

MOSSY HEAD WATER WORKS, INC.

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2020 AND 2019

**MOSSY HEAD WATER WORKS, INC.
TABLE OF CONTENTS
SEPTEMBER 30, 2020 AND 2019**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Balance Sheets	3
Statements of Operations	4
Statements of Members' Equity	5
Statements of Cash Flows	6
Notes to the Financial Statements	7
COMPLIANCE SECTION	
Independent Auditors' 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>	16
Schedule of Findings and Responses	18

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mossy Head Water Works, Inc.

We have audited the accompanying financial statements of Mossy Head Water Works, Inc., which comprise the balance sheets as of September 30, 2020 and 2019, and the related statements of operations, members' 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.

Auditors' Responsibility

Our responsibility is to express opinions 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 Mossy Head Water Works, Inc., as of September 30, 2020 and 2019, and the results of its operations and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 8 to the financial statements, Financial Accounting Standards Boards *Topic 606 – Revenue from Contracts with Customers* was implemented effective October 1, 2019, and defers the recognition of revenue until the performance obligation is satisfied. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 28, 2020, on our consideration of Mossy Head Water Works, Inc.'s internal control over financial reporting and 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Destin, Florida
December 28, 2020

MOSSY HEAD WATER WORKS, INC.
BALANCE SHEETS
SEPTEMBER 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
UTILITY PLANT IN SERVICE, NET	\$ 5,389,764	\$ 5,510,874
RESTRICTED ASSETS		
Investments	399,189	375,506
CURRENT ASSETS		
Cash	261,280	381,799
Investments	1,136,192	811,393
Receivables, net	120,004	118,127
Prepaid expenses	13,673	13,673
Total current assets	<u>1,531,149</u>	<u>1,324,992</u>
TOTAL ASSETS	<u><u>\$ 7,320,102</u></u>	<u><u>\$ 7,211,372</u></u>
LIABILITIES AND MEMBERS' EQUITY		
MEMBERS' EQUITY		
Contributions in aid of construction	\$ 209,375	\$ 215,625
Retained earnings	<u>3,054,116</u>	<u>2,853,717</u>
Total members' equity	3,263,491	3,069,342
LONG-TERM LIABILITIES		
Notes payable	3,798,889	3,920,161
Customer deposits	<u>127,719</u>	<u>110,924</u>
Total long-term liabilities	3,926,608	4,031,085
CURRENT LIABILITIES		
Accounts payable	5,971	39
Accrued expenses	4,694	4,688
Deferred revenue	10,102	10,102
Prepaid tap fees	3,120	3,120
Current maturities of notes payable	<u>106,116</u>	<u>92,996</u>
Total current liabilities	<u>130,003</u>	<u>110,945</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u><u>\$ 7,320,102</u></u>	<u><u>\$ 7,211,372</u></u>

See notes to the financial statements.

MOSSY HEAD WATER WORKS, INC.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
REVENUE FROM OPERATIONS		
Water services	\$ 811,883	\$ 774,161
Tap fees	208,430	102,563
Other services	<u>25,277</u>	<u>25,296</u>
Total operating revenue	1,045,590	902,020
OPERATING EXPENSES		
Operating and maintenance	450,224	406,409
Depreciation and amortization	<u>246,432</u>	<u>232,471</u>
Total operating expenses	<u>696,656</u>	<u>638,880</u>
OPERATING INCOME	348,934	263,140
OTHER REVENUES (EXPENSES)		
Investment income, including unrealized gain	25,877	14,955
Interest expense	(179,167)	(182,870)
Gain on disposal	<u>4,755</u>	<u>-</u>
Total other revenues (expenses)	<u>(148,535)</u>	<u>(167,915)</u>
NET INCOME	<u>\$ 200,399</u>	<u>\$ 95,225</u>

See notes to the financial statements.

**MOSSY HEAD WATER WORKS, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019**

	2020	2019
CONTRIBUTIONS IN AID OF CONSTRUCTION		
Beginning of year	\$ 215,625	\$ 221,875
Amortization	(6,250)	(6,250)
Ending balance	209,375	215,625
RETAINED EARNINGS		
Beginning of year	2,853,717	2,758,492
Net income	200,399	95,225
End of year	3,054,116	2,853,717
TOTAL MEMBERS' EQUITY	\$ 3,263,491	\$ 3,069,342

See notes to the financial statements.

