

**Hodge Utility Operating Company**  
Hodge, Louisiana

Annual Financial Statements  
with Independent Auditor's Report

As of and For the Year Ended  
December 31, 2017  
with Supplemental Information Schedules

**KENNETH D. FOLDEN & CO.**

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Contents

	Statement	Page
<b>Independent Auditor's Report</b>		3 - 4
<b>Basic Financial Statements</b>		
Statement of Net Position	A	6
Statement of Revenues, Expenses, and Changes in Fund Net Position	B	7
Statement of Cash Flows	C	8
Notes to the Financial Statements		10 - 13
<b>Independent Auditor's Report on Internal Control and on Compliance and Other Matters</b>		
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 Government Auditing Standards		14 - 15
<b>Supplemental Information Schedules</b>		
Schedule of Findings and Questioned Costs	1	17
Schedule of Compensation, Benefits, and Other Payments to Agency Head	2	18
<b>Statewide Agreed-Upon Procedures</b>		
Independent Accountant's Report on Applying Louisiana Legislative Auditor's Statewide Agreed-Upon Procedures		19 - 27
Louisiana Agreed-Upon Procedures Representation Form		28 - 30

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## Independent Auditor's Report

Hodge Utility Operating Company  
Hodge, Louisiana

### Report on the Financial Statements

We have audited the accompanying accrual basis financial statements of the enterprise fund of the Hodge Utility Operating Company, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Hodge Utility Operating Company's basic financial statements as listed in the table of contents.

#### *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 opinions 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 opinions.

#### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the accrual basis financial position of the enterprise fund of the Hodge Utility Operating Company, as of December 31, 2017, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with the accrual basis financial statements of accounting as described in Note 1.

### ***Basis of Accounting***

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the accrual basis of accounting in accordance with the amended and restated Operating Agreement of the Hodge Utility Operating Company, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Management has omitted the discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hodge Utility Operating Company's basic financial statements. The Schedule of Compensation, Benefits, and Other Payments to Agency Head is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Compensation, Benefits, and Other Payments to Agency Head is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Compensation, Benefits, and Other Payments to Agency Head is fairly stated, in all material respects, in relation to the basic 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 May 11, 2018 on our consideration of the Hodge Utility Operating Company'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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Hodge Utility Operating Company's internal control over financial reporting and compliance.

*Kenneth D. Follen & Co., CPAs*

Jonesboro, Louisiana  
May 11, 2018

# **BASIC FINANCIAL STATEMENTS**

Hodge Utility Operating Company  
Hodge, Louisiana

Statement of Net Position - Proprietary Fund  
As of December 31, 2017

	Combined Utility System	Hodge Utility Operating Company	Total (Memorandum Only)	
			2017	2016
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and equivalents	\$ -	\$ -	\$ -	\$ -
Due from other funds	-	3,435,346	3,435,346	3,455,692
<b>Total Current Assets</b>	<b>-</b>	<b>3,435,346</b>	<b>3,435,346</b>	<b>3,455,692</b>
<b>Restricted Assets:</b>				
Cash and equivalents	236,476	-	236,476	141,162
Receivables - Hodge Customers	25,422	-	25,422	19,567
<b>Total Restricted Assets</b>	<b>261,898</b>	<b>-</b>	<b>261,898</b>	<b>160,729</b>
<b>Noncurrent Assets:</b>				
Capital assets (net of accumulated depreciation)	314,866,677	-	314,866,677	314,866,677
<b>Total Noncurrent Assets</b>	<b>314,866,677</b>	<b>-</b>	<b>314,866,677</b>	<b>314,866,677</b>
<b>Total Assets</b>	<b>315,128,575</b>	<b>3,435,346</b>	<b>318,563,921</b>	<b>318,483,098</b>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts payable	-	3,435,346	3,435,346	3,455,692
<b>Current liabilities payable from restricted assets:</b>				
Due to other funds	3,435,346	-	3,435,346	3,455,692
<b>Total Current Liabilities</b>	<b>3,435,346</b>	<b>3,435,346</b>	<b>6,870,692</b>	<b>6,911,384</b>
<b>Total Liabilities</b>	<b>3,435,346</b>	<b>3,435,346</b>	<b>6,870,692</b>	<b>6,911,384</b>
<b>Net Position</b>				
Net investment in capital assets	250,387,404	-	250,387,404	250,387,404
Unrestricted	61,305,826	-	61,305,826	61,184,310
<b>Total Net Position</b>	<b>\$ 311,693,230</b>	<b>\$ -</b>	<b>\$ 311,693,230</b>	<b>\$ 311,571,714</b>

The accompanying notes are an integral part of these financial statements.

