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**VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
HODGE, LOUISIANA**

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**FINANCIAL REPORT  
DECEMBER 31, 1999**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date           MAY 2 4 2000          

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**VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
FINANCIAL REPORT  
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DECEMBER 31, 1999**

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## **INDEPENDENT AUDITORS' REPORT**

**The Honorable Quenton Causey, Mayor  
Village of Hodge  
Hodge, Louisiana 71247**

**Mr. M.C. Jackson, III, President  
Hodge Utility Operating Company  
Hodge, Louisiana 71247**

**We have audited the accompanying financial statements of the Combined Utility System, Village of Hodge, Louisiana, and of the Hodge Utility Operating Company, Hodge, Louisiana, as of December 31, 1999, and for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.**

**We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.**

**As described in Note 3, the Combined Utility System, Village of Hodge, Louisiana, and Hodge Utility Operating Company, Hodge, Louisiana, prepare their financial statements on a prescribed basis of accounting that demonstrates compliance with the indenture of mortgage date March 1, 1972, and the bond indenture dated January 1, 1990, which does not necessarily conform to generally accepted accounting principles.**

**In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Combined Utility System, Village of Hodge, and of the Hodge Utility Operating Company as of December 31, 1999, and the results of its operations and its cash flows for the year then ended in conformity with the indenture of mortgage dated March 1, 1972, and the bond indenture dated January 1, 1990.**

**We found no evidence that Stone Container Corporation, Chicago, Illinois, was in default under any of the provisions of the utility contract between the Village of Hodge and Stone Container Corporation.**

**The financial statements of the preceding year, which have been included for comparative purposes, were taken from the financial report of that year, in which we gave an unqualified opinion that the financial statements were in accordance with the 1972 indenture of mortgage and the 1990 bond indenture.**

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Combined Utility System, Village of Hodge, Louisiana, and of the Hodge Utility Operating Company, Hodge, Louisiana. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

*Kenneth D. Folden & Co.*

**Kenneth D. Folden & Co.**  
**Certified Public Accountants**

**Jonesboro, Louisiana**  
**April 28, 2000**

**VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
BALANCE SHEETS  
DECEMBER 31, 1999**

	Combined Utility System	Hodge Utility Operating Company	Totals (Memorandum Only)	
			1999	1998
<b>Assets:</b>				
Cash	\$	\$	\$	\$ 8,457
Due from combined utility system		2,843,987	2,843,987	2,919,935
Restricted assets				
Revenue account -				
Bank account				
Hodge customers bank account	57,577		57,577	28,406
Receivables - Hodge customers	50,196		50,196	28,738
Investments				524,699
Operating account -				
Bank account	101		101	1,131
Investments	5,186,794		5,186,794	6,864,447
Bond fund accounts -				
Interest fund bank account	1,346		1,346	860
Interest fund investments	3,952,447		3,952,447	3,925,311
Bond retirement fund bank account	823		823	397
Bond retirement fund investments	2,650,436		2,650,436	2,495,185
Reserve fund bank account	1,058		1,058	633
Reserve fund investments	13,744,027		13,744,027	13,899,367
Reserve and contingency account -				
Bank account				525,548
Investments	999,403		999,403	999,240
Accrued interest receivable	76,891		76,891	79,074
Plant, property and equipment	234,577,655		234,577,655	233,097,997
<b>Total Assets</b>	<b>\$ 261,298,754</b>	<b>\$ 2,843,987</b>	<b>\$ 264,142,741</b>	<b>\$ 265,399,425</b>

**VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
BALANCE SHEETS  
DECEMBER 31, 1999**

	Combined Utility System	Hodge Utility Operating Company	Totals (Memorandum Only)	
			1999	1998
<b>Liabilities:</b>				
<b>Bank overdraft -</b>				
Cash	\$	\$ 20,798	\$ 20,798	\$
Revenue account				524,699
Accounts payable		2,823,189	2,823,189	2,928,392
Payable from restricted assets				
Accrued revenue bond interest	3,355,154		3,355,154	3,410,154
Due to operating company	2,843,987		2,843,987	2,919,935
Revenue bonds payable	121,250,000		121,250,000	124,000,000
<b>Total Liabilities</b>	<b>127,449,141</b>	<b>2,843,987</b>	<b>130,293,128</b>	<b>133,783,180</b>
<b>Fund Equity:</b>				
Contributed capital	95,389,324	NONE	95,389,324	93,909,666
<b>Retained Earnings</b>				
Reserved for utility system operations	2,373,421		2,373,421	3,678,478
Reserved for revenue bond retirement	1,598,043		1,598,043	2,040,804
Unreserved	34,488,825		34,488,825	31,987,297
<b>Total retained earnings</b>	<b>38,460,289</b>	<b>NONE</b>	<b>38,460,289</b>	<b>37,706,579</b>
<b>Total Fund Equity</b>	<b>133,849,613</b>	<b>NONE</b>	<b>133,849,613</b>	<b>131,616,245</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 261,298,754</b>	<b>\$ 2,843,987</b>	<b>\$ 264,142,741</b>	<b>\$ 265,399,425</b>

The accompanying notes are an integral part of this statement.



**VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN  
RETAINED EARNINGS  
YEAR ENDED DECEMBER 31, 1999**

	Combined Utility System	Hodge Utility Operating Company	Totals (Memorandum Only)	
			1999	1998
<b>Operating revenues</b>				
Stone Container Corporation	\$ 42,546,755	\$	\$ 42,546,755	\$ 44,423,847
Hodge resident revenues	420,078		420,078	364,759
Hodge water and sewer facilities	2,550		2,550	2,550
Operating fees		33,243,052	33,243,052	32,291,690
<b>Total operating revenues</b>	<b>42,969,383</b>	<b>33,243,052</b>	<b>76,212,435</b>	<b>77,082,846</b>
<b>Operating expenses</b>				
Operating fees	33,243,052		33,243,052	32,291,690
Administrative and supervision		106,721	106,721	106,721
Salaried labor		603,240	603,240	603,240
Production and service labor		2,461,333	2,461,333	2,387,745
Maintenance labor		2,165,502	2,165,502	2,055,563
Overtime premium		297,136	297,136	302,467
Employee benefits		1,674,412	1,674,412	1,617,745
Maintenance materials		3,358,922	3,358,922	2,913,448
Operating supplies		831,956	831,956	982,750
Insurance		1,305,096	1,305,096	1,305,096
Fuel gas		16,389,924	16,389,924	16,551,641
Purchased outside service		41,995	41,995	47,158
Purchased electricity and demand		3,961,363	3,961,363	3,418,116
Miscellaneous		45,452	45,452	
<b>Total operating expenses</b>	<b>33,243,052</b>	<b>33,243,052</b>	<b>66,486,104</b>	<b>64,583,380</b>
<b>Operating income</b>	<b>9,726,331</b>	<b>NONE</b>	<b>9,726,331</b>	<b>12,499,466</b>
<b>Non-operating revenues (expense)</b>				
Interest on investments	1,119,879		1,119,879	1,420,476
Bond interest expense	(10,092,500)		(10,092,500)	(10,254,170)
<b>Total non-operating revenues (expenses)</b>	<b>(8,972,621)</b>	<b>NONE</b>	<b>(8,972,621)</b>	<b>(8,833,694)</b>
<b>NET INCOME (Loss)</b>	<b>753,710</b>	<b>NONE</b>	<b>753,710</b>	<b>3,665,772</b>
<b>Retained earnings, beginning of year</b>	<b>37,706,579</b>	<b>NONE</b>	<b>37,706,579</b>	<b>34,040,807</b>
<b>Retained earnings, end of year</b>	<b>\$ 38,460,289</b>	<b>NONE</b>	<b>\$ 38,460,289</b>	<b>\$ 37,706,579</b>

The accompanying notes are an integral part of this statement.

**VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
STATEMENTS OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 1999**

	Combined Utility System	Hodge Utility Operating Company	Totals (Memorandum Only)	
			1999	1998
<b>Cash Flows From Operating Activities</b>				
Net income (loss)	\$ 753,710	\$	\$ 753,710	\$ 3,665,772
Adjustments to reconcile net income (loss) to net cash provided by operating activities				
(Increase) decrease in				
Due from combined utility system		75,948	75,948	324,310
Receivables - Hodge customers	(21,458)		(21,458)	568
Accrued interest receivable	2,185		2,185	(70,914)
Increase (decrease) in				
Accounts payable		(105,203)	(105,203)	(322,617)
Accrued revenue bond interest	(55,000)		(55,000)	(48,182)
Due to operating company	(75,948)		(75,948)	(324,310)
Net Cash Provided (Used) by Operating Activities	603,489	(29,255)	574,234	3,224,627
<b>Cash Flows From Investing Activities</b>				
Acquisition of equipment	(1,479,658)		(1,479,658)	(3,806,325)
Purchases of investments	(140,833,936)		(140,833,936)	(141,829,267)
Proceeds from sale of investments	143,009,076		143,009,076	141,104,859
Net Cash Provided (Used) by Investing Activities	695,482	NONE	695,482	(4,530,733)
<b>Cash Flows From Financing Activities</b>				
Contribution by Stone for construction	1,479,658		1,479,658	3,806,325
Principal paid on revenue bonds	(2,750,000)		(2,750,000)	(2,500,000)
Net Cash Provided (Used) by Financing Activities	(1,270,342)	NONE	(1,270,342)	1,306,325
Net Increase (Decrease) in Cash	28,629	(29,255)	(626)	219
Cash at Beginning of Year	32,276	8,457	40,733	40,514
Cash at End of Year	\$ 60,905	\$ (20,798)	\$ 40,107	\$ 40,733
<b>Supplemental Disclosures</b>				
Noncash financing transactions				
Equipment contributed by Stone	\$ 1,479,658	\$	\$ 1,479,658	\$ 3,806,325
Total noncash financing transactions	\$ 1,479,658	NONE	\$ 1,479,658	\$ 3,806,325
Cash paid during the year				
Interest (net of amounts capitalized)	\$ 10,092,500	NONE	\$ 10,092,500	\$ 10,254,170

The accompanying notes are an integral part of this statement.



**VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
NOTES TO THE FINANCIAL STATEMENT  
YEAR ENDED DECEMBER 31, 1999**

**(1) 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.

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 are 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.

**(2) Flow of Funds: Restrictions on Use**

Under the terms of the indenture of mortgage of outstanding Combined Utility System Revenue Bonds, dated March 1, 1972, and the bond indenture dated January 1, 1990, all receipts of every nature earned or derived from the operation of the Combined Utility System are pledged and dedicated, and are to be set aside into the following special funds:

**Revenue Fund:** *There is hereby created a special fund of the Village to be known as the "Combined Utility System Revenue Fund", the existence of which shall be continued for as long as any bonds issued pursuant to the 1972 mortgage and the 1990 bond indenture are outstanding. The Revenue Fund shall be held and administered by the trustee. Prior to the 1972 payment date, all available revenues shall be used and applied, but after the 1972 payment date, all revenues derived by the Village through the ownership and operation by it of the project shall be used and applied; and all other monies required to be deposited in the Revenue Fund pursuant to the 1972 mortgage and the 1990 bond indenture received by the Revenue Fund shall be used and applied solely for the purpose of operating and maintaining the system and paying all costs, charges and expenses in connection therewith, paying the principal of, premium if any, and interest on the bonds, and for the purpose of making repairs, renewals and replacements, additions, betterments, and improvements of the system.*