MOSSY HEAD WATER WORKS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 200,399	\$ 95,225
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	246,432	232,471
Net unrealized / realized (gain) loss on investments	(6,446)	-
Loss (gain) on disposal	(4,755)	-
(Increase) decrease in operating assets:		
Receivables, net	(1,877)	(6,421)
Increase (decrease) in liabilities:		
Accounts payable	5,932	-
Accrued expenses	6	(43)
Prepaid tap fees	-	(6,240)
Customer deposits	16,795	11,349
Net cash flows provided by operating activities	<u>456,486</u>	<u>326,341</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition and construction of property and equipment	(131,572)	(8,330)
Proceeds from sales and maturities of investments	1,264,110	804,081
Purchase of investments	(1,606,146)	(1,021,298)
Proceeds from sale of property and equipment	4,755	-
Net cash flows used in investing activities	<u>(468,853)</u>	<u>(225,547)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments of long-term debt	<u>(108,152)</u>	<u>(100,451)</u>
NET CHANGE IN CASH	(120,519)	343
CASH AT BEGINNING OF YEAR	<u>381,799</u>	<u>381,456</u>
CASH AT END OF YEAR	<u>\$ 261,280</u>	<u>\$ 381,799</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 179,167</u>	<u>\$ 182,870</u>

See notes to the financial statements.

**MOSSY HEAD WATER WORKS, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF BUSINESS

Background and Basis of Accounting

Mossy Head Water Works, Inc., (hereinafter referred to as the Company) was incorporated in the State of Florida on April 25, 1969, as a not-for-profit corporation to provide water utility services under retail and wholesale agreements to members in Walton County near Mossy Head, Florida. The service area is 120 square miles, 77 square miles of which is currently being served. The Company's primary funding sources are from sales of water service, infrastructure constructed and donated by developers, and tap fees. The Company has qualified under Internal Revenue Code Section 501(c)(12) as an exempt organization and, as such, is not liable for income taxes. By Florida Statutes, the Company is also exempt from sales tax and ad valorem taxes.

The Company prepares its financial statements on the accrual basis of accounting.

Revenue Recognition, Contract Assets and Contract Liabilities

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) and related amendments (ASC 606), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASC 606 is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. ASC 606 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract.

The Company recognizes revenue when performance obligations are satisfied. Generally, the Company's performance obligations are satisfied, control of water and sewer services are transferred, and revenue is recognized on a monthly basis after the service has been performed. Because customers are invoiced at the time service has been performed and the Company's right to consideration is unconditional at that time, the Company currently does not maintain contract asset balances. For setup of customer accounts, any amounts that have been collected for services, where control has not transferred, are recorded as customer deposits (contract liabilities). For tap fees, the Company's performance obligations are satisfied when the services are connected and started.

Effective October 1, 2019, the Company adopted ASC 606, which provides accounting guidance on the recognition of revenues from contracts and requires gross presentation of certain costs that were previously offset against revenue. The Company has applied ASC 606 retrospectively, which requires that the cumulative effect of initial application be recognized as an adjustment to beginning retained earnings. The beginning balance effect on the financial statements from the adoption of ASC 606 is described at Note 8.

**MOSSY HEAD WATER WORKS, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF BUSINESS – CONTINUED

Utility Plant In-Service and Depreciation

Utility plant and other property are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. In accordance with generally accepted accounting principles, property contributed by developers is recorded at estimated fair value at the time of acceptance by the Company. The cost of maintenance and repairs is charged to expense as incurred while significant renewals and betterments are capitalized. Estimated useful lives of utility plant in service are as follows:

	<u>Useful Life</u>
Buildings and improvements	10 to 25 years
Utility system	25 to 50 years
Office, plant and shop equipment	5 to 10 years
Vehicles	5 years

Restricted Investments

Certain investments have been classified as restricted pursuant to the requirements of long-term debt agreements and for customer deposits.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash equivalents include all investments with original maturities of three months or less when purchased.

Investments

Investments held by the Company consist of certificates of deposit and deposits with the certificate of deposit account registry service. These investments are considered to be held to maturity and are recorded at cost.

