

Grove Land Utilities, LLC

**(A Wholly-Owned Subsidiary of Evans Utilities
Company, Inc.)**

Financial and Compliance Report
December 31, 2019

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Balance sheets	3
Statements of operations	4
Statements of changes in member's equity	5
Statements of cash flows	6
Notes to financial statements	7-9
<hr/>	
Supplementary information	
Schedule of expenditures of state financial assistance	10
Notes to schedule of expenditures of state financial assistance	11
<hr/>	
Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	12-13
<hr/>	
Independent auditor's report on compliance for its major state financial assistance project and report on internal control over compliance required by State of Florida Chapter 10.650, <i>Rules of the Auditor General</i>	14-15
<hr/>	
Schedule of findings and questioned costs	16
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RSM US LLP

Independent Auditor's Report

Board of Directors
Grove Land Utilities, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Grove Land Utilities, LLC, which comprise the balance sheets as of December 31, 2019 and 2018, the related statements of operations, changes in member's equity and cash flows 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 audits. We conducted our audits 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 Land Utilities, LLC as of December 31, 2019 and 2018, 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.

Other Matters – Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance, as required by State of Florida Chapter 10.650, *Rules of the Auditor General*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2020, on our consideration of Grove Land Utilities, LLC'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 solely to describe the scope of our 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 Land Utilities, LLC'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 Land Utilities, LLC's internal control over financial reporting and compliance.

RSM US LLP

Orlando, Florida
June 16, 2020

Grove Land Utilities, LLC

Balance Sheets

December 31, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash	\$ 456,679	\$ 577,485
Accounts receivable	533,234	447,188
Total current assets	<u>989,913</u>	<u>1,024,673</u>
Land improvements – construction in progress	<u>6,563,936</u>	<u>4,733,456</u>
Total assets	<u><u>\$ 7,553,849</u></u>	<u><u>\$ 5,758,129</u></u>
Liabilities and Member's Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 288,276	\$ 307,186
Related party loan payable	759,212	759,212
Total current liabilities	<u>1,047,488</u>	<u>1,066,398</u>
Deferred grant revenue	<u>5,722,908</u>	<u>3,892,428</u>
Total liabilities	<u>6,770,396</u>	<u>4,958,826</u>
Contingency (Note 4)		
Member's equity	<u>783,453</u>	<u>799,303</u>
Total liabilities and member's equity	<u><u>\$ 7,553,849</u></u>	<u><u>\$ 5,758,129</u></u>

See notes to financial statements.

Grove Land Utilities, LLC

Statements of Operations

Years Ended December 31, 2019 and 2018

	2019	2018
Revenues	<u>\$ -</u>	<u>\$ -</u>
General and administrative expenses:		
Professional fees	15,750	16,200
Other expenses	100	292
Total general and administrative expenses	<u>15,850</u>	<u>16,492</u>
Net loss	<u><u>\$ (15,850)</u></u>	<u><u>\$ (16,492)</u></u>

See notes to financial statements.

Grove Land Utilities, LLC

**Statements of Changes in Member's Equity
Years Ended December 31, 2019 and 2018**

	2019	2018
Balance, beginning	\$ 799,303	\$ 815,795
Net loss	(15,850)	(16,492)
Balance, ending	<u>\$ 783,453</u>	<u>\$ 799,303</u>

See notes to financial statements.

Grove Land Utilities, LLC

Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Net loss	\$ (15,850)	\$ (16,492)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(86,046)	(231,953)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(18,910)	216,335
Deferred grant revenue	1,830,480	1,846,402
Net cash provided by operating activities	1,709,674	1,814,292
Cash flows from investing activities:		
Advances from related party	-	715,000
Repayments to related party	-	(200,000)
Purchases of land improvements – construction in progress	(1,830,480)	(1,846,402)
Net cash used in investing activities	(1,830,480)	(1,331,402)
Net (decrease) increase in cash	(120,806)	482,890
Cash:		
Beginning	577,485	94,595
Ending	\$ 456,679	\$ 577,485

See notes to financial statements.

Grove Land Utilities, LLC

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Grove Land Utilities, LLC (the Company) (A Wholly-Owned Subsidiary of Evans Utilities Company, Inc., which is a Wholly-Owned Subsidiary of Evans Properties, Inc.) is a Florida limited liability company, and was certificated by the Florida Public Service Commission in 2012 as a water and wastewater utility with a service area that includes certain properties in Okeechobee, Indian River and St. Lucie counties. Certain portions of these lands are located in an area that is very favorable to providing water storage, water supply and water quality benefits via a surface water reservoir and stormwater treatment area.

A summary of the Company's significant accounting policies follows:

Basis of presentation: The accompanying financial statements have been prepared on the accrual basis of accounting.

