

EXHIBIT

12



CSWR, LLC and Subsidiaries

Consolidated Financial Statements

For the years ended December 31, 2024 and 2023

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Independent Auditor's Report

Board of Directors
CSWR, LLC

Opinion

We have audited the consolidated financial statements of CSWR, LLC and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, 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, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (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 available to be issued.

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.

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.

RSM US LLP

St. Louis, Missouri
April 21, 2025

CSWR, LLC and Subsidiaries

As of December 31, 2024 and 2023

Consolidated Balance Sheets

	<u>2024</u>	<u>2023</u>
Current Assets		
Cash	\$ 75,827,175	\$ 4,773,011
Accounts Receivable, net	26,461,884	19,937,144
Other Current Assets	<u>6,124,875</u>	<u>3,466,791</u>
Total Current Assets	108,413,934	28,176,946
Property, Plant and Equipment, Net	634,370,015	476,084,458
Non-Current Assets		
Preliminary Survey and Investigation	12,505,217	14,660,193
Other Long-Term Assets	<u>57,089,011</u>	<u>26,499,093</u>
Total Non-Current Assets	69,594,228	41,159,286
Goodwill	25,415,239	25,415,239
Intangible Assets	1,400,000	1,400,000
Total Assets	<u>\$ 839,193,416</u>	<u>\$ 572,235,929</u>
Current Liabilities		
Accounts Payable	\$ 37,525,655	\$ 34,999,463
Notes Payable - Current	3,342,793	1,545,166
Other Current Liabilities	<u>9,521,812</u>	<u>10,702,151</u>
Total Current Liabilities	50,390,260	47,246,780
Long-Term Liabilities		
Notes Payable, net of Current Portion	255,533,202	57,118,981
Contributions in Aid of Construction	21,038,506	17,995,398
Other Long-Term Liabilities	<u>390,868</u>	<u>431,533</u>
Total Long-Term Liabilities	276,962,576	75,545,912
Member's Equity		
Paid-In Capital	604,742,850	513,429,668
Accumulated Deficit	<u>(92,902,270)</u>	<u>(63,986,431)</u>
Total Member's Equity	511,840,580	449,443,237
Total Liabilities and Member's Equity	<u>\$ 839,193,416</u>	<u>\$ 572,235,929</u>

See notes to consolidated financial statements

CSWR, LLC and Subsidiaries

For the years ended December 31, 2024 and 2023

Consolidated Statements of Operations

	<u>2024</u>	<u>2023</u>
Operating Revenue		
Operating Revenue	<u>\$ 98,810,398</u>	<u>\$ 70,949,259</u>
Operating Expense		
Operations and Maintenance	56,545,360	50,176,080
General and Administrative	48,072,663	36,967,139
Depreciation and Amortization	<u>15,934,561</u>	<u>7,788,210</u>
Total Operating Expense	<u>120,552,584</u>	<u>94,931,429</u>
Operating Loss	<u>(21,742,186)</u>	<u>(23,982,170)</u>
Other Expense		
Interest Expense	<u>(7,173,653)</u>	<u>(2,244,328)</u>
Total Other Income (Expense)	<u>(7,173,653)</u>	<u>(2,244,328)</u>
Net Loss	<u><u>\$ (28,915,839)</u></u>	<u><u>\$ (26,226,498)</u></u>

See notes to consolidated financial statements

CSWR, LLC and Subsidiaries

For the years ended December 31, 2024 and 2023

Consolidated Statements of Member's Equity

	Paid-In Capital	Accumulated Deficit	Total Member's Equity
Balance at December 31, 2022	\$ 396,005,791	\$ (37,759,933)	\$ 358,245,858
Capital Contributions	107,149,962	-	107,149,962
Equity-Based Compensation Expense	10,273,915	-	10,273,915
Net Loss	-	(26,226,498)	(26,226,498)
Balance at December 31, 2023	513,429,668	(63,986,431)	449,443,237
Capital Contributions	91,301,211	-	91,301,211
Equity-Based Compensation Expense	11,971	-	11,971
Net Loss	-	(28,915,839)	(28,915,839)
Balance at December 31, 2024	\$ 604,742,850	\$ (92,902,270)	\$ 511,840,580

