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Item 1 to 8-4-2023 Filing
W-1300 Sub 60

**OLD NORTH STATE WATER COMPANY, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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Feb 12 2024

Old North State Water Company, Inc.
Table of Contents
December 31, 2022

| | Page |
|---|------|
| INDEPENDENT ACCOUNTANTS' REVIEW REPORT | 1 |
| FINANCIAL STATEMENTS | |
| Balance Sheet | 2 |
| Statement of Operations | 3 |
| Statements of Cash Flows | 4 |
| Statements of Shareholder's Equity | 5 |
| Notes to Financial Statements | 6-11 |

Haynes Downard LLP

Certified Public Accountants and Business Advisors

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholder
Old North State Water Company, Inc.
Birmingham, Alabama

We have reviewed the accompanying financial statements of Old North State Water Company, Inc. which comprise the balance sheet as of December 31, 2022, and the related statements of operations, cash flows and changes in shareholder's equity for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

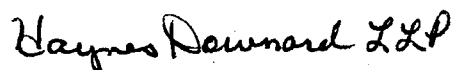
We are required to be independent of Old North State Water Company, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

As discussed in Note 2, the Company has suffered recurring losses from operations and has a net capital deficiency. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 2. Our conclusion is not modified with respect to this matter.



Haynes Downard LLP
Birmingham, Alabama

August 2, 2023

**OLD NORTH STATE WATER COMPANY, INC.
BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2022**

ASSETS

| | |
|--|-----------|
| Property, Plant, and Equipment, net | \$ |
| Current Assets | |
| Cash | |
| Accounts receivable | |
| Prepaid expenses | — |
| Total current assets | |
| Other Assets | |
| Construction-in-progress | |
| Intangible assets, net | |
| Security deposits | |
| Deferred rate case | |
| Other assets | |
| Due from affiliates | — |
| Total other assets | — |
| Total Assets | <u>\$</u> |

SHAREHOLDER'S EQUITY, LIABILITIES AND OTHER CREDITS

| | |
|---|-----------|
| Shareholder's Equity | \$ |
| Current Liabilities | |
| Accounts payable | |
| Other current liabilities | — |
| Total current liabilities | |
| Long-Term Liabilities | |
| Due to affiliates | — |
| Total long-term liabilities | |
| Contributions in aid of construction | |
| Cost of assets | |
| Less: accumulated amortization | |
| Prepaid contributions in aid of construction | — |
| Total contributions in aid of construction | — |
| Total Shareholder's Equity, Liabilities, and Other Credits | <u>\$</u> |

**OLD NORTH STATE WATER COMPANY, INC.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2022**

| | |
|-------------------------------------|-----------|
| Operating Revenues | |
| Water | \$ |
| Sewer | _____ |
| Total revenues | |
| Operating Expenses | |
| Operation and maintenance | |
| Taxes other than income | |
| Depreciation | |
| Amortization - CIAC | _____ |
| Total operating expenses | _____ |
| Operating Loss | |
| Other Income (Expenses) | |
| Other income | |
| Interest income | |
| Interest expense | |
| Other expense | _____ |
| Total other income (expenses) | |
| Net Loss before Income Taxes | |
| Income Taxes | _____ |
| Net Loss | <u>\$</u> |

OLD NORTH STATE WATER COMPANY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

| | |
|--|-------------|
| Cash Flows from Operating Activities | |
| Net loss | \$ |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | |
| Amortization - CIAC | |
| Changes in assets and liabilities that provided cash: | |
| Accounts receivable | |
| Prepaid expenses | |
| Security deposits | |
| Deferred rate case | |
| Accounts payable | |
| Other current liabilities | _____ |
| Net cash (used in) operating activities | |
| Cash Flows from Investing Activities | |
| Purchases of property and equipment | |
| Purchases for construction in progress | _____ |
| Net cash (used in) investing activities | |
| Cash Flows from Financing Activities | |
| Borrowings from affiliates | |
| Receipt of contributions in aid of construction | |
| Advances for construction | |
| Repayment of proprietary capital | _____ |
| Net cash provided by financing activities | |
| Net Decrease in Cash and Cash Equivalents | |
| Cash and cash equivalents, beginning of year | _____ |
| Cash and cash equivalents, end of year | \$ ===== |
| Supplemental Disclosure of Cash Flow Information: | |
| Cash paid for interest | \$ ===== |