**Monies in the Revenue Fund not required for individual disbursement for the purpose for which said fund is created shall be invested and reinvested by the trustee. All income and profit resulting from these investments shall accrue to and be deposited in the Revenue Fund.**

VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
NOTES TO THE FINANCIAL STATEMENT  
YEAR ENDED DECEMBER 31, 1999

(2) Flow of Funds: Restrictions on Use (Continued)

**Operating Fund:** There is hereby created a special fund of the Village to be known as the "Combined Utility System Operating Fund". This fund shall be held by the trustee and shall be administered by the Operating Company. From the proceeds of the sale of the 1972 bonds, there shall be deposited in the operating fund the sum of \$ 1,150,000. Prior to and after the 1972 payment date, the trustee shall, on or before the 25th day of each calendar month, beginning when the first month's revenues are received by the Village, pay out of the Revenue Fund into the Operating Fund an amount which will be sufficient to make the amount therein on such date equal to the amount of budgeted expenses of operating and maintenance for the two next succeeding months, as shown in the budget submitted most recently to the trustee, pursuant to Section 5 of the Operating Agreement.

Monies in the Operating Fund shall be available and shall be used for the payment or reimbursement of all costs and expenses incurred by the Operating Company in performance of its duties as operator of the system of the Village.

**Bond Fund:** There is hereby created a special fund of the Village to be known as the "Combined Utility System Bond Fund". The Bond Fund and the accounts therein shall be held and administered by the trustee and shall be held solely for the purpose of paying the principal of, and premium if any, and interest on the bonds, and of retiring bonds prior to maturity in the manner provided. After making the payments to the Operating Fund prior to and after the 1972 payment date, as outlined above, the trustee shall pay from the Revenue Fund, in trust for the account of its bond fund, certain fixed amounts sufficient to pay the principal of, premium if any, and interest on all bonds from time to time outstanding as the same become due and payable. Such fixed amounts to be paid into the Bond Fund shall be as follows and in the following order of priority:

1. Interest Account - Prior to and after the 1972 payment date, on the 25th day of each month, beginning with the first month revenues are received, the trustee shall pay from the Revenue Fund into the Bond Fund to the credit of the Interest Account an amount, together with any money in such account deposited, pursuant to Section 501(1) of the 1972 indenture of mortgage or of the 1990 bond indenture, which would on such date be equal to the installment of interest then falling due.
2. Principal Account - Not later than the 25th day of the twelve calendar months prior to each date upon which an installment of the principal of the 1972 bonds maturing prior to March 1, 1991, falls due or after the 1972 payment date, an installment of the principal of the 1990 bonds falls due, and on or before the 25th day of each month thereafter, the trustee shall pay from the Revenue Fund to the credit of the Principal Account an amount which would equal the installment of principal then falling due.
3. Bond Retirement Account - Beginning on the 25th day of March, 1990, for the 1972 bonds and of March, 2000, for the 1990 bonds and on the 25th day of each succeeding month thereafter, the trustee shall pay from the Revenue Fund into the Bond Fund to the credit of the Redemption Account an amount sufficient to redeem bonds in the principal amount on the redemption date next following the date on which such sinking fund installment falls due.

At its option, to be exercised prior to the 45th day preceding any sinking fund redemption date, the Village may deliver to the trustee 1972 bonds which mature on March 1, 2007, which shall be canceled. These bonds shall be applied at their principal amount as a credit against the next ensuing sinking fund payment required to be made.



VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
NOTES TO THE FINANCIAL STATEMENT  
YEAR ENDED DECEMBER 31, 1999

(2) Flow of Funds: Restrictions on Use (Continued)

4. **Reserve Account** - From the proceeds of the 1972 bond sale there shall be deposited in the Reserve Fund an amount equal to the largest amount required to be paid or set aside in the Interest Account, Principal Account and Bond Retirement Account during any twelve month period from the date of the bonds to the maturity date of the last maturing bonds. From the proceeds of the sale of the Series 1990 Bonds, there shall be deposited in the Reserve Account an amount equal to the reserve account requirement (which is the lesser of ten percent of the net proceeds of the bonds, the maximum amount of principal and interest maturing and becoming due in a year, or the maximum amount permitted under the code to be funded with proceeds of the 1990 bonds). So long as any of the Bonds are outstanding, such Reserve Account shall thereafter be maintained at all times in an amount equal to the reserve account requirement.

