

**The Grove Water Supply
Corporation**
Gatesville, Texas

Audited Financial Statements
November 30, 2020 and 2019

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The Grove Water Supply Corporation
Audited Financial Statements
For the Years Ended November 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Grove Water Supply Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Grove Water Supply Corporation (a nonprofit organization), which comprise the statements of financial position as of November 30, 2020 and 2019, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grove Water Supply Corporation as of November 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2021, on our consideration of Grove Water Supply Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Grove Water Supply Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Grove Water Supply Corporation's internal control over financial reporting and compliance.



Dora Jean Dyson, CPA, P.C.

Gatesville, Texas
February 1, 2021

The Grove Water Supply Corporation
 Statements of Financial Position
 November 30, 2020 and 2019

Assets		
	<u>2020</u>	<u>2019</u>
Current Assets		
Cash and cash equivalents	\$ 236,046	\$ 215,253
Trade accounts receivable	30,377	26,088
Prepaid expenses	1,944	1,829
Returned Checks	<u>160</u>	<u>-</u>
Total Current Assets	268,527	243,170
Property and Equipment		
Equipment	4,061	-
Water distribution system	2,341,025	2,368,228
Land	5,410	5,410
Less: accumulated depreciation	<u>(1,386,869)</u>	<u>(1,369,795)</u>
Total Property and Equipment	963,627	1,003,843
Other Assets		
Reserve accounts	<u>54,588</u>	<u>53,895</u>
Total Assets	<u><u>1,286,742</u></u>	<u><u>1,300,908</u></u>
Liabilities & Net Assets		
Current Liabilities		
Accounts payable	16,379	16,096
Accrued expenses	1,288	1,186
Current portion of long-term debt	<u>27,948</u>	<u>26,718</u>
Total Current Liabilities	45,615	44,000
Long-term debt, net of current portion	<u>583,558</u>	<u>611,512</u>
Total Liabilities	629,173	655,512
Net Assets		
Without donor restrictions		
Undesignated	602,981	591,501
Reserve account	<u>54,588</u>	<u>53,895</u>
Total Net Assets Without Donor Restrictions	<u>657,569</u>	<u>645,396</u>
Total Net Assets	657,569	645,396
Total Liabilities and Net Assets	<u><u>1,286,742</u></u>	<u><u>1,300,908</u></u>

See accompanying audit report and notes to financial statements.

The Grove Water Supply Corporation
 Statements of Activities and Changes in Net Assets
 For the years ended November 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Changes in Net Assets Without Donor Restrictions		
Revenues		
Water Revenue & Connection Fees	\$ 332,772	\$ 306,562
Interest Income	522	911
	<hr/>	<hr/>
Total Revenues	333,294	307,473
Expenses		
Program: Water Service	318,466	316,437
Support: Administrative	34,880	36,393
	<hr/>	<hr/>
Total Expenses	353,346	352,830
Increase (Decrease) in Net Assets Without Donor Restrictions	(20,052)	(45,357)
Net Assets Beginning of Year	645,396	642,253
Current Payments to Equity Buy-In	30,725	46,000
Increase in Memberships, \$100 Each	1,500	2,500
	<hr/>	<hr/>
Net Assets at End of Year	<u>\$ 657,569</u>	<u>\$ 645,396</u>

See accompanying audit report and notes to financial statements.

The Grove Water Supply Corporation
 Statements of Cash Flows
 For the years ended November 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net cash provided by operating activities	62,726	41,291
Cash used by investing activities:		
(Increase) decrease in reserves	(693)	(94)
Investment in fixed assets	<u>(46,741)</u>	<u>(22,987)</u>
Net cash used in investing activities	(47,434)	(23,081)
Cash flows from financing activities:		
Principal payments on long-term debt	(26,724)	(25,548)
Increase in memberships	1,500	2,500
Increase in equity buy-in	<u>30,725</u>	<u>46,000</u>
Net cash provided by financing activities	5,501	22,952
Net increase (decrease) in cash and cash equivalents	20,793	41,162
Cash and cash equivalents at beginning of year	<u>215,253</u>	<u>174,091</u>
Cash and cash equivalents at end of year	<u><u>\$236,046</u></u>	<u><u>215,253</u></u>
Reconciliation of net income (loss) to net cash from operating activities		
Net increase (decrease) in net assets	\$ (20,052)	\$ (45,357)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	86,957	86,843
(Increase) Decrease in :		
Accounts receivable	(4,289)	(1,663)
Prepaid expenses	(115)	337
Returned Checks	(160)	-
Increase (Decrease) in :		
Accrued expenses	283	(587)
Accounts payable	102	1,718
Total adjustments	<u>82,778</u>	<u>86,648</u>
Net cash provided by (used in) operating activities	<u>62,726</u>	<u>41,291</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$27,966	\$28,453
Cash paid during the year for income taxes	None	None

See accompanying audit report and notes to financial statements.