Hodge Utility Operating Company  
Hodge, Louisiana

Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund  
For the Year Ended December 31, 2017

	Combined Utility System	Hodge Utility Operating Company	Total (Memorandum Only)	
			2017	2016
<b>Operating Revenues</b>				
West Rock	\$ 26,456,798	\$ -	\$ 26,456,798	\$ 22,429,086
Hodge Residents Revenues	286,119	-	286,119	269,055
Hodge Water and Sewer Revenues	2,550	-	2,550	2,550
Operating Fees	-	26,623,951	26,623,951	23,300,757
Total operating revenues	<u>26,745,467</u>	<u>26,623,951</u>	<u>53,369,418</u>	<u>46,001,448</u>
<b>Operating Expenses</b>				
Operating Fees	26,623,951	-	26,623,951	23,300,757
Fuel Gas	-	20,495,786	20,495,786	17,489,930
Purchased Electricity and Demand	-	5,940,655	5,940,655	5,737,502
Purchased Outside Services	-	187,510	187,510	73,325
Total operating expenses	<u>26,623,951</u>	<u>26,623,951</u>	<u>53,247,902</u>	<u>46,601,514</u>
<b>Operating Income (Loss)</b>	121,516	-	121,516	(600,066)
<b>Non-operating Revenues (Expenses)</b>				
Interest earnings	-	-	-	-
<b>Change in net position</b>	121,516	-	121,516	(600,066)
<b>Total Net Position - beginning</b>	<u>311,571,714</u>	-	<u>311,571,714</u>	<u>312,171,781</u>
<b>Total Net Position - ending</b>	<u>\$ 311,693,230</u>	<u>\$ -</u>	<u>\$ 311,693,230</u>	<u>\$ 311,571,715</u>

The accompanying notes are an integral part of these financial statements.

Hodge Utility Operating Company  
Hodge, Louisiana

Statement of Cash Flows - Proprietary Fund  
For the Year Ended December 31, 2017

			Total (Memorandum Only)	
			2017	2016
	Combined Utility System	Hodge Utility Operating Company		
<b>Cash flows from operating activities</b>				
Net income (loss)	\$ 121,515	\$ -	\$ 121,515	\$ (600,067)
Adjustments				
Net changes in assets and liabilities				
Receivables - Hodge Customers	(5,855)	-	(5,855)	564
Due from Village of Hodge Combined Utility System	-	20,346	20,346	(712,362)
Accounts payable	-	(20,346)	(20,346)	712,362
Due to Operating Company	(20,346)	-	(20,346)	712,362
Net cash provided for (used for) operating activities	<u>95,314</u>	<u>-</u>	<u>95,314</u>	<u>112,859</u>
<b>Cash flows from non-capital financing</b>				
Net cash provided by (used for) non-capital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash flows from capital and related financing activities</b>				
Net cash provided by (used for) capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash flows from investing activities</b>				
Net cash provided by (used for) investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	95,314	-	95,314	112,859
<b>Cash and cash equivalents - December 31, 2016</b>	<u>141,162</u>	<u>-</u>	<u>141,162</u>	<u>28,303</u>
<b>Cash and cash equivalents - December 31, 2017</b>	<u>\$ 236,476</u>	<u>\$ -</u>	<u>\$ 236,476</u>	<u>\$ 141,162</u>

The accompanying notes are an integral part of these financial statements.