When the combined assets of the Bond Fund, Redemption Fund and Reserve and Contingency Fund shall be sufficient to provide money to retire bonds then outstanding, including interest, no further payments need be made into the Bond Fund.

**Redemption Fund:** There is hereby created a special fund of the Village known as the "Combined Utility System Redemption Fund" which shall be held and administered by the trustee. Monies transferred to such fund shall be transferred for the 1972 Bonds pursuant to Sections 611 (balance not used for construction) and for the 1990 Bonds pursuant to Section 301 (a) or (c) (optional or special mandatory redemption), and for all bonds pursuant to Section 407 (sale of system) and Section 412 (insurance and condemnation proceeds). Monies on deposit herein shall be used as promptly as practicable for the purpose of redeeming or purchasing bonds prior to maturity in the manner provided.

**Reserve and Contingency Fund:** There is hereby created a special fund of the Village to be known as the "Combined Utility System Reserve and Contingency Fund", which shall be held in trust by the trustee. There shall be transferred from proceeds of the 1972 bond sale \$ 1,000,000 to the credit of the account. Prior to the 1972 payment date, the trustee shall on the 25th day of each month, beginning with the first month revenues are received and on the 25th day of each month thereafter, pay out of the Revenue Fund into said fund an amount equal to 10% of the aggregate of the amounts required to be paid in such month into the Interest, Principal and Bond Retirement Accounts in the Bond Fund for the 1972 bonds. If on the first business day of January, 1973, and each first business day of January thereafter, monies on deposit in this fund exceed the amount of the then commitments or obligations incurred by, or then requirements of, the Village for any of the purposes listed in this section, plus \$ 1,000,000, the amount of such excess may, at the direction of the Village, be withdrawn on such date from this fund and deposited to the credit of the Revenue Fund.

After the 1972 payment date, the trustee shall on the 25th day of each month, beginning with the first month revenues are received and on the 25th day of each month thereafter, pay out of the Revenue Fund into said fund an amount equal to 10% (or such greater amount as shall be determined by the budget of the Village as provided in the Operating Agreement) of the aggregate of the amounts required to be paid in such month into the Interest, Principal and Bond Retirement Accounts in the Bond Fund for the 1990 Bonds. If on the first business day in the month occurring after the 1972 payment date and on the first business day of said month occurring each year thereafter, monies on deposit in this fund exceed the amount of the then commitments or obligations incurred by, or then requirements of, the Village for any of the purposes listed in this section, plus \$ 500,000, or such lesser amount as recommended by the consulting engineer as necessary for the purposes for which this fund was created, the amount of such excess shall be withdrawn on such date from this fund and deposited to the credit of the Revenue Fund. Monies in this fund shall be used to make up differences in the accounts of the Bond Fund and then may be applied to pay, or reimburse the Village for payment of, the cost of renewals and replacements to the System, extraordinary operating and maintenance costs and the cost of additions, betterments and improvements to the System.

**VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
NOTES TO THE FINANCIAL STATEMENT  
YEAR ENDED DECEMBER 31, 1999**

**(2) Flow of Funds: Restrictions on Use (Continued)**

**Acquisition and Construction Fund:** There is hereby created a special fund of the Village to be known as the "Combined Utility System Acquisition and Construction Fund." Immediately upon the issuance and delivery of the 1990 Bonds, there shall be paid into this fund such amount of the proceeds derived from the sale of the 1990 Bonds as is required to be deposited therein pursuant to Article V. Monies so deposited in this fund shall be applied to pay the costs of acquisition and construction, as defined in Section 610, of the 1990 Project and all utility system improvements.