The Grove Water Supply Corporation
Statement of Functional Expenses
For the year ended November 30, 2020

	Program		Support Services		Total Support	Total Expenses
	Water Service	Administrative	Fundraising			
Bad Debt Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
BRA Option Fee	32,133	-	-	-	-	\$ 32,133
Contract Payments	72,465	25,000	-	-	25,000	\$ 97,465
Depreciation Expense	86,957	-	-	-	-	\$ 86,957
Dues & Fees	1,983	-	-	-	-	\$ 1,983
Engineer Services	-	-	-	-	-	\$ -
Insurance	2,585	1,018	-	-	1,018	\$ 3,603
Interest Expense	27,966	-	-	-	-	\$ 27,966
Legal & Accounting	-	7,300	-	-	7,300	\$ 7,300
Meeting Expense	-	52	-	-	52	\$ 52
Office Supplies & Expense	-	1,510	-	-	1,510	\$ 1,510
Repairs & Maintenance	5,453	-	-	-	-	\$ 5,453
Samples	583	-	-	-	-	\$ 583
Utilities	3,266	-	-	-	-	\$ 3,266
Water Rights	85,075	-	-	-	-	\$ 85,075
Total Expenses	\$ 318,466	\$ 34,880	\$ -	\$ -	\$ 34,880	\$ 353,346

See accompanying audit report and notes to financial statements.

The Grove Water Supply Corporation
Statement of Functional Expenses
For the year ended November 30, 2019

	Program		Support Services		Total Support	Total Expenses
	Water Service	Administrative	Fundraising			
Bad Debt Expense	\$ 2,150	\$ -	\$ -	\$ -	\$ -	\$ 2,150
BRA Option Fee	31,507	-	-	-	-	\$ 31,507
Contract Payments	79,989	25,000	-	-	25,000	\$ 104,989
Depreciation Expense	86,843	-	-	-	-	\$ 86,843
Dues & Fees	3,354	-	-	-	-	\$ 3,354
Engineer Services	965	-	-	-	-	\$ 965
Insurance	2,483	1,350	-	-	1,350	\$ 3,833
Interest Expense	28,453	-	-	-	-	\$ 28,453
Legal & Accounting	-	7,195	-	-	7,195	\$ 7,195
Meeting Expense	-	492	-	-	492	\$ 492
Office Supplies & Expense	-	2,356	-	-	2,356	\$ 2,356
Repairs & Maintenance	4,633	-	-	-	-	\$ 4,633
Samples	961	-	-	-	-	\$ 961
Utilities	2,891	-	-	-	-	\$ 2,891
Water Rights	72,208	-	-	-	-	\$ 72,208
Total Expenses	\$ 316,437	\$ 36,393	\$ -	\$ -	\$ 36,393	\$ 352,830

See accompanying audit report and notes to financial statements.

The Grove Water Supply Corporation
Notes to Financial Statements
November 30, 2020 and 2019

Nature of Activities

The Grove Water Supply Corporation (the Organization) is a non-profit corporation organized to furnish water to its members. The Organization is primarily supported through its members based on water consumption.

Summary of Significant Accounting Policies

The following is a summary of certain significant accounting policies followed in the preparation of the financial statements of the Organization.

Financial Statement Presentation

The financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). In accordance with FASB ASC 958-605, contributions received are recorded as without and with donor restrictions depending on the existence and nature of the donor restrictions. Net assets and revenues are classified based on donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets without donor restrictions represent resources over which the Board of Directors has discretionary control and can be used currently for the general purposes of the Organization in accordance with its by-laws. The Organization may voluntarily designate unrestricted resources for land, buildings, and equipment or other purposes, but this is a voluntary action of the governing board that can be modified or reversed at its discretion. These designations of unrestricted resources by the governing board do not have the same legal requirements as do restriction of funds.