See notes to consolidated financial statements

CSWR, LLC and Subsidiaries

For the years ended December 31, 2024 and 2023

Consolidated Statements of Cash Flows

	2024	2023
Cash Flows from Operating Activities		
Net Loss	\$ (28,915,839)	\$ (26,226,498)
Adjustments for:		
Depreciation and amortization	15,934,560	7,564,489
Equity-Based Compensation	11,971	10,273,915
Loss on disposal of property, plant and equipment	9,937,682	223,721
Loss on preliminary survey and investigation	295,857	-
Loss on disposal of other long-term assets	2,599,821	-
Interest capitalized to notes payable	1,583,333	13,991
Amortization of Deferred Financing Cost to interest expense	229,609	18,931
Change in assets (increase) decrease		
Accounts receivable, net	(6,524,740)	(6,976,833)
Other current assets	(2,658,083)	(2,091,672)
Other long-term assets	(11,086,901)	(13,688,627)
Change in liabilities - increase (decrease)		
Current liabilities	(196,465)	8,054,265
Other long-term liabilities	(40,664)	(274,494)
Net cash used in Operating Activities	(18,829,859)	(23,108,812)
Cash Flows from Investing Activities		
Purchase of property, plant and equipment and other long-term assets	(197,162,941)	(127,287,526)
Expenditures for preliminary survey and investigation	(5,018,639)	(8,605,348)
Net cash used in Investing Activities	(202,181,580)	(135,892,874)
Cash Flows from Financing Activities		
Proceeds from Notes Payable	212,000,000	20,000,000
Principal Payments	(1,745,735)	(804,269)
Deferred financing costs	(11,856,530)	(150,000)
Contributions for construction	2,366,657	1,448,633
Capital contributions	91,301,211	107,149,962
Net cash provided by Financing Activities	292,065,603	127,644,326
Net Change in Cash	71,054,164	(31,357,360)
Cash, Beginning of Period	4,773,011	36,130,371
Cash, End of Period	\$ 75,827,175	\$ 4,773,011

See notes to consolidated financial statements

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 ("North Carolina Central States"), Mississippi Central States Water Resources, LLC ("Mississippi Central States"), Tennessee Central States Water Resources, LLC ("Tennessee Central States"), Florida Central States Water Resources, LLC ("Florida Central States"), South Carolina Central States Water Resources, LLC ("South Carolina Central States"), Magnolia Water Services, LLC ("Magnolia Water Services") and California Central States Water Resources, LLC ("California Central States"), collectively "CSWR" or "the Company".

The accounts of Missouri Central States' wholly owned subsidiary, Confluence Rivers Utility Holding Company, Inc. ("Confluence Rivers") are included. Confluence Rivers owns an operating subsidiary that carries out the day-to-day operations of the Company in the state of Missouri.

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 in the state of Arkansas.

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 in the state of Kentucky.

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 in the state of Texas.

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 in the state of Louisiana.

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 in the state of Arizona.

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 in the state of North Carolina.

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 in the state of Mississippi.

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 in the state of Tennessee.

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

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

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

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

CSWR is a private water and wastewater utility. 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

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

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. In the state of Florida, the Company holds certificates of public convenience and necessity granted by the Florida Public Service Commission, ("Florida PSC"), under which the Company provides water and wastewater services in Florida. In the state of South Carolina, the Company holds certificates of public convenience and necessity granted by the South Carolina Public Service Commission, ("South Carolina PSC"), under which the Company provides water and wastewater services in South Carolina. In the state of California, the Company holds certificates of public convenience and necessity granted by the California Public Utilities Commission, ("California PUC"), under which the Company provides water and wastewater services in California. 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.

NOTE 02: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company's revenues from contracts with customers are discussed below. Customer payments for contracts are generally due within 30 days of billing. 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 elected to be treated as a partnership for federal income tax purposes and did not record income taxes. Instead, its taxable earnings and losses were allocated in accordance with the Operating Agreement and included in the income tax returns of the member. Accordingly, no provision was made for federal and state income taxes in the consolidated financial statements. The Company's subsidiaries had elected to be treated as "C" Corporations and the election was in effect for fiscal and tax years 2024 and 2023. 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, 2024 and 2023.