**Interest Earned on Investments:** After January 1, 1973 interest earned in the various funds and accounts for the 1972 Bonds are to be credited to funds and/or accounts as follows:

<u>Fund and/or Account</u>	<u>Fund and/or Account Credited</u>
Revenue Fund	Revenue Fund
Operating Fund	Operating Fund
Interest Account	Revenue Fund
Principal Account	Revenue Fund
Reserve Account	Revenue Fund
Bond Retirement Account	Revenue Fund
Reserve and Contingency Fund	Reserve and Contingency Fund
Redemption Fund	Redemption Fund

After the date of the completion of the 1990 Project, interest earned in the various funds and accounts are to be credited to funds and/or accounts as shown above for the 1972 Bonds.

**(3) Summary of Significant Accounting Policies**

The accounting and reporting practices of the Combined Utility System, Village of Hodge, and the Hodge Utility Operating Company conform to requirements of the indenture of mortgage dated March 1, 1972, and the bond indenture dated January 1, 1990, which do not necessarily conform to generally accepted accounting principles applied to governmental accounting.

**Financial 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 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.

**Totals 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.



**VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
NOTES TO THE FINANCIAL STATEMENT  
YEAR ENDED DECEMBER 31, 1999**

**(3) Summary of Significant Accounting Policies (Continued)**

**Fixed Assets and Long-Term Liabilities:** The Utility System is accounted for on a cost of service or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheet. The reported fund equity (net total assets) is segregated into contributed capital and retained earnings components.

Depreciation of 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 proprietary fund balance sheets.

The total cost of the Combined Utility System of the Village of Hodge is underwritten by Continental Group, Inc., or its assigns; therefore, depreciation, an operating cost not requiring cash outlay, is not recorded on the balance sheet of the Combined Utility System of the Village of Hodge.

**Basis of Accounting:** 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.

**Budget and Budgetary Accounting:** The Hodge Utility Operating Company, not less than 60 days prior to the beginning of each year, shall prepare and file with the Village and the Trustee a budget for the following year. The budget shall show separately the anticipated monthly outlay in respect to fixed obligations and variable outlays. The budget shall show separately anticipated revenues which are obligations of the Village and Continental Group, Inc., or its assigns.

**Investments:** Investments are entirely obligations of the United States invested by the Trustee and are recorded at cost.

**(4) Changes in Plant, Property, and Equipment**

A summary of the Combined Utility System plant, property, and equipment at December 31, 1999 is as follows:

Balance January 1, 1999		\$	233,097,997
Additions			1,479,658
Totals			234,577,655
Retirements			NONE
Balance, December 31, 1999		\$	234,577,655

Plant, property, and equipment acquired in 1999 of \$1,479,658 is not shown as a revenue and a disbursement in this statement, as it is booked as a direct contribution from Stone Container Corporation to the Combined Utility System's plant, property and equipment account.

Depreciation of the utility system assets is not recorded on the books of the Village.



**VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
NOTES TO THE FINANCIAL STATEMENT  
YEAR ENDED DECEMBER 31, 1999**

**(5) Changes in Long-Term Debt**

The following is a summary of the Series 1972 and 1990 bond transactions for the Village of Hodge Combined Utility System for the year:

Revenue bonds payable January 1, 1999	\$	124,000,000
Bonds retired		2,750,000
Revenue bonds payable, December 31, 1999	\$	121,250,000

**Revenue bonds:**

\$36,000,000 Combined Utility System revenue bonds, coupon and registered, dated March 1, 1972: \$28,250,000 on March 1, 2007; interest rate of 6%.

\$93,000,000 Combined Utility System revenue bonds, fully registered without coupons, dated January 1, 1990, due on March 1, 2010; interest rate of 9%.

