

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY CORPORATION
MADISON, MISSISSIPPI

FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2019 AND 2018

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY CORPORATION

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Lake Lorman Utility Corporation
d/b/a Lake Lorman Utility Corporation
Madison, Mississippi

We have audited the accompanying financial statements of Lake Lorman Utility Corporation d/b/a Lake Lorman Utility District (a nonprofit organization), which comprise the statements of financial position as of October 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lake Lorman Utility Corporation d/b/a Lake Lorman Utility District as of October 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental data on pages 15 through 17 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Matthews Carter & Lohy, PA.

February 6, 2020

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT

STATEMENTS OF FINANCIAL POSITION
AT OCTOBER 31, 2019 AND 2018

	ASSETS	
	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 306,170	\$ 286,896
Accounts receivable, net of allowance for uncollectible accounts of \$1,148 and \$4,019 for 2019 and 2018, respectively	29,980	26,399
Accounts receivable-other	18,485	-
Prepaid expenses	<u>6,942</u>	<u>6,217</u>
	361,577	319,512
 CASH RESTRICTED (Note 2)	 64,380	 63,130
 PROPERTY AND EQUIPMENT		
Land	64,440	64,440
Water facilities and equipment	2,704,319	2,666,842
Software	<u>8,357</u>	<u>8,357</u>
	2,777,116	2,739,639
Less: accumulated depreciation	<u>(2,381,680)</u>	<u>(2,283,746)</u>
	<u>395,436</u>	<u>455,893</u>
 OTHER ASSETS		
Deposit	<u>150</u>	<u>150</u>
	 <u>\$ 821,543</u>	 <u>\$ 838,685</u>

See Notes to Financial Statements.

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT

STATEMENTS OF FINANCIAL POSITION
AT OCTOBER 31, 2019 AND 2018

LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES		
Accounts payable	\$ 34,574	\$ 2,243
Current installments of long-term debt	69,248	66,881
Accrued interest payable	987	1,280
Meter deposits	<u>21,680</u>	<u>20,430</u>
	126,489	90,834
LONG-TERM DEBT, net of current portion (Note 4)		
	<u>489,132</u>	<u>587,045</u>
	<u>615,621</u>	<u>677,879</u>
NET ASSETS		
Without donor restrictions	163,222	118,106
With donor restrictions (Note 5)	<u>42,700</u>	<u>42,700</u>
	<u>205,922</u>	<u>160,806</u>
	<u>\$ 821,543</u>	<u>\$ 838,685</u>

See Notes to Financial Statements.

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED OCTOBER 31, 2019 AND 2018

	2019	2018
NET ASSETS WITHOUT RESTRICTIONS		
REVENUES AND OTHER SUPPORT		
Water revenue	\$ 197,278	\$ 197,088
Sewer revenue	212,086	206,958
Tap and trench - new meters	830	830
Interest income	2,436	1,882
Late fees	2,555	4,535
Other income	6,806	678
	421,991	411,971
 EXPENSES		
Programming	330,001	282,995
Management and general	46,874	47,346
	376,875	330,341
 CHANGE IN NET ASSETS	45,116	81,630
 NET ASSETS AT BEGINNING OF YEAR	160,806	79,176
 NET ASSETS AT END OF YEAR	\$ 205,922	\$ 160,806

See Notes to Financial Statements.

LAKE LORMAN UTILITY CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED OCTOBER 31, 2019
(WITH COMPARATIVE TOTALS FOR 2018)

	2019			2018	
	Programming	Management & General	Fundraising	Total	Total
Audit, engineer, and legal	\$ -	\$ 9,961	\$ -	\$ 9,961	\$ 9,972
Bank service charges	-	2,393	-	2,393	-
Depreciation	96,955	979	-	97,934	94,402
Insurance	3,553	1,003	-	4,556	4,438
Interest	-	18,469	-	18,469	22,323
Management fees (Note 3)	-	11,275	-	11,275	10,900
Miscellaneous	177	177	-	354	750
Per diem	-	1,995	-	1,995	1,855
Postage	622	622	-	1,244	-
Repairs and maintenance	207,718	-	-	207,718	161,901
Utilities - water and sewer	20,976	-	-	20,976	21,725
	<u>\$ 330,001</u>	<u>\$ 46,874</u>	<u>\$ -</u>	<u>\$ 376,875</u>	<u>\$ 328,266</u>
Percentage of allocations	<u>88%</u>	<u>12%</u>	<u>-%</u>	<u>100%</u>	

See Notes to Financial Statements.

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY DISTRICT

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 45,116	\$ 81,630
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Depreciation	97,934	94,402
Decrease in		
Accounts receivable	(22,066)	4,122
Prepaid expenses	(725)	-
Increase (decrease) in		
Accounts payable	32,331	(5,230)
Accrued interest	(293)	(261)
Meter deposits and agency funds payable	<u>1,250</u>	<u>(73,728)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>153,547</u>	<u>100,935</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(37,477)	(23,344)
Decrease (increase) in restricted cash	<u>(1,250)</u>	<u>73,728</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(38,727)</u>	<u>50,384</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term debt	<u>(95,546)</u>	<u>(85,484)</u>
NET INCREASE IN CASH	19,274	65,835
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>286,896</u>	<u>221,061</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 306,170</u>	<u>\$ 286,896</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 18,762</u>	<u>\$ 22,584</u>

See Notes to Financial Statements.