Use of estimates: The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts receivable: Accounts receivable are recorded at net realizable value. Allowance for doubtful accounts are estimated using the allowance method based upon historical experience, management's analysis of specific accounts, the existing economic conditions in the industry and other economic factors. The allowance is reviewed periodically and adjusted for accounts deemed uncollectible by management. In the opinion of management, no such allowance was deemed necessary at December 31, 2019 and 2018.

Grant revenue: In 2016, the Company received a \$6,000,000 grant agreement from the State of Florida Department of Environmental Protection related to preconstruction activities, which includes 30% of design/engineering, soil testing and initial permit applications, for the Grove Land Reservoir and Stormwater Treatment Area project. The purpose of the project is to divert stormwater from estuaries to the Grove Land Reservoir and Stormwater Treatment Area. This would provide an alternative water supply source and to reduce nutrient concentrations and loads discharged to receiving waters. Costs incurred during 2019 and 2018, relate to the development of the Grove Land Reservoir and Stormwater Treatment Area, therefore, these costs are capitalized. In addition, since this project was in the early stages of development, these costs are classified as land improvements – construction in progress at December 31, 2019 and 2018 (see Note 2).

The grant agreement with the State of Florida Department of Environmental Protection is on a cost reimbursement basis. Expenditures are submitted for reimbursement as eligible costs are incurred. Accounts receivable is recorded to the extent costs have been incurred but not reimbursed by the granting agency. In accordance with accounting standards related to the presentation in financial statements of grants related to assets, grant revenue is recognized in the accompanying statements of operations over the life of the depreciable asset. Grant reimbursements received prior to the assets being depreciated is recorded as deferred grant revenue.

Grove Land Utilities, LLC

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Land improvements – construction in progress: Land improvements – construction in progress are recorded at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Routine maintenance and repair costs are charged to expense as incurred, while major replacements and improvements are capitalized as additions to the related assets. When assets are sold or retired, the related cost and accumulated depreciation are removed from the accounts and gains or losses from dispositions are credited or charged to operations.

Impairment of long-lived assets: The carrying value of land improvements – construction in progress is reviewed for impairment whenever events or changes in circumstances indicate such value may not be recoverable. Recoverability of assets or asset groups to be held and used is measured by a comparison of the carrying amount of an asset or asset group to future net cash flows expected to be generated by the asset or asset group. If such assets or asset groups are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets or asset group. Assets or asset groups to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. No impairment of the Company's long-lived assets or asset groups have been recognized during the years ended December 31, 2019 and 2018.

Income taxes: The Company was formed as a Florida limited liability company and is not a taxable entity. The Member is liable for individual federal and state income taxes on the Company's taxable income. Therefore, no provisions or liability for federal or state income taxes has been included in the accompanying financial statements.

The Company follows accounting standards relating to accounting for uncertainty in income taxes. Management assessed whether there were any uncertain tax positions, which may give rise to income tax liabilities and determined that there were no such matters requiring recognition in the accompanying financial statements. The Company files income tax returns in the U.S. federal jurisdiction. With few exceptions, the Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before December 31, 2016.

Concentration of credit risk: Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash. At various times throughout the years ended December 31, 2019 and 2018, cash balances held at a financial institution were in excess of federally-insured limits. However, the Company has not experienced any losses in such accounts and management believes the Company is not exposed to any significant credit risk on this account.

Newly adopted accounting pronouncement: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 replaced most existing revenue recognition guidance in U.S. GAAP when it became effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. ASU 2014-09 is effective for annual reporting periods of nonpublic entities beginning after December 15, 2018. The Company has adopted ASU 2014-09 as of January 1, 2019, with no impact on its financial statements.

Recent accounting pronouncements: The FASB has issued certain new or modifications to, or interpretations of, existing accounting guidance. The Company has considered the new pronouncements and does not believe that any other new or modified guidance will have a material impact on the Company's reported financial position or activities in the near term.

Grove Land Utilities, LLC

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Subsequent events: Management has assessed subsequent events through June 16, 2020, the date the financial statements were available to be issued.

Note 2. Land Improvements – Construction in Progress

Land improvements – construction in progress consisted of the following at December 31, 2019 and 2018:

	2019	2018
Land improvements – construction in progress	\$ 6,563,936	\$ 4,733,456

Land improvements – construction in progress is made up of the following at December 31, 2019 and 2018:

	2019	2018
Public service commission certification costs	\$ 841,028	\$ 841,028
State of Florida Department of Environmental Protection grant expenditures	5,722,908	3,892,428
	<u>\$ 6,563,936</u>	<u>\$ 4,733,456</u>

Note 3. Related Party Loan Payable

At December 31, 2019 and 2018, \$759,212 is owed to the parent company of the sole member of the Company. This amount is non-interest bearing and payable on demand.