Customer Receivables

Customer receivables are due when bills are rendered. Bills not paid in full by the 10th of the following month will be assessed a late fee. Bills not paid in full by the close of business of the 15th of the month will be locked for non-payment and a reconnect fee will be charged. The Company provides for doubtful accounts based on an analysis of individual accounts. When specific amounts are determined to be uncollectible, they are written off by charging the allowance and crediting trade accounts receivable. Allowance for doubtful accounts as of September 30, 2020 and 2019, was \$5,487.

Contributions in Aid of Construction

Contributions in aid of construction consist of state and federal grants and contributions by developers toward the cost of the water system. Property contributed by developers is recorded as contributions in aid of construction at its estimated fair value at the date received. These contributions are amortized using the straight-line method over the estimated useful lives of the contributed assets, generally 40 years. The amortization is offset against depreciation charged to operations.

**MOSSY HEAD WATER WORKS, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF BUSINESS –
CONTINUED**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Events Occurring After Reporting Date

The Company has evaluated events and transactions that occurred between September 30, 2020 and December 28, 2020, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

2. INVESTMENTS

At September 30, 2020, the restricted investments balance of \$399,189 consisted of one certificate of deposit and three deposits with the certificate of deposit account registry service (CDARS) that bear interest ranging from 0.20% to 1.75% and mature between November 2020 and March 2021. At September 30, 2020, the unrestricted investments balance of \$1,136,192 consists of two certificates of deposits and six deposits with the CDARS that bear interest ranging from 0.20% to 1.85% and mature between October 2020 and June 2021.

At September 30, 2019 the restricted investments balance of \$375,506 consisted of one certificate of deposit and two deposits with the certificate of deposit account registry service (CDARS) that bear interest ranging from 2.20% to 2.45% and mature between November 2019 and July 2020. At September 30, 2020, the unrestricted investments balance of \$811,393 consists of two certificates of deposits and five deposits with the CDARS that bear interest ranging from 1.76% to 2.55% and mature between March 2020 and February 2021.

3. RESTRICTED INVESTMENTS

The Company's restricted investments include reserves imposed by the United States Department of Agriculture Rural Utility Service (USDA/RUS) in connection with various loans to the Company. The restrictions will remain until such time that the loans are no longer outstanding. Restricted investments also represent meter deposits held for customers.

**MOSSY HEAD WATER WORKS, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

4. UTILITY PLANT IN SERVICE, NET

The following is a summary of utility plant in service as of September 30:

	<u>2020</u>	<u>2019</u>
Utility plant	\$ 8,419,926	\$ 8,419,926
Land	39,430	39,430
Buildings	177,822	177,822
Equipment	295,474	231,479
Improvements other than buildings	14,057	14,057
Vehicles	<u>187,463</u>	<u>145,655</u>
	9,134,172	9,028,369
Less accumulated depreciation	<u>(3,744,408)</u>	<u>(3,517,495)</u>
	<u>\$ 5,389,764</u>	<u>\$ 5,510,874</u>

Annual provisions for depreciation of utility plant in service, net of amortization of contributions in aid of construction, total \$246,432 (depreciation of \$252,682 and amortization of \$6,250) and \$232,471 (depreciation of \$238,721 and amortization of \$6,250 for the years ended September 30, 2020 and 2019, respectively).

5. CUSTOMER DEPOSITS

A customer deposit is required for each customer account and is held until that account is closed. The fee is either applied toward the final billing or returned after the final payment has been received. These deposits are presented as a long-term liability on the balance sheet. Customer deposits held on accounts were \$127,719 and \$110,924 as of September 30, 2020 and 2019. This liability is funded by restricted investments.

**MOSSY HEAD WATER WORKS, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

6. LONG-TERM DEBT AND SUBSEQUENT EVENT

The Company's long-term debt consisted of the following as of September 30:

	2020	2019
Note payable to USDA/RUS #91-04 secured by facilities and equipment; interest rate 4.875% per annum; payable in 369 monthly installments of \$3,650 including interest; note matures in 2038.	\$ 433,863	\$ 473,783
Note payable to USDA/RUS #91-06 secured by facilities and equipment; interest rate 4.625% per annum; payable in 430 monthly installments of \$6,249 including interest; note matures in 2042.	1,003,047	1,030,945
Note payable to USDA/RUS #91-08 secured by facilities and equipment; interest rate 4.25% per annum; payable in 468 monthly installments of \$12,461 including interest ; note matures in 2049.	<u>2,468,095</u>	<u>2,508,429</u>
	3,905,005	4,013,157
Less current portion included in current liabilities	<u>(106,116)</u>	<u>(92,996)</u>
Long-term portion	<u><u>\$ 3,798,889</u></u>	<u><u>\$ 3,920,161</u></u>