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2019 AND 2018

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Activities

Lake Lorman Utility Corporation provides water and sewer services to both residential and non-residential entities in Madison County, Mississippi.

Method of Accounting

The accompanying financial statements have been prepared on the accrual basis. Revenues are recognized in the period in which they are earned and become measurable. This method allows matching of revenues earned during a period with the expenditures incurred.

Financial Statement Presentation

The financial statements of the Association have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Association to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Association management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2019 AND 2018

1. SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Use of Estimates

Lake Lorman Utility Corporation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which require that management make estimates and assumptions that affect the reported amounts and disclosures. Actual amounts could differ from those results.

Cash and cash equivalents

For financial statement purposes, the Organization considers all investments with original maturity of twelve months or less to be cash equivalents.

Accounts Receivable

Revenue from water and sewer services is recognized when earned. An account will be written off as a bad debt when it has been determined to be uncollectible. A valuation allowance has been established, based on an evaluation of each account. The valuation allowance for the years ended October 31, 2019 and 2018 totaled \$4,019 and \$3,089, respectively.

Property and Equipment

Property and equipment are valued at cost. Maintenance, repairs and minor replacements are expensed as incurred, significant renewals and betterments are capitalized. Depreciation is provided using the straight line method over the estimated useful life of the asset as follows:

Water facilities and equipment – 5 to 30 years
Software – 3 years

Income Taxes

Lake Lorman Utility Corporation is a tax-exempt organization as described in Section 501(c)(12) of the Internal Revenue Code and is generally exempt from Federal and State income taxes pursuant to Section 501(a) of the Code. The Organization believes it has no uncertain tax positions.

LAKE LORMAN UTILITY CORPORATION
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2019 AND 2018

1. SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Concentrations of Credit Risk

The Organization provides services on credit to its customers, all of whom are located within the boundaries of the utility district in Madison County, Mississippi. The Organization performs ongoing credit evaluations of its customers. The Organization has adjusted accounts receivable for all known uncollectible accounts. No allowance for doubtful accounts is considered necessary at year-end.

Adoption of Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow the not-for-profit reporting model. The changes include reducing the classes of net assets from three classes to two - net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about liquidity and availability of resources and increased disclosures on functional expenses. The new standard is effective for the Organization's year ending October 31, 2019 and thereafter and must be applied on a retrospective basis. The Organization adopted the ASU effective November 1, 2018. Adoption of the ASU did not result in any reclassifications or restatements to net assets or changes in net assets.

2. RESTRICTED CASH

Restricted cash is as follows:

	<u>2019</u>	<u>2018</u>
Bond cushion funds	\$ 21,400	\$ 21,400
Contingent fund	10,650	10,650
Depreciation funds	10,650	10,650
Customer meter deposits	<u>21,680</u>	<u>20,430</u>
	<u>\$ 64,380</u>	<u>\$ 63,130</u>

LAKE LORMAN UTILITY CORPORATION
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2019 AND 2018

2. RESTRICTED CASH – (Continued)

Agency Funds

The organization has accepted certificates of deposits from the Madison County Board of Supervisors and has agreed to use those assets along with the return of investment from those assets to benefit the Lake Lorman Fire District, now merged with the Southwest Madison County Fire Protection District. During the year ended October 31, 2019, these agency funds were returned for use in the construction of a new fire station.

Rural Development

The terms of the Rural Department bond indentures require monthly deposits to restricted accounts which are segregated from the unrestricted net assets. Meter deposits received from customers are held in a restricted cash account.

3. MANAGEMENT AGREEMENT

The operations of the Organization are managed by North Hinds Water Association. Amounts incurred for management fees for the years ended October 31, 2019 and 2018 totaled \$11,275 and \$10,900, respectively.

4. LONG-TERM DEBT

The details of long-term debt are as follows:

	<u>2019</u>	<u>2018</u>
Bond payable to the U.S. Department of Agriculture – Rural Development in monthly installments of \$2,108, including interest of 7.375% maturing April, 2029. Collateralized by a lien, junior and subordinate to the corporation's 1979 revenue bond, on the combined revenues of the corporation.	\$ 38,563	\$ 80,480
State of Mississippi Department of Health, Drinking Water System Improvement payable in monthly installments of \$5,613 including interest at 2.5% maturing May, 2028.	<u>519,817</u>	<u>573,446</u>
Total long-term debt	558,380	653,926
Less current installments	<u>(69,248)</u>	<u>(66,881)</u>
	<u>\$ 489,132</u>	<u>\$ 587,045</u>