Note 4. Contingency

The Company is subject to state audit examination to determine compliance with grant requirements. In the event that expenditures would be disallowed, repayment could be required. Management is of the opinion that such expenditures, if any, would not have a material adverse impact on the Company.

Note 5. Subsequent Event

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a “Public Health Emergency of International Concern” and on March 11, 2020, declared COVID-19 a pandemic. The impact of COVID-19 could negatively impact the Company’s operations, suppliers or other vendors, and customer base. Any quarantines, labor shortages or other disruptions to the Company’s operations, or those of their customers, may adversely impact the Company’s revenues, ability to provide its services and operating results. In addition, a significant outbreak of epidemic, pandemic or contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, including the geographical area in which the Company operates, resulting in an economic downturn that could affect demand for its goods and services. The extent to which the coronavirus impacts the Company’s results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others.

Grove Land Utilities, LLC

**Schedule of Expenditures of State Financial Assistance
Year Ended December 31, 2019**

Grantor/Program Title	State CSFA Number	Pass-Through Entity Identifying Number	State Expenditures
State Financial Assistance			
State of Florida Department of Environmental Protection: Statewide Surface Water Restoration and Wastewater Projects	37.039	S0875	<u>\$ 1,830,480</u>
Total expenditures of state financial assistance			<u><u>\$ 1,830,480</u></u>

See notes to schedule of expenditures of state financial assistance.

Grove Land Utilities, LLC

**Notes to Schedule of Expenditures of State Financial Assistance
Year Ended December 31, 2019**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of state financial assistance (the Schedule) includes the state financial assistance project activity of Grove Land Utilities, LLC (the Company) under programs of the State of Florida for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of the State of Florida Chapter 10.650, *Rules of the Auditor General*. Because the Schedule presents only a selected portion of the operations of the Company, it is not intended to and does not present the financial position or cash flows of the Company.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are recognized on the accrual basis of accounting. Such expenditures are reported following the cost principles established by the State of Florida Department of Financial Services, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Subrecipients

There was no state financial assistance passed through to subrecipients by the Company.

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With *Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Grove Land Utilities, LLC.

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 Land Utilities, LLC (the Company), which comprise the balance sheet as of December 31, 2019, and the related statements of operations, changes in member's equity and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 16, 2020.

Internal Control Over Financial Reporting

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

The purpose of this report is 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 Company'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 Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Orlando, Florida
June 16, 2020

Report on Compliance for its Major State Financial Assistance Project and Report on Internal Control Over Compliance required by State of Florida Chapter 10.650, *Rules of the Auditor General*

Independent Auditor's Report

Board of Directors
Grove Land Utilities, LLC

Report on Compliance for its Major State Financial Assistance Project

We have audited Grove Land Utilities, LLC's (the Company) compliance with the types of compliance requirements described in the Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on the Company's major state financial assistance project for the year ended December 31, 2019. The Company's major state financial assistance project is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with state statutes, regulations and the terms and conditions of its state financial assistance applicable to its state financial assistance project.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Company's major state financial assistance project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of Florida Chapter 10.650, *Rules of the Auditor General*. Those standards and the State of Florida Chapter 10.650, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state financial assistance project occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major state financial assistance project. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on its Major State Financial Assistance Project

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state financial assistance project for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on its major state financial assistance project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major state financial assistance project and to test and report on internal control over compliance in accordance with the State of Florida Chapter 10.650, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State of Florida Chapter 10.650, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Orlando, Florida
June 16, 2020

Grove Land Utilities, LLC

Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency(ies) identified?	<u> </u> Yes	<u> X </u> None Reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

State Financial Assistance

Internal control over major program:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency(ies) identified?	<u> </u> Yes	<u> X </u> None Reported

Type of auditor's report issued on compliance for its major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State of Florida Chapter 10.650, *Rules of the Auditor General*? Yes X No

Identification of major program:

CSFA Number

37.039

Name of State Financial Assistance Project

Statewide Surface Water Restoration and Wastewater Projects

Dollar threshold used to distinguish between Type A and Type B state financial assistance projects: \$ 300,000

II. Financial Statement Findings

No matters to report.

III. Findings and Questioned Costs for State Financial Assistance

No matters to report.

IV. Other Reporting

1. No Summary Schedule of Prior Audit Findings is presented because there were no prior audit findings.
2. No Corrective Action Plan is presented because there were no findings required to be reported under the Florida Single Audit Act.
3. There was no management letter or control deficiency letter issued for the year ended December 31, 2019 and there were no matters required to be reported in these letters.