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, 2024 and 2023, 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 reports some unbilled customer receivables with the accounts receivable balance. These unbilled receivable amounts relate to services already provided to customers, which are contract assets, and totaled \$8,003,692, \$7,112,363, and \$4,997,456 for the periods ended December 31, 2024, December 31, 2023, and December 31, 2022, respectively.

NOTE 02: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company maintains an allowance for credit losses for estimated probable losses resulting from the Company's inability to collect receivables from customers. This estimate is based on multiple factors including the length of time the receivables are outstanding, economic and societal conditions, and reasonable forecasts that suggest a change in the collectability of customer receivables.

Details of the allowance for credit losses and credit loss expense are:

	2024	2023
Beginning Allowance for Credit Losses	\$2,117,810	\$771,261
Credit Loss Expense	3,648,896	1,445,980
Direct Write Offs	(2,077,194)	(88,822)
Adjustment to the balance of in-transit deposits	897,638	(10,609)
Ending Allowance for Credit Losses	\$4,587,150	\$2,117,810

Property, Plant and Equipment

Property, plant and equipment is 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 repair costs 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 utilities in Missouri, Kentucky, Texas, Louisiana, Mississippi, Tennessee, Arizona, Florida, North Carolina, South Carolina, and California are subject to economic regulation by the respective PSCs. The Missouri PSC, Kentucky PSC, Texas PUC, Louisiana PSC, Mississippi PSC, Tennessee PSC, Arizona ACC, Florida PSC, North Carolina PSC, South Carolina PSC, and California PUC generally authorize revenue at levels intended to recover the estimated costs of providing service, plus a return on net investments, or rate base. The Texas PUC approved a rate increase on June 13, 2024 with an effective date of

NOTE 02: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

November 30, 2023 for CSWR Texas. The Louisiana PSC approved a rate increase in August, 2024 which was effective September 1st, 2024.

Regulators may also impose certain penalties or grant certain incentives. Due to timing and other differences in the collection of utility revenue, an incurred cost that would otherwise be charged to expense by a non-regulated entity is (at the direction of the state PSC) to be deferred as a regulatory asset if it is probable that the cost is recoverable in future rates. Conversely, GAAP requires the recording of a regulatory liability for amounts collected in rates to recover costs expected to be incurred in the future or amounts collected in excess of costs incurred and refundable to customers. The Company had a regulatory asset for its Confluence Rivers UOC of \$1,541,444 and \$2,366,832 with accumulated amortization of \$825,387 and \$0 at December 31, 2024 and 2023, respectively. Amortization expense for each of the periods ended December 31, 2024 and 2023 was \$825,387 and \$0, respectively. These amounts are recorded as Other Long-Term Assets on the consolidated balance sheet. As part of the Company's acquisitions in Arizona, through its Cactus State subsidiary, the Arizona ACC authorized the recording of deferred debits, a form of regulatory asset, totaling \$6,566,073 and \$4,623,903 at December 31, 2024 and 2023, respectively. These amounts are recorded as Other Long-Term Assets on the consolidated balance sheet. As a provision of the Company's 2021 Louisiana rate case proceeding through its Magnolia subsidiary, the Louisiana PSC approved a regulatory asset be recorded for the net operating losses realized on systems acquired in Louisiana after December 31, 2020. As of December 31, 2024 and 2023, respectively, the amount of this regulatory asset was \$12,141,735 and \$10,333,606 and is recorded as Other Long-Term Assets on the consolidated balance sheet. As a provision of the Company's 2023 Mississippi rate case proceeding through its Great River subsidiary, the Mississippi PSC approved a regulatory asset be recorded for the net operating losses realized on systems acquired in Mississippi after June 30, 2022. As of December 31, 2024 and 2023, respectively, the amount of this regulatory asset was \$4,491,249 and \$1,854,528 and is recorded as Other Long-Term Assets on the consolidated balance sheet.

