and the Company entered a new agreement. Under the expiring lease agreement, the Company paid monthly rent payments of per month through March 2020. The Company's current lease has a term of five years and requires monthly rent payments of beginning April, 2020.

Total future minimum commitments related to the lease is as follows:

2022 -2023 -2024 -2025 -**Total -**

The current lease agreement included a leasehold incentive as reimbursement for costs related to improving the leasehold and preparing the space for the Company's use. This incentive totaled and was a receivable, included in Other Current Assets on the consolidated balance sheet, to the Company at December 31, 2020 and was received in 2021. The incentive also results in a liability which is to be amortized over the life of the lease as a reduction of rent expense. The Leasehold Incentive Liability is recorded as Other Long-Term Liabilities on the Company's consolidated balance sheet, net of accumulated amortization of and for the periods ended December 31, 2021 and 2020, respectively. Rent expense amounted to and for the periods ended December 31, 2021 and December 31, 2020, respectively. Amortization expense of the Leasehold Incentive Liability amounted to and for the periods ended December 31, 2021 and 2020, respectively.

#### NOTE 09: EMPLOYEE BENEFIT PLAN

The Company has a retirement plan for its employees which allows participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The Company can make a discretionary profit-sharing contribution to employees any time during the year. Employees vest immediately in their contributions and the Company's profit-sharing contributions. The Company's contributions to the 401(k) plan totaled and and for the periods ended December 31, 2021 and 2020, respectively.

#### NOTE 10: COMMITMENTS AND CONTINGENCIES

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of the Company's management, the probable resolution of such contingencies will not have a material adverse effect on the financial position, cash flows or results of operations of the Company.

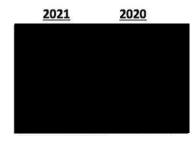
#### NOTE 11: INCOME TAXES AND LOSS CARRYFORWARD

Deferred income tax provisions/benefits for the Company's C-Corp subsidiaries are calculated for certain transactions and events because of differing treatments under GAAP and the currently enacted tax laws of the federal, state, and local governments. The Company accounts for federal income taxes in accordance with FASB ASC 740, whereby deferred taxes are provided on temporary differences arising from assets and liabilities whose bases are different for financial reporting and income tax purposes. Current deferred federal income taxes relate primarily to timing differences including a net operating loss carryforward and certain expenses that are not deductible for tax purposes. Deferred income tax assets and liabilities are computed for those temporary differences that have future tax consequences using the currently enacted tax laws and rates that apply to the periods in which they are expected to affect taxable income.

The net deferred tax asset consists of the following components as of December 31:

Estimated tax benefit for accumulated net operating losses Allowance for doubtul accounts Deferred tax asset/(liability)

Less valuation allowance
Deferred tax asset/(liability) - net



The deferred tax assets as of December 31, 2021 and 2020 are a result of net operating losses for federal and state taxes that are available for carryforward to future periods and certain timing differences. There is a degree of uncertainty inherent in determining if it is more likely than not that the benefits from certain net operating loss carryforwards and other deferred tax assets may not be realized. Management has assessed this risk and has provided a valuation allowance of and and on these deferred tax assets as of December 31, 2021 and 2020, respectively until the Company's subsidiaries starts to generate taxable income.

#### **NOTE 12: SUBSEQUENT EVENTS**

Subsequent to year end, the Company paid approximately to acquire certain operating assets, primarily property, plant and equipment, that provide water supply and distribution services, and sewer collection and treatment services in Missouri, Texas, Arizona and Louisiana. The assets acquired are expected to approximate the amount paid.

Additionally, subsequent to year end, the Company amended the lease for its corporate offices in St Louis, Missouri. The amendment expanded the leased space and included a lease term ending March 31, 2025. The average monthly lease amount increased to approximately with annual increases over the lease term. The lease term will commence after improvements to the leased space are completed by the landlord.

Total future minimum commitments related to the amended lease is as follows:

2022 -2023 -2024 -2025 -**Total -**

Management has evaluated subsequent events through the date of the independent auditors' report, March 31, 2022, the date these consolidated financial statements were available to be issued.