LAKE LORMAN UTILITY CORPORATION
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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2019 AND 2018

4. LONG-TERM DEBT – (Continued)

At October 31, 2019, maturities of long-term debt are as follows:

<u>Year Ending</u> <u>October 31,</u>		
2019	\$	69,248
2020		71,727
2021		66,751
2022		59,263
2023		60,762
Thereafter		<u>230,629</u>
	<u>\$</u>	<u>558,380</u>

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

	<u>2019</u>	<u>2018</u>
Bond cushion	\$ 21,400	\$ 21,400
Depreciation	10,650	10,650
Contingent	<u>10,650</u>	<u>10,650</u>
	<u>\$ 42,700</u>	<u>\$ 42,700</u>

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED OCTOBER 31, 2019 AND 2018

6. LIQUIDITY

The following reflects the Organization's financial assets as of October 31, 2019 reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions.

	<u>2018</u>
Cash and cash equivalents	\$ 306,170
Less those unavailable for general expenditures within one year to:	
Subject to expenditure for specified purpose	<u>42,700</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 263,470</u>

The Organization does not maintain an operating reserve account to cover the average monthly operating costs, noncash expenses. However, the average monthly costs were approximately \$47,500 for the year ended October 31, 2019. The Organization had approximately six months of financial assets available to meet its average monthly operating costs for the year ended October 31, 2019. The Organization does not have a policy regarding the investment of cash in excess of daily requirements.

6. SUBSEQUENT EVENTS

In connection with the preparation of the financial statements, management has evaluated events through January 13, 2020, which is the date the financial statements are available to be issued, and concluded that no additional disclosures are required.

SUPPLEMENTAL INFORMATION

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY CORPORATION

SUPPLEMENTAL DATA REQUIRED BY RURAL DEVELOPMENT
FOR THE YEAR ENDED OCTOBER 31, 2019

1. EXISTING SYSTEM

As of October 31, 2019, the number of users are as follows:

Residential	220
Non-residential	<u>1</u>
	<u>221</u>

All users are located in Madison County, Mississippi.

2. WATER AND SEWAGE USAGE

Average monthly gallons used in the Lake Lorman Utility Corporation for the year ended October 31, 2019 are as follows:

All users	862,252
Residential	861,271

3. WATER AND SEWER RATES

The water rates during the year ended October 31, 2019 were:

Water

\$45.00	monthly minimum up to 2,000 gallons
7.00	per 1,000 gallons for the next 2,000 gallons
7.00	per subsequent 1,000 gallons

Sewer

\$55.00	monthly minimum up to 2,000 gallons
7.00	per 1,000 gallons for next 2,000 gallons
7.00	per 1,000 gallons exceeding 4,000 gallons

4. ETHNICITY

The current users in the Lake Lorman Utility Corporation are primarily Caucasian.

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY CORPORATION

SUPPLEMENTAL DATA REQUIRED BY RURAL DEVELOPMENT
FOR THE YEAR ENDED OCTOBER 31, 2019

5. INSURANCE COVERAGE

Lake Lorman Utility District had the following insurance policies at October 31, 2019:

<u>Type</u>	<u>Coverage</u>	<u>Dates</u>		<u>Policy Number</u>
		<u>From</u>	<u>To</u>	
Fidelity Bond	\$50,000	02/28/19	02/28/20	104796141
Commercial Package	\$1,000,000	10/01/19	10/01/20	5105016407
Fidelity Bond	\$50,000	03/01/19	03/01/20	106115766
Fidelity Bond	\$50,000	02/28/19	02/28/20	104879526
Fidelity Bond	\$50,000	03/01/19	03/01/20	106280959
Fidelity Bond	\$50,000	02/28/19	02/28/20	400TC3931
Fidelity Bond	\$40,000	04/20/19	04/20/20	106040222
Fidelity Bond	\$10,000	10/08/19	10/08/20	104879511

6. ELECTED OFFICIALS

The following officials are nominated by the customers of the Organization and approved by the Madison County Board of Supervisors for five year terms. The commissioners elect officers annually.

President 3/1/16 - 2/28/21	Don Seagrove 118 Northshore Drive, Madison, MS 39110
Vice President 3/1/18 - 2/28/23	Woody Holt 120 Moss Ridge Drive, Madison, MS 39110
Secretary 3/1/14 - 2/28/24	Linda McCraw 141 Lakeshore Drive, Madison, MS 39110
Treasurer 3/1/15 - 2/28/20	Mary Ann Sones 3910 Coker Road, Madison, MS 39110

LAKE LORMAN UTILITY CORPORATION
d/b/a LAKE LORMAN UTILITY CORPORATION

SUPPLEMENTAL DATA REQUIRED BY RURAL DEVELOPMENT
FOR THE YEAR ENDED OCTOBER 31, 2019

6. ELECTED OFFICIALS – (Continued)

Commissioner
3/1/17 - 2/28/22

Jimmie L. King
110 Moss Ridge Drive, Madison, MS 39110