During the periods ended December 31, 2024 and 2023 the company recorded amounts that Management believes are likely to be recognized as regulatory assets recoverable in rates during future periods. The portion of these amounts arising from operational activities are recorded as Other Long-Term Assets on the consolidated balance sheet and totaled \$11,086,901 and \$13,688,627 at December 31, 2024 and 2023, respectively. Other Long-term assets arising from acquisition activity totaled \$24,604,680 and \$1,394,712 for the periods ending December 31, 2024 and 2023, respectively. The portion of these amounts arising from acquisition activities and recorded as Property, Plant & Equipment and totaled \$52,662,944 and \$46,584,443 at December 31, 2024 and 2023, respectively.

The Company's net regulatory liability for removal costs which are recoverable through rates at December 31, 2024 and 2023 was \$0 for both years. Salvage expense of the liability for removal costs was \$0 and \$65,739 for each of the periods ended December 31, 2024 and 2023, respectively. These liabilities are included in Property, Plant and Equipment, Net as a subset of accumulated depreciation.

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

NOTE 02: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 \$2,046,537 and \$1,916,421 for the periods ended December 31, 2024 and December 31, 2023, 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 exist 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, 2024 and 2023, no impairment charges were recognized.

Management Incentive Plan

During the year ended December 31, 2024, the Parent had Class B Unit Grant agreements with certain key personnel. The value of Class B Units is equal to the market value at the grant date. The Parent had 6,529,338 units available to be granted, of which 5,604,349 had been granted as of December 31, 2024. Compensation expense included in the Company's financials arising from the incentive plan totaled \$11,971 for the year ending December 31, 2024.

NOTE 02: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During the year ended December 31, 2023, the Parent had Class B Unit Grant agreements with certain key personnel. The value of Class B Units is equal to the market value at the grant date. The Parent had 6,529,338 units available to be granted, of which, 5,495,522 had been granted as of December 31, 2023. Compensation expense included in the Company's financials arising from the incentive plan totaled \$10,273,915 for the year ending December 31, 2023.

NOTE 03: ASSET PURCHASES

Asset Purchases

Throughout the period ended December 31, 2024, the Company, through its subsidiaries, purchased certain operating assets of various previously existing companies, primarily property, plant and equipment, that provide water treatment and sewer collection and treatment services in various counties throughout Missouri, Kentucky, Texas, Louisiana, Mississippi, Tennessee, Arizona, Florida, Arkansas, and North Carolina for total cash considerations of \$65,670,445. No liabilities were assumed at acquisition. Management has determined that the cash consideration approximates the net realizable value of the assets acquired, which is indicative of the fair value. Per standard regulatory accounting procedures, \$2,722,988 of net contributions in aid of construction were recorded along with the purchased assets.

Throughout the period ended December 31, 2023, the Company, through its subsidiaries, purchased certain operating assets of various previously existing companies, primarily property, plant and equipment, that provide water treatment and sewer collection and treatment services in various counties throughout Missouri, Kentucky, Texas, Louisiana, Mississippi, Tennessee, Arizona, Florida, South Carolina, and North Carolina for total cash considerations of \$25,402,474. No liabilities were assumed at acquisition. Management has determined that the cash consideration approximates the net realizable value of the assets acquired, which is indicative of the fair value. Per standard regulatory accounting procedures, \$167,086 of net contributions in aid of construction were recorded along with the purchased assets.

NOTE 04: CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash paid for interest during the periods ending December 31, 2024 and 2023 was \$5,957,962 and \$2,518,553, respectively. The Company paid \$5,590 and \$0 for income taxes during the periods ended December 31, 2024 and 2023, respectively.

As of December 31, 2024, \$29,741,876 in property, plant and equipment and \$0 in preliminary survey and investigation charges were funded by accounts payable and other current liabilities. Preliminary survey and investigation charges totaling \$4,332,117 were reclassified to property, plant, and equipment during the period ending December 31, 2024. The asset purchases during the period ending December 31, 2024 included \$2,722,988 of assets which had previously been funded by contributions in aid of construction.