**OLD NORTH STATE WATER COMPANY, INC.
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2022**

| | <u>Common Stock</u> | <u>Additional Paid-In Capital</u> | <u>Retained Earnings</u> | <u>Total Shareholder's Equity</u> |
|-------------------------------|-------------------------|---|------------------------------|---|
| Balance, December 31, 2021 | \$ - | \$ - | | |
| Net loss | - | | | |
| Return of proprietary capital | - | | | |
| Balance, December 31, 2022 | <u>\$ -</u> | <u>\$ -</u> | | |

**OLD NORTH STATE WATER COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Old North State Water Company, Inc. (the "Company" or "ONSWC") is a private utility company that provides water and wastewater services in the state of North Carolina. The Company filed Articles of Conversion with the State of North Carolina on July 11, 2022, converting from a domestic limited liability company to a corporation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires that management make estimates, assumptions and judgements that could affect the Company's financial condition, results of operations and cashflows. Actual results could differ from these estimates, assumptions and judgements.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers cash on hand, demand deposits, and all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable are shown net of an allowance for doubtful accounts. Management estimates an allowance for doubtful accounts based on their analysis of historical experience, economic conditions and other relevant information. Management believes that an allowance is not necessary at December 31, 2022.

Regulation

The Company's regulated utilities are subject by the state utility commission referred to as Public Utility Commissions ("PUCs"). As such, the Company follows authoritative accounting principles required for rate regulated utilities (which conform in all material respects to accounting principles generally accepted in the United States of America. PUCs generally authorize revenue at levels intended to recover the estimated costs of providing service, plus a return on net investments, or rate base.

Fair Value of Financial Instruments

The carrying amount of cash, accounts receivable, accounts payable and other liabilities approximate fair value. Due to/from affiliates are carried at the amount of cash exchanged.

**OLD NORTH STATE WATER COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Property, Plant and Equipment

Property, plant and equipment consists primarily of utility plant in service utilized by the Company to provide water and wastewater utility services. Additions to utility plant and replacement of retirement units of utility plant are capitalized and include costs such as materials, labor, indirect items such as engineering and transportation. Costs for repair, maintenance and minor replacements are charged to O & M expense as incurred. Property, plant and equipment is stated at cost.

The cost of utility plant is depreciated using the straight-line average remaining life, group method.

Advances for Construction and Contributions in Aid of Construction

Regulated utility entities may receive advances for construction and contributions in aid of construction from customers, home builders and real estate developers to fund construction necessary to extend service to new areas. Advances are refundable for limited periods of time as new customers begin to receive service or other contractual obligations are fulfilled. Advances that are no longer refundable are reclassified to contributions. Contributions are permanent collections of plant assets or cash for a particular construction project.

For 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 plant funded by contributions and amortizes the contributions balance as a reduction to depreciation expense, producing a result which is functionally equivalent to reducing the original cost of the utility plant for the contributions.

Revenue Recognition

The Company's operating revenues are primarily attributable to regulated services based upon tariff rates approved by the PUCs. Regulated service revenues consist of amounts billed to customers based on approved fixed monthly fees and consumption fees. The measurement of sales to water customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month.

The Company satisfies its performance obligation to provide water and wastewater services over time as the services are rendered. Regulated services may be terminated by the customers at will, and, as a result, no separate financing component is recognized for the Company's collections from customers, which generally require payment within 15 days of billing. The Company applies judgment, based principally on historical payment experience, in estimating its customers' ability to pay.

**OLD NORTH STATE WATER COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Construction Work in Progress

Income Taxes

As of December 31, 2022, the Company had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

Common Stock

Subsequent Events

In preparing the financial statements, management evaluated subsequent events through August 2, 2023, the date the financial statements were available to be issued.