**NOTES TO THE  
FINANCIAL STATEMENTS**

Hodge Utility Operating Company  
Hodge, Louisiana

Notes to the Financial Statements  
As of and for the year ended December 31, 2017

**ORGANIZATIONAL AND HISTORICAL BACKGROUND**

The qualified electors of the Village of Hodge, Louisiana, and resident property taxpayers of said Village approved the issuance of \$65,000,000 in Combined Utility System Revenue Bonds under indenture of mortgage, dated March 1, 1972.

The Village entered into an Acquisition and Construction Agreement on March 1, 1972 with Continental Group, Inc., whereby the Village acquired the existing combined water, sewerage and electric generating facilities, and agreed to purchase improvements made to the existing system by Continental Group, Inc. and to acquire or construct electric distribution facilities within the Village. The system, acquired and completed, is known as the "Combined Utility System." The Village entered into an agreement with the Hodge Utility Operating Company on March 1, 1972 whereby the Operating Company was to operate and manage the system upon terms and conditions as set forth in the contract.

Effective October 8, 1983, Continental Group, Inc. transferred to its successor, Stone Container Corporation, Chicago, Illinois, all of its obligations under the acquisition and construction agreement, utility contract, indenture of mortgage and operating agreement, each dated March 1, 1972.

On January 24, 1990, the Village issued \$93,000,000 of its Combined Utility System Revenue Bonds, Series 1990, under a bond indenture dated January 1, 1990, authorized by a resolution duly passed and approved by the Mayor and Board of Aldermen of the Village. The bonds were issued for the principle purpose of financing the replacement of a recovery boiler and associated equipment. The bonds were secured by a security interest in revenues derived by the Village from operation of the Combined Utility System (subject to the pledge of the first lien on revenues created by the Indenture of Mortgage securing the series 1972 bonds) and other funds.

On May 10, 1998, Jefferson Smurfit Corporation, a Delaware Corporation, now known as Smurfit-Stone Container Corporation entered into an Agreement and Plan of Merger with JSC Acquisition Corporation, a wholly owned subsidiary of the Company, and Stone Container Corporation. Pursuant to the terms of the Merger Agreement, JSC Acquisition was merged with and into Stone on November 18, 1998. On November 1, 2004, Jefferson Smurfit Corporation, a Delaware Corporation, entered into a merger agreement with Stone Container Corporation, under the name of Smurfit Stone Container Enterprises, Inc., a corporation organized and existing under the laws of the State of Delaware.

On December 18, 2003, the Village of Hodge issued \$58,085,000 of the Village of Hodge Refunding Bonds Series 2003. The bonds were issued to refund the Series 1972 and 1990 bonds and to finance needed capital improvements.

After the 2009 Chapter 11 bankruptcy of Smurfit Stone Container Enterprises, and the subsequent default of the Hodge Utility Operating Company on interest payments for the 2003 Bonds, a Settlement Agreement was reached between the Village of Hodge, the Hodge Utility Operating Company, and the Bond Trustee and/or 2003 Bondholders. This agreement satisfied all obligations to the 2003 Bondholders and effectively removed the \$58,085,000 liability from the Village of Hodge, the Hodge Utility Operating Company and SSCE. The Village of Hodge and the Hodge Utility Operating Company entered into an amended and restated operating agreement that became effective June 30, 2010.

On May 27, 2011, at a Smurfit Stone Container Enterprises stockholder meeting, stockholders voted to approve a merger with Rock-Tenn Company, a Georgia corporation. Rock-Tenn agreed to purchase all outstanding SSCE's common stock. Under the amended and restated operating agreement, Rock-Tenn became the successor of SSCE and continued to operate per the June 30, 2010 operating agreement.

Hodge Utility Operating Company  
Hodge, Louisiana

Notes to the Financial Statements  
As of and for the year ended December 31, 2017

On July 1, 2015, Rock-Tenn completed a merger with MeadWestvaco, forming the company, WestRock. WestRock continues to operate under the amended and restated operating agreement that was put into effect on June 30, 2010.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting practices of the Combined Utility System, Village of Hodge, and the Hodge Utility Operating Company conformed to the requirements of the amended and restated operating agreement dated June 30, 2010, which do not necessarily conform to generally accepted accounting principles applied to governmental accounting.