As of December 31, 2023, \$25,652,748 in property, plant and equipment and \$2,545,640 in preliminary survey and investigation charges were funded by accounts payable and other current liabilities. Preliminary survey and investigation charges totaling \$4,816,406 were reclassified to property, plant, and equipment during the period ending December 31, 2023. The asset purchases during the period ending

NOTE 04: CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

December 31, 2023 included \$167,086 of assets which had previously been funded by contributions in aid of construction.

NOTE 05: CASH CONCENTRATION

The Company's cash balance per depositor at times may exceed federally insured limits. The Company has not experienced any losses to date related cash balances per depositor exceeding 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. 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:

	<u>2024</u>	<u>2023</u>
Utility Plant in Service - Sewer	\$392,943,714	\$299,057,340
Utility Plant in Service - Water	216,306,837	146,449,883
Furniture, Fixtures and Others	1,154,966	1,054,003
Less: Accumulated Depreciation	(133,618,845)	(111,611,042)
In Service Property, Plant and Equipment - Net	476,786,672	334,950,184
Construction Work in Progress	157,583,343	141,134,274
Property, Plant & Equipment Net	<u>\$634,370,015</u>	<u>\$476,084,458</u>

Depreciation and amortization expense for the periods ended December 31, 2024 and 2023 totaled \$15,934,561 and \$7,788,210 which consisted of \$15,479,256 and \$9,527,830 in depreciation on property, plant and equipment, net amortization expense of the regulatory assets and liabilities \$2,501,842 and \$176,801 respectively, as disclosed in Note 2, and \$2,046,537 and \$1,916,421 in reduction of expense for amortization of contributions in aid of construction as disclosed in Note 2, respectively.

NOTE 07: NOTES PAYABLE

The Company, through its subsidiaries, entered into an agreement with a financial institution in November 2024 for a 5 year delayed draw debt facility totaling \$325,000,000. In November 2024, the Company received its first draw on the delayed draw term loan of \$150,000,000. These instruments carry an interest rate of 8.5%-9.5% with an option for paid-in-kind interest and a maturity date of November, 21, 2029. Interest payments are due quarterly and no principal payments are required until the maturity date. Unamortized deferred financing costs were \$11,192,821 as of December 31, 2024. The balance of the delayed draw term loan as of December 31, 2024 was \$151,583,333. The agreements are secured by equity interests in the subsidiaries of the Company.

NOTE 07: NOTES PAYABLE (continued)

The Company, through its subsidiaries, entered into an agreement with a commercial lending institution in September 2024 for a long-term debt facility totaling \$30,000,000. This instrument carries an interest rate of 5.82% per annum with a maturity date of September 20, 2044. The total loan balance outstanding as of December 31, 2024 was \$29,800,601. Unamortized deferred financing costs were \$222,188 as of December 31, 2024. The agreements are secured by specific portions of the Company's subsidiaries' assets and require adherence to specific restrictive covenants. Payments for principal and interest are due monthly in the amount of \$213,477 with the unpaid balance due at maturity.

The Company, through its subsidiaries, entered into an agreement with a commercial lending institution in May 2024 for a long-term debt facility totaling \$20,000,000. This instrument carries an interest rate of 6.68% per annum with a maturity date of April 20, 2044. The total loan balance outstanding as of December 31, 2024 was \$20,000,000. Unamortized deferred financing costs were \$146,250 as of December 31, 2024. The agreements are secured by specific portions of the Company's subsidiaries' assets and require adherence to specific restrictive covenants. Payments for principal and interest are due monthly in the amount of \$154,877 with the unpaid balance due at maturity.

The Company, through its subsidiaries, entered into an agreement with a commercial lending institution in July 2024 for a long-term debt facility totaling \$12,000,000. This instrument carries an interest rate of 5.87% per annum with a maturity date of June 20, 2044. The total loan balance outstanding as of December 31, 2024 was \$12,000,000. Unamortized deferred financing costs were \$88,125 as of December 31, 2024. The agreements are secured by specific portions of the Company's subsidiaries' assets and require adherence to specific restrictive covenants. For the period ending December 31, 2024 the Company had not satisfied certain covenant obligations. The lender provided written covenant waivers evidencing that no event of default has occurred which would cause the lender to exercise its options to pursue the remedies outlined in the loan agreements. Payments for principal and interest are due monthly in the amount of \$86,890 with the unpaid balance due at maturity.