NOTE 2. GOING CONCERN DISCUSSION AND MANAGEMENT'S PLANS

**OLD NORTH STATE WATER COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 2. GOING CONCERN DISCUSSION AND MANAGEMENT'S PLANS - Continued

NOTE 3. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of December 31, 2022, consists of the following:

| | |
|-------------------------------------|-------------------|
| Machinery and equipment | \$ |
| Distribution and Collection Systems | |
| Structures and Improvements | |
| Other depreciable property | |
| Land | |
| Wells and springs | _____ |
| Less accumulated depreciation | _____ |
| Property and equipment, net | <u> \$ </u> |

NOTE 4. REGULATORY ASSETS

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W-1300 Sub 60

**OLD NORTH STATE WATER COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 5. RELATED PARTY TRANSACTIONS

NOTE 6. LEGAL PROCEEDINGS

**OLD NORTH STATE WATER COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 7. OTHER OPERATION AND MAINTENANCE EXPENSE

Amounts included as other operation and maintenance expense on the statement of operations consist of the following:

| | |
|---|------------------|
| Legal fees | \$ |
| Payroll/management fees | |
| Contract services | |
| Utilities | |
| Chemicals | |
| Sludge removal | |
| Testing | |
| Materials and supplies | |
| Transportation | |
| Insurance expense | |
| Other operating expenses | _____ |
| Total other operation and maintenance expense | <u><u>\$</u></u> |

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Haynes  Downard LLP
Certified Public Accountants and Business Advisors

August 2, 2023

John McDonald, Shareholder
Old North State Water Company, Inc.
3212 6th Avenue South
Suite 200
Birmingham, Alabama 35222

In performing our review of the financial statements of Old North State Water Company, Inc. for the year ended December 31, 2022, we performed analytical procedures and made inquiries of Joseph Mitchell. Mr. Mitchell's responses to those inquiries indicated an appropriate level of knowledge concerning the industry in which the Company operates and indicated sufficient knowledge necessary to provide for the accounting for the Company. In addition, all information needed to prepare the financial statements and related disclosures was either detailed in the trial balance or made readily available upon request.

Mr. Mitchell has also communicated to us significant actions taken to improve the accounting processes of Old North State Water Company, Inc. We performed a review of the financial statements which means we primarily applied analytical procedures to financial data and made inquiries of Company management. As such, I have not evaluated the improvements to the accounting processes or any other internal controls or processes of the Company and would suggest that any discussion of accounting processes be addressed by Mr. Mitchell.

This letter does not affect our report dated August 2, 2023, on the financial statements of Old North State Water Company, Inc.

Haynes Downard LLP

Haynes Downard LLP
Birmingham, Alabama



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Supplemental Memo for the Accounting Review

August 4, 2023

Management has prioritized the advancement of the accounting function for Old North State Water Company ("ONSWC"). Below are some of the key actions taken to improve the accounting and reporting processes. In addition, the company has identified continuous improvement initiatives to further enhance accounting as a core competency.

Actions taken to address accounting needs and processes

- Converted to a new billing system in Q1 2023 for more timely customer invoicing, accurate payment applications and enhanced AR reporting.
- Upgraded finance personnel by hiring an Assistant Controller dedicated to ONSWC business unit accounting and reporting.
- Hired senior accountant and accounting specialist to augment accounting operations.
- Assigned an AP specialist dedicated to ONSWC payables to ensure timely and accurate expense capture.
- Streamlined the accounting process by eliminating location level cash, AP and AR accounts and maintaining cash, payables, and receivables at the parent level.
- Minimized the number of intercompany transfers with affiliates.
- Formalized a hard month-end close cycle with established deadlines.
- Formalized monthly financial review with senior management.

Continuous improvement initiatives

- Upgrade the accounting software for improved speed and reporting enhancements.
- Develop subject matter expert for fixed asset accounting.
- Pursue professional development training in utility accounting and rate school.
- Incorporate stat data for financial analysis and operational performance metrics.

In my opinion the accounting needs and processes have significantly improved and ONSWC is now producing much more timely and accurate financial statements than in the past.

Joseph Mitchell, CPA
Chief Financial Officer
Old North State Water Company, Inc.

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