CONSOLIDATING BALANCE SHEETS Consolidation Confluence Louisiana-CSWR Kentucky-Consolidated CSWR, LLC Missouri-CSWR Texas-CSWR CSWR-Texas Hillcrest Raccoon Creek Indian Hills Elm Hills Osage Magnolia Bluegrass Elimination CSWR Rivers Current Assets Cash Accounts Receivable Other Current Assets Total Current Assets Property, Plant & Equipment, Net Misc Long-Term Assets Preliminary Survey & Investigation Investment in Associated Companies Unamortized Debt Expense Receivable from Associated Company Other Long-Term Assets Total Misc Long-Term Assets Goodwill Intangible Assets Deferred Income Tax Asset Total Assets Current Liabilities Accounts Payable Notes Payable-Current Portion Other Current Liabilities Total Current Liabilities Long-Term Liabilities Notes Payable Payable to Associated Companies Contributions in Aid of Construction Other Long-Term Liabilities Total Long-Term Liabilities Deferred Income Tax Liability Capitalization Paid-In Capital Retained Deficit Total Capitalization **Total Liabilities and Capitalization** 

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(continued)

#### CSWR, LLC and Subsidiaries

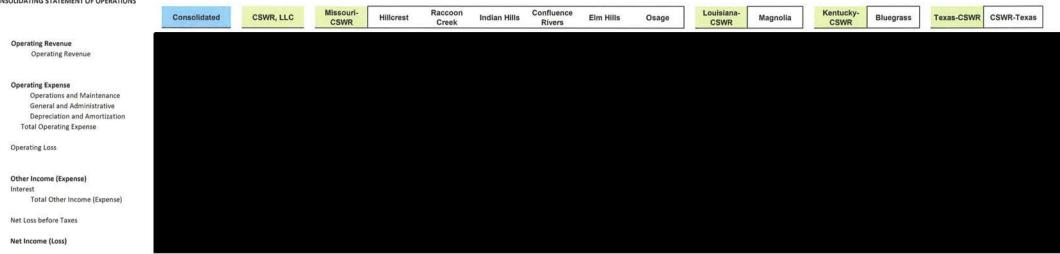
Supplemental Information to the Consolidated Financial Statements For the year ended December 31, 2021

CONSOLIDATING BALANCE SHEETS Hayden's Place St. Joseph's Tennessee-North Carolina-Arkansas-Flushing Inactive Mississippi-Sebastian Lake Eagle Ridge Oak Hill Limestone Great River Arizona-CSWR Cactus State RedBird Meadows Entities CSWR CSWR CSWR Current Assets Accounts Receivable Other Current Assets Total Current Assets Property, Plant & Equipment, Net Misc Long-Term Assets Preliminary Survey & Investigation Investment in Associated Companies Unamortized Debt Expense Receivable from Associated Company Other Long-Term Assets Total Misc Long-Term Assets Goodwill Intangible Assets Deferred Income Tax Asset **Total Assets** Current Liabilities Accounts Payable Notes Payable-Current Portion Other Current Liabilities Total Current Liabilities Long-Term Liabilities Notes Payable Payable to Associated Companies Contributions in Aid of Construction Other Long-Term Liabilities Total Long-Term Liabilities Deferred Income Tax Liability Capitalization Paid-In Capital Retained Deficit Total Capitalization Total Liabilities and Capitalization

#### CSWR, LLC & Subsidiaries

Supplemental Information to the Consolidated Financial Statements For the year ended December 31, 2021

CONSOLIDATING STATEMENT OF OPERATIONS



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(continued)

#### CSWR, LLC & Subsidiaries

Supplemental Information to the Consolidated Financial Statements For the year ended December 31, 2021

CONSOLIDATING STATEMENT OF OPERATIONS Flushing Tennessee-Mississippi-Arizona-North Carolina-Arkansas-Hayden's St. Joseph's Sebastian Inactive Limestone Great River Cactus State RedBird Eagle Ridge Oak Hill CSWR CSWR CSWR CSWR CSWR Place Glen Lake Meadows Entities **Operating Revenue** Operating Revenue **Operating Expense** Operations and Maintenance General and Administrative Depreciation and Amortization **Total Operating Expense** Operating Loss Other Income (Expense) Interest Total Other Income (Expense) Net Loss before Taxes Net Income (Loss)