Net Assets With Donor Restrictions

Net assets with donor restrictions represent resources currently available for use, but expendable only for those operation purposes specified by the donor. Such contributions are reported as increases in net assets with donor restrictions. When the restrictions are met (either by passage of time or by use) the net assets are reported as "net assets released from restriction" on the statement of activities. The Organization had no net assets with donor restrictions as of the audit date.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Under the accrual basis of accounting, revenue is recognized when earned, regardless of when collected, and expenses are recognized when the obligation is incurred, regardless of when paid.

Accounting Year

The Organization's fiscal year is December 1 through November 30 each year.

The Grove Water Supply Corporation
Notes to Financial Statements
November 30, 2020 and 2019

Presentation

To add comparability, some figures have been reclassified in presentation as is customary in audits of financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Revenue Recognition

The Organization generally sells water utility services under short-term, monthly billing cycles, using a fee schedule approved by the Board of Directors. Revenues are recognized monthly, based on metered readings located at each member's place of residence or business.

Federal Income Tax

The Organization, as a nonprofit, is exempt from Income Tax under Internal Revenue Code Section 501 (c) (12). However a Form 990, Return of Organization Exempt from Income Tax, is required to be filed for the fiscal year beginning December 1 and ending November 30 of each year. The returns are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

The Organization is also required to comply with other Internal Revenue reporting requirements regarding payments to independent contractors.

Uncertain Tax Positions

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires recognition for uncertain tax positions. The Organization has analyzed tax positions taken for filings with the Internal Revenue Service and believes that all tax filings would be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Organization's financial condition, statements of activities, functional expenses, or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain tax positions. Therefore, for the year ended November 30, 2020 and 2019, there is no cumulative effect adjustment required.

Statement of Cash Flows

The indirect method is used to report cash flows from operating activities. Disclosure is made of the amount of cash paid for interest and income taxes, if any. The reconciling data used in determining the net cash flow from operating activities are provided in a separate schedule. Non-cash investing and financing activities, if any, are excluded from the body of the statement of cash flows (but are disclosed).

Cash and Cash Equivalents

The Organization considers all highly-liquid debt instruments within three months of their maturity date to be cash equivalents.

The Grove Water Supply Corporation
Notes to Financial Statements
November 30, 2020 and 2019

Accounts Receivable

Accounts receivable are reported at the amount the Organization expects to collect from outstanding balances. Uncollectible receivables are charged off as bad debts when all attempts to collect have failed and the prospect for future collection is unlikely. There is no allowance for doubtful accounts as of the audit dates.

Concentrations

Cash Analysis

The following chart outlines potential cash investment risk as of November 30, 2020 and 2019:

2020

		Balance	Insured	Uninsured	Insurer
National United	Cash	181,673.07	181,673.07	-0-	FDIC
National United	Reserve	54,588.00	54,588.00	-0-	FDIC
National United	Money Market	54,372.46	13,738.93	40,633.53	FDIC
Total		290,633.53	250,000.00	40,633.53	

2019

		Balance	Insured	Uninsured	Insurer
National United	Cash	161,023.12	161,023.12	-0-	FDIC
National United	Reserve	53,895.36	53,895.36	-0-	FDIC
National United	Money Market	54,229.34	35,081.52	19,147.82	FDIC
Total		269,147.82	250,000.00	19,147.82	

The Organization maintains several cash balances at one financial institution located in Gatesville, Texas. The balances of cash accounts were insured by the Federal Deposit Insurance Corporation up to \$250,000. During the 2020 and 2019 fiscal year the Organization's bank balances were not fully covered by the federal insurance.

Water

The Organization purchases water exclusively from the City of Gatesville. All of the revenue of the Organization is from the sale of water to its members.

Other

The Organization is dependent on an arms-length contract with Justin Veazey for management and accounting services. Amy Veazey, wife of Justin Veazey, handles financial reporting matters for the Organization. Amounts paid for these services were \$136,845 in 2020 and \$115,579 in 2019.

Also, the Organization contracts with Brenda Arldt for minutes at a cost of \$300 per month.

The Grove Water Supply Corporation
Notes to Financial Statements
November 30, 2020 and 2019

Water Purchase Contracts

City of Gatesville

The Grove Water Supply Corporation had a contractual right with the City of Gatesville to purchase, or pay for the purchase of, 14.11% of the 4,000-acre feet of water from Lake Belton. In addition, there is an operating and maintenance charge at a rate of \$1.35 per thousand gallons of water, up to 57,000,000 gallons per year. Gallons in excess of this amount will be billed at \$1.45 per thousand gallons. Costs due to the City of Gatesville include raw water, bonded debt service, and a pro rata share of operation and maintenance costs, billed monthly.