In order to meet the covenants for the Rural Utilities Service (RUS) loans, the Company is required to maintain a reserve cash account equal to one-tenth of the annual payment until the equivalent of a year's worth of annual payments have been accumulated and thereafter as necessary to maintain the required amount. As of September 30, 2020, the reserve requirement was \$268,320. This amount was fully funded as of September 30, 2020. All deposits made for the purpose of meeting either current or future reserve needs are classified as restricted funds.

**MOSSY HEAD WATER WORKS, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

6. LONG-TERM DEBT AND SUBSEQUENT EVENT – CONTINUED

Aggregate maturities of long-term debt at September 30, 2020, are as follows:

	<u>Amount</u>
2021	\$ 106,116
2022	119,657
2023	123,677
2024	127,507
2025	132,118
Thereafter	<u>3,295,930</u>
	<u>\$ 3,905,005</u>

In October 2020, the Company refinanced all notes payable to USDA/RU to get lower interest rates. The loans were extinguished with proceeds from new loans with a financial institution issued in October of 2020 along with available working capital.

7. COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization (WHO) declared the novel strain of the coronavirus (COVID-19) a pandemic. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which could have a negative financial impact, though such potential impact is unknown at this time.

MOSSY HEAD WATER WORKS, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019

8. IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). The primary effect on the Company is that the timing of when it can recognize revenue is dependent on when the Company satisfies its various performance obligations. As a result, amounts previously reported as retained earnings at September 2019 and 2018 have been reclassified as described below.

The Company adopted the requirements of the new guidance as of October 1, 2019, using the modified retrospective method of transition, which requires the cumulative effect of the changes related to the adoption be charged to beginning members' equity for each fiscal year being presented. The Company applied the new guidance using the practical expedient provided in Topic 606. Adoption of the guidance resulted in changes to accounting policies as previously described.

The adoption of the new revenue recognition guidance resulted in the following change to retained earnings as of September 30, 2018 and 2019, respectively:

Retained earnings, as previously reported, at October 1, 2018	\$ 2,718,408
Change in accounting policies - revenue recognition	<u>40,084</u>
Retained earnings, as restated, October 1, 2018	<u>\$ 2,758,492</u>
Retained earnings, as previously reported, at October 1, 2019	\$ 2,807,211
Change in accounting policies - revenue recognition	<u>46,506</u>
Retained earnings, as restated, October 1, 2019	<u>\$ 2,853,717</u>

The modified retrospective method of transition requires us to disclose the effect of applying the new guidance on each item included in 2020 and 2019 financial statements.

**MOSSY HEAD WATER WORKS, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

8. IMPLEMENTATION OF NEW ACCOUNTING STANDARDS – CONTINUED

The following are the line items from our balance sheets, statements of members' equity and statements of operations as of and for the year ended September 30, 2019, that were affected, the amounts that were reported under former guidance, the effects of applying new guidance and the balances reported under new guidance:

	<u>Amounts that were previously reported</u>	<u>Effects of applying new guidance</u>	<u>As restated</u>
Assets			
Receivables - trade	\$ 71,621	\$ 46,506	\$ 118,127
Total assets	\$ 7,164,866	\$ 46,506	\$ 7,211,372
Members' equity			
Retained earnings			
Beginning balance	\$ 2,718,408	\$ 40,084	\$ 2,758,492
Net income	88,803	6,422	95,225
Total retained earnings	<u>\$ 2,807,211</u>	<u>\$ 46,506</u>	<u>\$ 2,853,717</u>
Total members' equity	<u>\$ 3,022,836</u>	<u>\$ 46,506</u>	<u>\$ 3,069,342</u>

	<u>Amounts that were previously reported</u>	<u>Effects of applying new guidance</u>	<u>As restated</u>
Revenue from operations			
Water services	\$ 767,739	\$ 6,422	\$ 774,161
Total operating revenues	895,598	6,422	902,020
Operating income	256,718	6,422	263,140
Net income	88,803	6,422	95,225