**A. Basis of Presentation**

The Combined Utility System of the Village of Hodge and the Hodge Utility Operating Company is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Receivables billed and not paid and accounts payable (expenses incurred) are recorded monthly. Operating revenues are those revenues generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

**B. Reporting Entity**

This report includes two proprietary funds, the Combined Utility System, Village of Hodge, and the Hodge Utility Operating Company. The Combined Utility System is controlled by the Village executive and legislative branches (the Mayor and Board of Aldermen), whereas the Hodge Utility Operating Company is controlled by the Hodge Utility Operating Company Board of Directors. However, since the Hodge Utility Operating Company operates and manages the System upon the terms and conditions of the operating agreement, the Village of Hodge does not exercise significant oversight responsibility over the System. The specific elements of oversight responsibility considered in the decision to exclude the Combined Utility System were financial interdependency, the ability to significantly influence operations, and accountability for fiscal matters. Therefore, this report is not included as a component unit of the Village of Hodge, and there are no excluded component units in this report.

**C. Cash and Cash Equivalents**

Cash includes amounts in demand deposits, interest-bearing demand deposits, and time deposits. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the Hodge Utility Operating Company may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

Hodge Utility Operating Company  
Hodge, Louisiana

Notes to the Financial Statements  
As of and for the year ended December 31, 2017

**D. Fixed Assets and Long-Term Liabilities**

The Utility System is accounted for on the economic resources measurement focus. This means that all assets and liabilities (whether current or noncurrent) associated with their activity are included on their balance sheet. The reported fund equity (net total position) is segregated into contributed capital and net position components.

Depreciation on all exhaustible fixed assets used by the proprietary fund should be charged as an expense against their operations in accordance with generally accepted accounting principles. Accumulated depreciation should also be reported on the proprietary fund Statement of Net Position.

Total cost of the Combined Utility System of the Village of Hodge is underwritten by WestRock; therefore, depreciation, an operating cost not requiring cash outlay, is not reported on the financial statements of the Combined Utility System of the Village of Hodge.

**E. Total Columns**

Total Columns on the statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**2. Cash, Cash Equivalents, and Investments**

At December 31, 2017, the Hodge Utility Operating Company had cash and cash equivalents (book balances) totaling \$236,476, all of which was in demand deposits. These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent.

At December 31, 2017, the Hodge Utility Operating Company had \$236,476 in deposits (collected bank balances). These deposits are secured from risk by \$250,000 federal deposit insurance.

Even though pledged securities are considered uncollateralized under the provisions of GASB Statement No. 40, Louisiana Revised Statute 30:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified that the fiscal agent has failed to pay deposited funds upon demand. Louisiana R.S. 39:1224 requires bonds, or other such instruments furnished as security, to be deposited with the depositing authority or with an unaffiliated bank or trust company, Federal Reserve Bank, or any Federal Home Loan Bank or its successor. This security is deemed to be under the control and in the possession of the public entity and deemed to be held in its name. The Hodge Utility Operating Company was not required to have pledged securities because the cash balance of all accounts was below the federal depository insurance coverage.

Cash and investments are categorized to give an indication of the level of risk assumed by the Combined Utility System at December 31, 2017. Deposits are considered to be exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the the pledging financial institution's trust department or agent but not in the depositor-government's name. The Hodge Utility Operating Company has cash and cash equivalents that are covered by \$250,000 of federal depository insurance.

At December 31, 2017, the Hodge Utility Operating Company had no investments.

Hodge Utility Operating Company  
Hodge, Louisiana

Notes to the Financial Statements  
As of and for the year ended December 31, 2017

**3. Receivables**

The receivables of \$25,422 at December 31, 2017 were for charges for services.