Brazos River Authority (BRA)

The Organization has a water availability agreement with the BRA to pay \$79 per acre-foot annually for 400 acre-feet of water. Organization made four quarterly payments of \$7,900.00 for water and \$133.30 for administrative fees for a quarterly payment totaling \$8,033.39.

Debt Analysis

During the year ended November 30, 1994, the Organization completed a major plant improvement project costing \$325,000 of which FMHA funded \$299,000. The loan portion totaled \$78,500 (91-01), while \$220,500 was an economic grant.

During the year ended November 30, 1998, another expansion project was undertaken at a cost of \$316,000. The loan portion was \$86,000 (91-03), and the Organization received a grant for \$230,000.

On September 30, 1999, the Organization received an additional \$11,000 in grant money.

During the November 30, 2002 fiscal year, the Organization received a loan of \$504,000 (91-05) for system improvements.

In 2005, the system received, from the USDA Rural Development, a grant of \$858,900 and a loan of \$286,300 (91-06) for the expansion and improvement of the water distribution system.

On July 23, 2009, the Organization received an additional advance from USDA in the amount of \$18,400 for system improvements, and a grant in the amount of \$30,394.

At November 30, 2020, details of these notes are as follows:

<u>Note Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Note Balance Due</u>	
			<u>Current</u>	<u>Total</u>
USDA-RD (formerly FMHA)				
91-01	5.125%	11/02/33	\$ 2,556.85	\$ 42,354.06
91-03	4.50%	12/22/37	2,246.03	55,376.85
91-05	4.50%	11/15/33	17,707.07	285,177.40
91-06	4.25%	05/04/45	<u>5,437.92</u>	<u>228,598.05</u>
			\$ 27,947.87	\$ 611,506.36

The Grove Water Supply Corporation
Notes to Financial Statements
November 30, 2020 and 2019

The following is a schedule by years of note payments required under the notes:

Fiscal Year Ending <u>November 30,</u>	<u>Principal</u>
2021	27,947.87
2022	29,234.36
2023	30,580.18
2024	31,915.53
2025	33,461.08
2026 & thereafter	<u>458,367.34</u>
Total	\$ 611,506.36

Along with the principal payments due above, there are substantial interest payment requirements:

Fiscal Year Ending <u>November 30,</u>	<u>Interest</u>
2021	26,640.13
2022	25,353.64
2023	24,007.82
2024	22,599.83
2025	21,126.92
2026 & thereafter	<u>143,348.32</u>
Total	\$ 263,076.66

At November 30, 2019, details of these notes are as follows:

<u>Note Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Note Balance Due</u>	
			<u>Current</u>	<u>Total</u>
USDA-RD (formerly FMHA)				
91-01	5.125%	11/02/33	\$ 2,429.41	\$ 44,783.86
91-03	4.50%	12/22/37	2,147.39	57,524.56
91-05	4.50%	11/15/33	16,929.32	302,111.17
91-06	4.25%	05/04/45	<u>5,212.03</u>	<u>233,810.97</u>
			\$ 26,718.15	\$ 638,230.56

Reserve for Emergency Repairs and Debt Retirement

The Organization is required, as long as it is indebted to the federal government, to deposit from its revenues one-tenth of its total mortgage payments per year (including interest) in an FDIC insured financial institution or in securities backed by the U. S. Government. Such deposits continue until the account balance equals one year's mortgage payments (including interest). The Organization has 10 years to accumulate the required reserve amount. Withdrawals may be made only for emergency repairs, equipment obsolescence, and revenue deficiencies during periods when water is not available to members. The reserve has been transferred to a separate account and is considered fully funded as of the date of this report.

The Grove Water Supply Corporation
Notes to Financial Statements
November 30, 2020 and 2019

At November 30, 2020 and 2019, the Reserve accounts consisted of the following:

	<u>November 30,</u>	
	<u>2020</u>	<u>2019</u>
Required fund balance for loan agreement	\$ 54,588	\$ 54,588
Invested funds, reserve	<u>54,588</u>	<u>53,895</u>
Funds in excess (short) of loan agreements	0	(693)

Membership Investment

New members are required to purchase memberships at \$100 per member to use the water system. As of November 30, 2020, and 2019 there were approximately 427 and 419 active members respectively, with the overall number varying slightly for unread and vacant meters.