MOSSY HEAD WATER WORKS, INC.
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019

8. IMPLEMENTATION OF NEW ACCOUNTING STANDARDS – CONTINUED

The following are the line items from our balance sheets, statements of members' equity and statements of operations as of and for the year ended September 30, 2020, that were affected, the amounts that were reported under former guidance, the effects of applying new guidance and the balances reported under new guidance:

	Amounts that would have been reported	Effects of applying new guidance	As reported
Assets			
Receivables - trade	\$ 71,621	\$ 48,383	\$ 120,004
Total assets	\$ 7,271,719	\$ 48,383	\$ 7,320,102
Members' equity			
Retained earnings			
Beginning balance	\$ 2,807,211	\$ 46,506	\$ 2,853,717
Net income	198,522	1,877	200,399
Total retained earnings	<u>\$ 3,005,733</u>	<u>\$ 48,383</u>	<u>\$ 3,054,116</u>
Total members' equity	<u>\$ 3,215,108</u>	<u>\$ 48,383</u>	<u>\$ 3,263,491</u>
	Amounts that would have been reported	Effects of applying new guidance	As reported
Revenue from operations			
Water services	\$ 810,006	\$ 1,877	\$ 811,883
Total operating revenues	1,043,713	1,877	1,045,590
Operating income	347,057	1,877	348,934
Net income	198,522	1,877	200,399

COMPLIANCE SECTION

**INDEPENDENT AUDITORS' 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**

To the Board of Directors
Mossy Head Water Works, Inc.

We have audited, in accordance with the 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 Mossy Head Water Works, Inc., which comprise the balance sheets as of September 30, 2020 and 2019, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 28, 2020.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Mossy Head Water Works, Inc.'s internal control over financial reporting (internal control) as a basis for designing 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 Mossy Head Water Works, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Mossy Head Water Works, Inc.'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses, that we consider to be a material weakness (see Finding 2020-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mossy Head Water Works, Inc.'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audits 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*.

Mossy Head Water Works, Inc.'s Response to Findings

Mossy Head Water Works, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Mossy Head Water Works, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Mossy Head Water Works, Inc.'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 Mossy Head Water Works, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Destin, Florida
December 28, 2020

**MOSSY HEAD WATER WORKS, INC.
SCHEDULE OF FINDINGS AND RESPONSES
FISCAL YEAR ENDED SEPTEMBER 30, 2020**

1. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- | | | | | |
|--|-------|-----|-------|----|
| • Material weakness(es) identified? | X | Yes | _____ | No |
| • Significant deficiency(ies) identified that is/are not considered to be material weakness(es)? | _____ | Yes | X | No |
| • Non-compliance material to financial statements noted? | _____ | Yes | X | No |

2. Financial Statement Findings

Finding 2020-1 Segregation of Duties Surrounding Financial Reporting

Criteria

In accordance with certain agreements entered into by the Company, it is required to design and implement internal control over financial reporting that allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Condition

The Company has not designed nor implemented internal controls over financial reporting that would prevent, or detect and correct, on a timely basis a material misstatement of the Company's financial statements.

Cause

All accounting functions are performed by two individuals with limited skills, expertise, and knowledge in accounting, internal controls over financial reporting or preparing financial statements in accordance with generally accepted accounting principles in the United States (US GAAP).

Effect

While there are some mitigating controls put in place by the Company, it is unable to adequately mitigate its lack of segregation of duties and is also not able to prepare financial statements in accordance with US GAAP.

MOSSY HEAD WATER WORKS, INC.
SCHEDULE OF FINDINGS AND RESPONSES
FISCAL YEAR ENDED SEPTEMBER 30, 2020

2. Financial Statement Findings – Continued

Recommendation

The Company should consider outsourcing the year end closing, preparation of the financial statements and monthly review of the bank reconciliations to a certified public accountant. The Company should continue its efforts to mitigate its lack of segregation of duties issue by separating check signing ability from individuals who have recordkeeping responsibilities or requiring a Board member to sign each disbursement check and approve ACH payments. We also recommend having a formal review process of the final check register in place as evidence of review by someone other than those with check signing ability.

Views of Responsible Officials and Planned Corrective Action

The entity believes that the costs of correcting the weaknesses outweigh the benefits derived from the additional staffing of qualified staff to produce financial statements in accordance with generally accepted accounting principles.