**4. Changes in Plant, Property, and Equipment**

A summary of changes in plant, property, and equipment for the year ended December 31, 2017, is as follows:

	Balance, January 01, 2017	Additions	Deletions	Balance, December 31, 2017
Plant, Property, and Equipment	\$ 314,866,677	\$	-\$	-\$ 314,866,677

**5. Interfund Receivables and Payables**

Interfund receivables and payables at December 31, 2017, are as follows:

	Receivable	Payable
Village of Hodge Combined Utility Company	\$ -	\$ 3,435,346
Hodge Utility Operating Company	3,435,346	-
Total	<u>\$ 3,435,346</u>	<u>\$ 3,435,346</u>

**6. Employees' Retirement**

Neither the Combined Utility System nor Hodge Utility Operating Company has employees receiving pay directly. No retirement system exists. All employees and related retirement are carried by West Rock.

**7. Related Party Transactions**

Serving on the Board of Directors of the Hodge Utility Operating Company ("Operating Company"), are the Mayor and Mayor pro-tem of the Village of Hodge, Louisiana. The Village of Hodge is considered to be a related party. During the year ended December 31, 2017, revenues received by the Operating Company from the Village of Hodge for water and sewer usage were \$2,550. Expenses paid to the Village of Hodge were \$177,459.

**8. Subsequent Events**

Management has evaluated subsequent events through the date that the financial statements were available to be issued, May 11, 2018, and determined that no events occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

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## **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 Government Auditing Standards**

Hodge Utility Operating Company  
Hodge, Louisiana

We have audited the accrual basis financial statements of the enterprise fund of the Hodge Utility Operating Company, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Hodge Utility Operating Company's basic financial statements and have issued our report thereon dated May 11, 2018. 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.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Hodge Utility Operating 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hodge Utility Operating Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hodge Utility Operating 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 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 over financial reporting 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 were not identified. 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 Hodge Utility Operating Company'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 is 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 result 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 Hodge Utility Operating Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kenneth D. Felden & Co., CPAs*

Jonesboro, Louisiana  
May 11, 2018

# **SUPPLEMENTAL INFORMATION**

Hodge Utility Operating Company  
Hodge, Louisiana

Schedule of Findings and Questioned Costs  
For the year ended December 31, 2017

We have audited the basic financial statements of the Hodge Utility Operating Company as of and for the year ended December 31, 2017 and have issued our report thereon dated May 11, 2018. 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 Governmental Auditing Standards, issued by the Comptroller General of the United States. Our audit of the financial statements as of December 31, 2017 resulted in an unqualified opinion.

A. Summary of Auditor's Report

Report on Internal Control and Compliance Material to Financial Statements

Internal Control

Material Weakness       Yes     No      Significant Deficiencies       Yes     No

Compliance

Compliance Material to Financial Statements       Yes     No

B. Findings - Financial Statements Audit

Current Year

No current year findings.

Prior Year

No prior year findings.

Hodge Utility Operating Company  
Hodge, Louisiana

Schedule of Compensation, Benefits and Other Payments to Agency Head  
For the year ended December 31, 2017

The Hodge Utility Operating Company does not provide compensation, reimbursements, or benefits to the Agency Head.

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## Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Board of Directors of Hodge Utility Operating Company  
Hodge, Louisiana  
and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by the Hodge Utility Operating Company and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 01, 2017 through December 31, 2017. The Village's management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of Government Auditing Standards. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

### Written Policies and Procedures

1. Obtain the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:
  - a. Budgeting, including preparing, adopting, monitoring, and amending the budget,
  - b. Purchasing, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.
  - c. Disbursements, including processing, reviewing, and approving,
  - d. Receipts, including receiving, recording, and preparing deposits,
  - e. Payroll/Personnel, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked,
  - f. Contracting, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process,
  - g. Credit Cards (and debit cards, fuel cards, P-Cards, if applicable), including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers, and (5) monitoring card usage,
  - h. Travel and expense reimbursement, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers,

i. Ethics, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy, and

j. Debt Service, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Exception: The HUOC has written policies on all above topics.

Management's Response: None.

## Board

2. Obtain and review the board/committee minutes for the fiscal period, and

a. Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.

Response: According to the Operating Agreement, the Board meets annually. In lieu of meeting, the Board can adopt any resolutions with signatures from all the Board of Directors. The Board did not meet in 2017, but did adopt a resolution naming the officers.

b. Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the entity's prior audit (GAAP-basis).

