

Hodge Utility Operating Company
Hodge, Louisiana

Annual Financial Statements
with Independent Auditor's Report

As of and For the Year Ended
December 31, 2020
with Supplemental Information Schedules

KENNETH D. FOLDEN & CO.

CERTIFIED PUBLIC ACCOUNTANTS

302 EIGHTH STREET
JONESBORO, LA 71251
(318) 259-7316

FAX (318) 259-7315
kfolden@foldencpa.com

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Kenneth D. Folden & Co.

Kenneth D. Folden, CPA

Certified Public Accountants

Alayna C. Huckaby, CPA

Members
Society of Louisiana
Certified Public Accountants
email: kfolden@foldencpa.com

302 Eighth Street
Jonesboro, LA 71251
(318) 259-7316
FAX (318) 259-7315

Members
American Institute of
Certified Public Accountants
email: ahuckaby@foldencpa.com

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, 2020, 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, 2020, 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 March 20, 2021 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. Falden & Co., CPAs

Jonesboro, Louisiana
March 20, 2021

BASIC FINANCIAL STATEMENTS

Hodge Utility Operating Company
Hodge, Louisiana

Statement of Net Position - Proprietary Fund
As of December 31, 2020

	Combined Utility System	Hodge Utility Operating Company	Total (Memorandum Only)	
			2020	2019
Assets				
Current Assets:				
Cash and equivalents	\$ -	\$ -	\$ -	\$ -
Due from other funds	-	3,549,861	3,549,861	3,268,882
Total Current Assets	-	3,549,861	3,549,861	3,268,882
Restricted Assets:				
Cash and equivalents	70,937	-	70,937	203,859
Receivables - Hodge Customers	19,279	-	19,279	16,439
Total Restricted Assets	90,216	-	90,216	220,298
Noncurrent Assets:				
Capital assets (net of accumulated depreciation)	185,613,265	-	185,613,265	314,866,677
Total Noncurrent Assets	185,613,265	-	185,613,265	314,866,677
Total Assets	185,703,481	3,549,861	189,253,342	318,355,857
Liabilities				
Current Liabilities:				
Accounts payable	-	3,549,861	3,549,861	3,268,882
Current liabilities payable from restricted assets:				
Due to other funds	3,549,861	-	3,549,861	3,268,882
Total Current Liabilities	3,549,861	3,549,861	7,099,722	6,537,764
Total Liabilities	3,549,861	3,549,861	7,099,722	6,537,764
Net Position				
Net investment in capital assets	121,133,991	-	121,133,991	250,387,404
Unrestricted	61,019,628	-	61,019,628	61,430,690
Total Net Position	\$ 182,153,619	\$ -	\$ 182,153,619	\$ 311,818,094

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, 2020

	Combined Utility System	Hodge Utility Operating Company	Total (Memorandum Only)	
			2020	2019
Operating Revenues				
West Rock	\$ 21,843,292	\$ -	\$ 21,843,292	\$ 25,698,880
Hodge Residents Revenues	231,207	-	231,207	277,539
Hodge Water and Sewer Revenues	2,550	-	2,550	2,550
Operating Fees	-	22,488,111	22,488,111	24,812,145
Total operating revenues	22,077,049	22,488,111	44,565,160	50,791,114
Operating Expenses				
Operating Fees	22,488,111	-	22,488,111	24,812,145
Fuel Gas	-	16,726,392	16,726,392	19,658,781
Purchased Electricity and Demand	-	5,510,894	5,510,894	4,815,657
Purchased Outside Services	-	249,325	249,325	337,708
Miscellaneous	-	1,500	1,500	-
Total operating expenses	22,488,111	22,488,111	44,976,222	49,624,291
Operating Income (Loss)	(411,062)	-	(411,062)	1,166,823
Non-operating Revenues (Expenses)				
Interest earnings	-	-	-	-
Change in net position	(411,062)	-	(411,062)	1,166,823
Prior period adjustment	(129,253,412)	-	-	-
Total Net Position - beginning	311,818,094	-	311,818,094	310,651,270
Total Net Position - ending	\$ 182,153,620	\$ -	\$ 311,407,032	\$ 311,818,093

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, 2020

	Combined Utility System	Hodge Utility Operating Company	Total (Memorandum Only)	
			2020	2019
Cash flows from operating activities				
Net income (loss)	\$ (411,062)	\$ -	\$ (411,062)	\$ 1,166,823
Adjustments				
Net changes in assets and liabilities				
Receivables - Hodge Customers	(2,839)	-	(2,839)	8,519
Due from Village of Hodge Combined Utility System	-	(280,979)	(280,979)	1,224,427
Accounts payable	-	280,979	280,979	(1,224,427)
Due to Operating Company	280,979	-	280,979	(1,224,427)
Net cash provided for (used for) operating activities	<u>(132,922)</u>	<u>-</u>	<u>(132,922)</u>	<u>(49,085)</u>
Cash flows from non-capital financing				
Net cash provided by (used for) non-capital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities				
Net cash provided by (used for) capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities				
Net cash provided by (used for) investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(132,922)	-	(132,922)	(49,085)
Cash and cash equivalents - December 31, 2019	203,859	-	203,859	252,945
Cash and cash equivalents - December 31, 2020	<u>\$ 70,937</u>	<u>\$ -</u>	<u>\$ 70,937</u>	<u>\$ 203,860</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, 2020

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, 2020

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, 2020

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, 2020, the Hodge Utility Operating Company had cash and cash equivalents (book balances) totaling \$70,937, 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, 2020, the Hodge Utility Operating Company had \$70,937 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, 2020. 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, 2020, 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, 2020

3. Receivables

The receivables of \$19,279 at December 31, 2020 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, 2020, is as follows:

	Balance, January 01, 2020	Additions	Deletions	Balance, December 31, 2020
Plant, Property, and Equipment	\$ 314,866,677	\$ 63,167,977	\$ 192,421,388	\$ 185,613,265

5. Interfund Receivables and Payables

Interfund receivables and payables at December 31, 2020, are as follows:

	Receivable	Payable
Village of Hodge Combined Utility Company	\$ -	\$ 3,549,861
Hodge Utility Operating Company	3,549,861	-
Total	\$ 3,549,861	\$ 3,549,861

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, 2020, 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 \$241,265.

8. Prior Period Adjustment

During the year ended December 31, 2020, the Combined Utility System made a prior period reduction to the capital assets of \$129,253,412. Due to the change in personnel following the 2009 Chapter 11 bankruptcy and the subsequent purchases of the WestRock paper mill, the capital assets had not been adjusted.

9. Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, March 20, 2021, 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, 2020, 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 March 20, 2021. 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 are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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
March 20, 2021

SUPPLEMENTAL INFORMATION

Hodge Utility Operating Company
Hodge, Louisiana

Schedule of Findings and Questioned Costs
For the year ended December 31, 2020

We have audited the basic financial statements of the Hodge Utility Operating Company as of and for the year ended December 31, 2020 and have issued our report thereon dated March 20, 2021. 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, 2020 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, 2020

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