Property and Equipment

Purchases of property and equipment are recorded at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets: 3 to 10 years for furniture, fixtures, and office equipment, 20 to 40 years for the distribution system, meter, and hydrant installation, and 10 to 20 years for wells and pumps. When items are disposed, the cost and accumulated depreciation are eliminated from the records of account, and a gain or loss is reported in current income. Repair and maintenance charges that do not increase the useful lives of the assets are charged to income as incurred.

Advertising

Advertising, if any, is expensed as it is incurred.

Interim Financial Reporting

The Organization presents its interim financial statements using the cash basis of accounting, a presentation which differs from accounting principles generally accepted in the United States.

Insurance Coverage

The by-laws require that the assets of the Corporation be insured. Current policies owned by the Organization are as follows:

	<u>2020 and 2019</u>
Liability Insurance	
Directors/Officers	\$1,000,000
Property	\$ 794,050
General (aggregate)	\$3,000,000
Crime/Dishonesty	\$ 125,000

The Grove Water Supply Corporation
Notes to Financial Statements
November 30, 2020 and 2019

Fair Value Measurements

Fair values of assets measured on a recurring basis at November 30, are as follows:

	Fair Value	Quoted Prices in Active Markets for For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2020 Cash	\$290,633	\$290,633	-0-	-0-
2019 Cash	\$269,147	\$269,147	-0-	-0-

Recent Accounting Pronouncements

Revenue Recognition

In May 28, 2014, the FASB and the International Accounting Standards Board (IASB) issued converged guidance on recognizing revenue in contracts with customers (ASU) No. 2014-09, *Revenue from Contracts with Customers*. The objective of the new guidance is to establish principles to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue from contracts with customers. The new guidance:

- Removes inconsistencies and weaknesses in existing revenue requirements
- Provides a more robust framework for addressing revenue issues
- Improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets
- Provides more useful information to users of financial statements through improved disclosure requirements, and
- Simplifies the preparation of financial statements by reducing the number of requirements to which an organization must refer.

Nonpublic organizations should apply the new revenue standard to interim reporting periods within annual reporting periods beginning after December 15, 2019.

Liquidity and Availability of Financial Assets

The following reflects the organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Contractual restricted amounts include a predetermined required reserve balance for the USDA note payable principal and interest payments.

	<u>2020</u>	<u>2019</u>
Financial assets at year-end (current assets)	\$ 323,115.15	\$ 297,064.60
Less those unavailable for general expenditures within one year due to:		
Required USDA note payments/reserve	<u>(54,588)</u>	<u>(54,588)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$268,527.15</u>	<u>\$242,476.60</u>

The Organization's liquidity management is to maintain their cash balances and perform system improvements during years of surplus, as fund are available, to avoid additional debt.

The Grove Water Supply Corporation
Notes to Financial Statements
November 30, 2020 and 2019

Cost Allocation

The financial statements report certain categories of expenses that are attributable to the water program and its supporting functions. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include a portion of the contract expenses for administrative work, which is allocated based on the general manager estimate of time spent, director related insurance, that is allocated based on premium breakdown from the insurance company, required audit due to USDA loan, meeting expenses, and office expenses that are allocated based on function alone.

Subsequent Events

Subsequent events have been evaluated through February 1, 2021, the date which the financial statements were available to be issued.

On October 8, 2020, Justin Veazey's bid for a significant line upgrade was approved by the board for \$128,500.

The Organization's operations may be affected by the recent and ongoing outbreak of the corona virus disease (COVID 19) which was declared a pandemic by the World Health Organization in March 2020. Management is currently evaluating the impact of the COVID-19 pandemic on the Organization and has concluded that while it is reasonably possible that the virus could have a negative effect on the Organization's financial position and results of its operations, the specific impact is not readily determinable as of the date of the financial statements.

Compliance Section



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

To the Board of Directors
Grove Water Supply Corporation

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Grove Water Supply Corporation (a nonprofit organization), which comprise the statement of financial position as of November 30, 2020 and 2019, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 1, 2021.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Dora Jean Dyson, CPA, P.C.
Gatesville, Texas

February 1, 2021