The Company, through its subsidiaries, entered into an agreement with a commercial lending institution in October 2023 for a long-term debt facility totaling \$20,000,000. This instrument carries an interest rate of 7.07% per annum with a maturity date of October 20, 2043. The total loan balance outstanding as of December 31, 2024 and 2023 was \$19,456,160 and 19,925,072, respectively. Unamortized deferred financing costs were \$141,250 and \$148,750 as of December 31, 2024 and 2023, respectively. The agreements are secured by specific portions of the Company's subsidiaries' assets and require adherence to specific restrictive covenants. Payments for principal and interest are due monthly in the amount of \$157,300 with the unpaid balance due at maturity.

The Company, through its subsidiaries, entered into an agreement with a commercial lending institution in December 2022 for a long-term debt facility totaling \$30,000,000. This instrument carries an interest rate of 6.35% per annum with a maturity date of December 20, 2042. The total loan balance outstanding as of December 31, 2024 and 2023 was \$28,484,873 and \$29,294,445, respectively. Unamortized deferred financing costs were \$202,500 and \$213,750 as of December 31, 2024 and 2023, respectively. The agreements are secured by specific portions of the Company's subsidiaries' assets and require adherence to specific restrictive covenants. Payments for principal and interest are due monthly in the amount of \$217,600 with the unpaid balance due at maturity.

NOTE 07: NOTES PAYABLE (continued)

The Company, through its subsidiaries, entered into an agreement with a commercial lending institution in December 2022 for a long-term debt facility totaling \$7,000,000. This instrument carries an interest rate of 6.60% per annum with a maturity date of November 20, 2042. The total loan balance outstanding as of December 31, 2024 and 2023 was \$6,794,985 and \$6,984,161, respectively. Unamortized deferred financing costs were \$47,250 and \$49,875 as of December 31, 2024 and 2023, respectively. The agreements are secured by specific portions of the Company's subsidiaries' assets and require adherence to specific restrictive covenants. Payments for principal and interest are due monthly in the amount of \$52,990 with the unpaid balance due at maturity.

The Company, through its subsidiaries, entered into an agreement with a commercial lending institution in December 2022 for a long-term debt facility totaling \$2,900,000. This instrument carries an interest rate of 6.70% per annum with a maturity date of November 20, 2042. The total loan balance outstanding as of December 31, 2024 and 2023 was \$2,816,001 and \$2,893,507, respectively. Unamortized deferred financing costs were \$19,575 and \$20,663 as of December 31, 2024 and 2023, respectively. The agreements are secured by specific portions of the Company's subsidiaries' assets and require adherence to specific restrictive covenants. For the period ending December 31, 2024 the Company had not satisfied certain covenant obligations. The lender provided written covenant waivers evidencing that no event of default has occurred which would cause the lender to exercise its options to pursue the remedies outlined in the loan agreements. Payments for principal and interest are due monthly in the amount of \$22,118 with the unpaid balance due at maturity.

The Company, through its subsidiaries, entered into agreements with Fresh Start Venture, LLC, a related party through common ownership, at various times between 2016 and 2018, for a maximum principal amount of \$6,198,106. 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 was 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 were due monthly at various maturities between October 2036 and December 2041. In October of 2023 the company paid the principal and accrued interest in full. As of December 31, 2024 and 2023, the outstanding loan balance, including accrued interest and origination fee, was \$0 for both years and unamortized deferred financing costs were \$0 for both years.

The outstanding loan balances, including capitalized interest and origination fee, less unamortized financing costs is as follows as of December 31:

	2024	2023
Notes Payable balance	\$270,935,953	\$59,097,185
Unamortized deferred financing cost	(12,059,958)	(433,038)
Current portion of notes payable	(3,342,793)	(1,545,166)
Notes Payable, net of current portion	<u>\$255,533,202</u>	<u>\$57,118,981</u>

NOTE 07: NOTES PAYABLE (continued)

Future maturities of notes payable are as follows:

Periods ending December 31,

2025	3,342,793
2026	3,564,718
2027	3,801,451
2028	4,033,936
2029	155,905,377
Thereafter	<u>100,287,678</u>
	<u>270,935,953</u>

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 effective interest rate method. Unamortized deferred financing costs of \$12,059,958 and \$433,038 are included in the accompanying consolidated balance sheets as a reduction of debt at December 31, 2024 and 2023, respectively. Amortization expense included in interest expense was \$229,609 and \$18,931 for the periods ended December 31, 2024 and 2023.