The annual requirements to amortize all debt outstanding as of December 31, 1999, including interest payments of \$100,597,500, are as follows:

Year Ending	Principal	Interest	Total
2000		10,065,000	10,065,000
2001		10,065,000	10,065,000
2002		10,065,000	10,065,000
2003		10,065,000	10,065,000
2004		10,065,000	10,065,000
2005-2009	28,250,000	46,087,500	74,337,500
2010	93,000,000	4,185,000	97,185,000
	\$ 121,250,000	\$ 100,597,500	\$ 221,847,500

**(7) Interfund Receivables and Payables**

Interfund receivables and payables at December 31, 1999 are as follows:

	Receivable	Payable
Village of Hodge Combined Utility System	\$	\$ 2,843,987
Hodge Utility Operating Company	2,843,987	
	\$ 2,843,987	\$ 2,843,987

**(8) Employees Retirement**

Neither the Village of Hodge nor Hodge Utility Operating Company have employees receiving pay directly. No retirement system exists. All employees and related retirement are carried by Continental Group, Inc., or its assigns.

**VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
NOTES TO THE FINANCIAL STATEMENT  
YEAR ENDED DECEMBER 31, 1999**

**(9) Assignment**

Effective October 3, 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.

**(10) Merger**

On May 10, 1999, 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, 1999.

**(11) Litigation and Claims**

The Hodge Utility Operating Company (company) is not involved in any litigation at December 31, 1999.

**(12) 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, 1999, revenues received by the Operating Company from the Village of Hodge was \$2,550 for water and sewer usage. Expenses paid to the Village of Hodge was \$33,819.

**VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS - RESTRICTED  
ACCOUNTS REQUIRED BY INDENTURE OF MORTGAGE  
YEAR ENDED DECEMBER 31, 1999**

	Revenue Account	Hodge Operating Account	Resident Revenue Account	1972 Bond Interest Account	1990 Bond Interest Account
Cash, January 1, 1999	\$ (524,699)	\$ 1,131	\$ 28,406	\$ 544	\$ 315
<b>Cash receipts</b>					
Stone Container Corp.	42,546,755				
Hodge resident revenue			420,078		
Hodge water and sewer			2,550		
Deposits in transit			1,312		
Investment interest	8,215	233,509		22,049	99,295
Maturity/sale - investments	2,865,491	80,642,074		1,697,801	7,772,705
Transfers in	1,777,669	31,406,809		1,722,500	8,370,000
<b>Total cash available</b>	<b>46,673,431</b>	<b>112,283,523</b>	<b>452,346</b>	<b>3,442,894</b>	<b>16,242,315</b>
<b>Cash disbursements</b>					
Transfers out	44,332,639	33,319,000	394,769	1,777,500	8,370,000
Purchase - investments	2,340,792	78,964,422		1,664,838	7,871,525
Operating expenditures					
<b>Total cash disbursements</b>	<b>46,673,431</b>	<b>112,283,422</b>	<b>394,769</b>	<b>3,442,338</b>	<b>16,241,525</b>
Cash, December 31, 1999	NONE	101	57,577	556	790
<b>Investments</b>					
Investments, January 1, 1999	524,699	6,864,447	NONE	760,900	3,164,411
Purchases	2,340,792	78,964,422	NONE	1,664,838	7,871,525
Maturity/sales	(2,865,491)	(80,642,074)	NONE	(1,736,522)	(7,772,705)
Investments, December 31, 1999	NONE	5,186,795	NONE	689,216	3,263,231
<b>Total cash and investments at</b>	<b>NONE \$</b>	<b>5,186,896 \$</b>	<b>57,577 \$</b>	<b>689,772 \$</b>	<b>3,264,021</b>