Response: The Board did not review any budget-to-actual comparisons.

c. Report whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

Response: Non-budgetary information is reported in minutes.

Exception: There are no exceptions in relation to the Board.

Management's Response: None.

## Bank Reconciliations

3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete.

Response: Management provided us with a list of bank accounts and representation that the list is complete.

4. Using the listing provided by management, select all of the entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three year rotating basis (if more than 5 accounts). For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:

a. Bank reconciliations have been prepared;

Response: The one bank account was reviewed and all bank reconciliations have been prepared timely.

b. Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and

Response: There is no indication that a member of management or a Board member has reviewed the reconciliation.

c. If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than six months as of the end of the fiscal period.

Response: There are no outstanding transactions.

Exception: See above responses.

Management's Response: The HUOC will insure that the bank account will be reviewed by a Board member who is not involved in the transactions associated with the bank account, indicated by initials and a date of review.

## Collections

5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

Response: Collection location is Hodge Village Hall.

6. Using the listing provided by management, select all of the entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). For each cash collection location selected:

a. Obtain existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.

Response: (1) Covered under liability insurance.

(2) Clerk is secondary receiver of cash (Assistant Clerk primarily receives cash), records transaction, reconciles bank statement.

(3) There is only one cash drawer that Clerk and Assistant Clerk use.

b. Obtain existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.

Response: No written policy or procedure for reconciling cash collections to the general ledger. Daily sheets showing amounts received each day are used to reconcile the general ledger to the cash collections. Collections are primarily done by Assistant Clerk, but Clerk does have to take cash collections in the absence of the Assistant Clerk.

c. Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:

i. Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.

Response: During the highest week, September 11-15, 2017, there were five days of collections. All collections for the week were deposited on September 15, 2017. Therefore, there were three days that deposits were not made within one day of collections.

ii. Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.

Response: Out of 5 deposits, all were supported by some form of documentation.

7. Obtain existing written documentation (e.g. policy manual, written procedure) and report whether the entity has a process specifically defined (identified as such by the entity) to determine completeness of all collections, including electronic transfers, for each revenue source and agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation) by a person who is not responsible for collections.

Response: There is no written policy or procedure to determine completeness of all collections.

Exception: See above responses.

Management's Response: The Village and the HUOC will develop a written policy and procedures for reconciling cash collections to the general ledger and for determining the completeness of all collections. Because the Village employs only a Clerk and an Assistant Clerk, there are limited segregation of duties; however, the Village will develop written policies and procedures to insure that the Mayor and the Board of Aldermen are monitoring the collections on a periodic basis.

### **Disbursements - General**

8. Obtain a listing of entity disbursements from management or, alternately, obtain the general ledger and sort/filter for entity disbursements. Obtain management's representation that the listing or general ledger population is complete.

Response: Management provided a listing of disbursements.

9. Using the disbursement population from #8 above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:

- a. Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.
- b. Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.
- c. Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

Response: The HUOC does not use a purchase order system. Disbursements for HUOC are limited to payments for purchased fuel and electricity (from Shell, ETC Tiger Pipeline, and Entergy), reimbursements to the Village of Hodge, and legal and auditing fees. Purchases for fuel and electricity are drafted from HUOC; an invoice showing the payment is kept for each purchase. For reimbursements to the Village of Hodge and any vendor payments, these invoices are kept with a copy of the check issued. The checks require 2 signatures. We reviewed invoices from purchased fuel and electricity (covers 99.30% of total expenditures). All disbursements were supported by an invoice.

10. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.

Response: There is no policy on adding vendors to the entity's purchasing/disbursement system.

11. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.

Response: The Mayor of the Village of Hodge has signatory authority and makes requests for reimbursements to the Village of Hodge; however, he is only one signer and is a secondary signer if the two primary signers are not available. The drafts for purchased fuel and electricity do not show any documentation of approval by the Board or management.

12. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, review entity documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks.

Response: Supply of unused checks are kept in the Treasurer's office, and the Treasurer is the only person who can access the checks.

13. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions.

Response: No signature stamp or machine is used.