NOTE 08: OPERATING LEASES

The Company has a lease agreement for office space. The lease has a five-year term beginning April, 2020 with rent payments of \$13,433 and was amended in 2022 to include a lease term ending March 31, 2025 with monthly rent payments of \$24,008 with annual increases over the term. In 2024 the lease was amended to include a lease term ending March 31, 2026 with monthly rent payments of \$25,052. Under the provisions of ASC 842, the lease is accounted for as an operating lease. Accordingly, a Lease Liability and Right of Use Asset have been recorded which are equal to the present value of future payments required by the lease. The total of the Lease Liability and Right of Use Asset was \$355,429 and \$358,552 as of December 31, 2024 and December 31, 2023, respectively. The Lease Liability is recorded on the balance sheet with Other Long-Term Liabilities and the Right of Use Asset is recorded with Other Long-Term Assets. The discount rate used was equivalent to the Company's weighted average borrowing cost and equaled 8.5% and 6.5% for the periods ended December 31, 2024 and 2023, respectively. The weighted average term of the lease was 1.2 years for both years.

Present value of total future minimum commitments related to the lease is as follows:

NOTE 08: OPERATING LEASES (continued)

CSWR Office Lease		
	2025	300,624
	2026	75,156
Total Payments		375,780
Less: Imputed Interest		(20,352)
Total Liability		355,429

Rent expense under the operating lease amounted to \$278,237 and \$294,207 for the periods ended December 31, 2024 and December 31, 2023, respectively.

The Company also has a lease agreement for land use related to the provision of wastewater service at one of its subsidiaries. This agreement is perpetual with an annual option to renew or terminate and monthly required rent payments of \$2,000. A Lease Liability and Right of Use Asset have been recorded which are equal to the present value of future payments required by the lease. The total of the Lease Liability and Right of Use Asset was \$23,006 and \$23,252 for the periods ended December 31, 2024 and December 31, 2023, respectively. Due to uncertainty regarding renewal of this lease, each new term will be included in the calculation once reasonably certain that The Company will be renewing for another year.

Present value of total future minimum commitments related to the lease is as follows:

CSWR Florida Land Lease		
	2025	24,000
Total Payments		24,000
Less: Imputed Interest		(995)
Total Liability		23,005

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 \$610,777 and \$515,107 for the periods ended December 31, 2024 and 2023, 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 entities 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:

	<u>2024</u>	<u>2023</u>
Estimated tax benefit for accumulated net operating losses	\$17,466,906	\$10,374,668
Allowance for credit losses	1,238,531	571,809
Deferred tax asset/(liability)	18,705,437	10,946,477
Less valuation allowance	(18,705,437)	(10,946,477)
Deferred tax asset/(liability) - net	\$ -	\$ -

The deferred tax assets as of December 31, 2024 and 2023 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 \$18,705,437 and \$10,946,477 on these deferred tax assets as of December 31, 2024 and 2023, respectively until the Company's subsidiaries starts to generate taxable income.

NOTE 12: SUBSEQUENT EVENTS

Subsequent to year end, the Company paid approximately \$1,044,961 to acquire certain operating assets, primarily property, plant and equipment, that provide water supply and distribution services, and sewer collection and treatment services in Mississippi, Tennessee, Kentucky, Louisiana, North Carolina, and Missouri. The costs of the assets acquired are expected to approximate the amount paid.

NOTE 12: SUBSEQUENT EVENTS (continued)

On March 17, the Company received approval to change the federal tax classification of CSWR, LLC from partnership status to C-Corporation status. This classification is retroactive to January 1, 2024.

Management has evaluated subsequent events through the date of the independent auditors' report, April 21, 2025, the date these consolidated financial statements were available to be issued.