1972 Bond Retirement Account	1972 Bond Reserve Account	1990 Bond Reserve Account	Reserve & Contingency Account	Hodge Utility Operating Company
\$ 396	\$ 370	\$ 262	\$ 525,549	\$ 8,457
72,347	218,666	449,150	57,553	
4,167,653	13,759,334	28,131,850	3,933,447	
2,833,330				33,319,000
7,073,726	13,978,370	28,581,262	4,516,549	33,327,457
2,750,000	373,581	449,150	582,938	
4,322,904	13,604,149	28,131,694	3,933,611	
				33,348,255
7,072,904	13,977,731	28,580,844	4,516,549	33,348,255
822	640	418	NONE	(20,798)
2,495,185	4,599,630	9,299,738	999,239	NONE
4,322,904	13,604,149	28,131,694	3,933,611	NONE
(4,167,653)	(13,759,334)	(28,131,850)	(3,933,447)	NONE
2,650,436	4,444,445	9,299,582	999,403	NONE
\$ 2,651,258	\$ 4,445,085	\$ 9,300,000	\$ 999,403	\$ (20,798)

**VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
SCHEDULE OF MONTHLY DEPOSIT REQUIREMENTS  
FOR THE YEAR ENDED DECEMBER 31, 1999**

**Revenue Fund**

Based on an annual budget of \$45,838,867 the average monthly deposit to the Revenue Fund is \$3,819,906.

**Interest Account**

Deposits to the Interest Account for the Series 1972 bonds - January through February, \$155,000; March through December, \$141,250.

Deposits to the Interest Account for the Series 1990 bonds - January through December, \$697,500.

**Sinking Fund**

Deposits to Sinking Fund Account - January through February, \$229,167; March through December, \$237,500.

**Reserve and Contingency Account**

Deposits to Reserve and Contingency - January and February, \$38,417; March through December \$37,875.



**VILLAGE OF HODGE COMBINED UTILITY SYSTEM**  
**AND**  
**HODGE UTILITY OPERATING COMPANY**  
**SCHEDULE OF INSURANCE IN FORCE (UNAUDITED)**  
**DECEMBER 31, 1999**

Type of Insurance Coverage	Policy Number	Effective Dates		Limits
		From	To	
General Liability Self Insured		4/1/99	4/1/00	\$ 2,000,000
Workers' Compensation Self Insured		4/1/99	4/1/00	\$ 1,000,000
Automobile Liability	RMCA3986821	4/1/99	4/1/00	\$ 2,000,000

# Kenneth D. Folden & Co.

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## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Quenton Causey, Mayor  
Village of Hodge  
Hodge, Louisiana 71247

Mr. M.C. Jackson, III, President  
Hodge Utility Operating Company  
Hodge, Louisiana 71247

We have audited the general purpose financial statements of the Combined Utility System, Village of Hodge, Louisiana, and of the Hodge Utility Operating Company, Hodge, Louisiana, as of and for the year ended December 31, 1999, and have issued our report thereon dated April 28, 2000. We conducted our audit in accordance with generally accepted auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Combined Utility System and 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 grants, 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 instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying schedule of findings and questioned costs.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Combined Utility System and the Hodge Utility Operating Company's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**This report is intended for the information of management. However, this report is a matter of public record and its distribution is not limited.**

*Kenneth D. Folden*

**KENNETH D. FOLDEN & CO., CPAs**

**Jonesboro, Louisiana**

**April 28, 2000**

**VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND HODGE UTILITY OPERATING COMPANY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 1999**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the (primary government) financial statements of the Village of Hodge Combined Utility System and Hodge Utility Operating Company.
2. No reportable conditions relating to the audit of the financial statement are reported in the **REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**.
3. No instance of noncompliance material to the financial statements of the Village of Hodge Combined Utility System and Hodge Utility Operating Company was disclosed during the audit.
4. The Village of Hodge Combined Utility System and Hodge Utility Operating Company has no federal award programs.

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

There are no findings for the year ended December 31, 1999. Also, there were no prior year findings for the year ended December 31, 1998.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT**

The Village of Hodge Combined Utility System and Hodge Utility Operating Company has no major federal programs.