Exception: See above responses.

Management's Response: The Village will amend its written policy and procedures on disbursements to include information on adding vendors and on the same person not initiating and approving transactions.

### **Credit Cards**

14. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

15. Using the listing prepared by management, randomly select 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Select the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:

- a. Report whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder.
- b. Report whether finance charges and/or late fees were assessed on the selected statements.

16. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the 10 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).

- a. For each transaction, report whether the transaction is supported by:
  - i. An original itemized receipt (i.e., identifies precisely what was purchased)
  - ii. Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.
  - iii. Other documentation that may be required by written policy (e.g., purchase order, written authorization.)

b. For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions.

c. For each transaction, compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. cash advances or non-business purchases, regardless whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

Exception: The HUOC does not have any credit cards.

Management's Response: None.

### **Travel and Expense Reimbursement**

17. Obtain from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtain the general ledger and sort/filter for travel reimbursements. Obtain management's representation that the listing or general ledger is complete.

18. Obtain the entity's written policies related to travel and expense reimbursements. Compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration ([www.gsa.gov](http://www.gsa.gov)) and report any amounts that exceed GSA rates.

19. Using the listing or general ledger from #17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:

a. Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (#18 above) and report each reimbursement that exceeded those rates.

b. Report whether each expense is supported by:

i. An original itemized receipt that identifies precisely what was purchased.

ii. Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).

iii. Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance)

c. Compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

d. Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Exception: The HUOC does not have employees.

Management's Response: None.

## Contracts

20. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management's representation that the listing or general ledger is complete.

Response: Management provided a listing of contracts.

21. Using the listing above, select the five contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtain the related contracts and paid invoices and:

Response: The only contract the HUOC has is the Operating Agreement with the Village of Hodge, which describes the relationship and transactions between the Village of Hodge and the Hodge Paper Mill.

a. Report whether there is a formal/written contract that supports the services arrangement and the amount paid.

Response: Not applicable.

b. Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:

Response: Not subject to Louisiana Public Bid Law or Procurement Code.

i. If yes, obtain/compare supporting contract documentation to legal requirements and report whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder)

Response: Not applicable.

ii. If no, obtain supporting contract documentation and report whether the entity solicited quotes as a best practice.

Response: Not applicable.

c. Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.

Response: There were no amendments to the contract.

d. Select the largest payment from each of the five contracts, obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract.

Response: Not applicable.

e. Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter).

Response: Not applicable.

Exception: See above responses.

Management's Response: None.

## Payroll and Personnel

22. Obtain a listing of employees (and elected officials, if applicable) with their related salaries, and obtain management's representation that the listing is complete. Randomly select five employees/officials, obtain their personnel files, and:

- a. Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.
- b. Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy.

23. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, randomly select 25 employees/officials (or randomly select one-third of employees/officials if the entity had less than 25 employees during the fiscal period), and:

- a. Report whether all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory).
- b. Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.
- c. Report whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.

24. Obtain from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtain the personnel files for the two employees/officials. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management.

25. Obtain supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. Report whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

Exception: The HUOC does not have employees.

Management's Response: None.

## Ethics

26. Using the five randomly selected employees/officials from procedure #22 under "Payroll and Personnel" above, obtain ethics compliance documentation from management and report whether the entity maintained documentation to demonstrate that required ethics training was completed.

Response: Ethics training was completed only by the Treasurer and the Mayor of the Village of Hodge.

27. Inquire of management whether any alleged ethics violations were reported to the entity during the fiscal period. If applicable, review documentation that demonstrates whether management investigated alleged ethics violations, the corrective actions taken, and whether management's actions complied with the entity's ethics policy. Report whether management received allegations, whether management investigated allegations received, and whether the allegations were addressed in accordance with policy.

Response: Per discussion with management, there were no alleged ethics violations reported.

Exception: See above responses.

Management's Response: The HUOC will have all Board members complete the one hour ethics training available to all governmental entities. Records of this training will be kept.

### Debt Service

28. If debt was issued during the fiscal period, obtain supporting documentation from the entity, and report whether State Bond Commission approval was obtained.

Response: Not applicable.

29. If the entity had outstanding debt during the fiscal period, obtain supporting documentation from the entity and report whether the entity made scheduled debt service payments and maintained debt reserves, as required by debt covenants.

Response: Not applicable.

30. If the entity had tax millages relating to debt service, obtain supporting documentation and report whether millage collections exceed debt service payments by more than 10% during the fiscal period. Also, report any millages that continue to be received for debt that has been paid off.

Response: Not applicable.

### Other

31. Inquire of management whether the entity had any misappropriations of public funds or assets. If so, obtain/review supporting documentation and report whether the entity reported the misappropriation to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

Response: Per discussion with management, there were no misappropriations of public funds or assets.

32. Observe and report whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at [www.la.gov/hotline](http://www.la.gov/hotline)) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.

Response: We observed the notice posted.

33. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

Response: We did not observe any other exceptions regarding management's representations in the procedures above.

We were not engaged to and did not perform an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

*Kenneth D. Felden & Co., CPAs*

Jonesboro, Louisiana  
May 11, 2018

**Hodge Utility Operating Company**

**Mill Street**

**Hodge, Louisiana 71247**

May 11, 2018

Kenneth D. Folden & Co., CPAs  
302 Eighth Street  
Jonesboro, Louisiana

In connection with your engagement to apply agreed-upon procedures to certain control and compliance (C/C) areas identified in the Louisiana Legislative Auditor's Statewide Agreed-Upon Procedures (SAUPs), for the fiscal period January 1, 2017 through December 31, 2017, we confirm to the best of our knowledge and belief, the following representations made to you during your engagement.

1. We are responsible for the C/C areas identified in the SAUPs, including written policies and procedures; board or finance committee; bank reconciliations; collections; disbursements; credit/debit/fuel/purchasing cards; travel and expense reimbursement; contracts; payroll and personnel; ethics; debt service; and other areas as applicable.  

Yes  No
2. For the fiscal period January 1, 2017 through December 31, 2017, the C/C areas were administered in accordance with the best practice criteria presented in the SAUPs.  

Yes  No
3. We are responsible for selecting the criteria and procedures and for determining that such criteria and procedures are appropriate for our purposes.  

Yes  No
4. We have disclosed to you all known matters contradicting the results of the procedures performed in C/C areas.  

Yes  No
5. We have disclosed to you any communications from regulatory agencies, internal auditors, other independent practitioners or consultants, and others affecting the C/C areas, including communications received between December 31, 2017, and May 11, 2018.  

Yes  No

6. We have provided you with access to all records that we believe are relevant to the C/C areas and the agreed-upon procedures.

Yes  No

7. We represent that the listing of bank accounts provided to you is complete.

Yes  No

8. We represent that the listing of cash/check/money order (cash) collection locations provided to you is complete.

Yes  No

9. We represent that the listing of entity disbursements or the general ledger population of entity disbursements provided to you is complete.

Yes  No

10. We represent that the listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards, provided to you is complete.

Yes  No

11. We represent that the listing of all travel and related expense reimbursements, by person, during the fiscal period or the general ledger population of travel and related expense reimbursements provided to you is complete.

Yes  No

12. We represent that the listing of all contracts in effect during the fiscal period or the general ledger population of contract payments provided to you is complete.

Yes  No

13. We represent that the listing of employees (and elected officials, if applicable) with their related salaries provided to you is complete.

Yes  No

14. We represent that the listing of employees (and elected officials, if applicable) that terminated during the fiscal period provided to you is complete.

Yes  No

15. We have disclosed to you other data you deemed necessary to complete SAUPs.

Yes  No

16. We have responded fully to all inquiries made by you during the engagement.

Yes  No

17. We are not aware of any events that have occurred subsequent to December 31, 2018, that would require adjustment to or modification of the results of the agreed-upon procedures.

Yes  No

**The previous responses have been made to the best of our belief and knowledge.**

Signature Jeff L. Fudge Date May 11, 2018

Title Secretary

Signature Jamet Martin Date May 11, 2018

Title Treasurer