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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL,  
STRUCTURE RELATED MATTERS NOTED IN A FINANCIAL  
STATEMENT AUDIT CONDUCTED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Honorable Quentin Cousy, Mayor  
Village of Hedge  
Hedge, Louisiana 71247

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

We have audited the financial statements of the Combined Utility System, Village of Hedge, Louisiana, and the Hedge Utility Operating Company, Hedge, Louisiana, for the year ended December 31, 1996, and have issued our report thereon dated April 17, 1997.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Combined Utility System, Village of Hedge, Louisiana, and of the Hedge Utility Operating Company, Hedge, Louisiana, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become less adequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Combined Utility System, Village of Hedge, Louisiana, and of the Hedge Utility Operating Company, Hedge, Louisiana, for the year ended December 31, 1996, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

VILLAGE OF HONOLULU COMBINED UTILITY SYSTEM  
AND  
HONOLULU UTILITY OPERATING COMPANY  
FINANCIAL REPORT  
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DECEMBER 31, 1996

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**INDEPENDENT AUDITORS' REPORT**

The Honorable Quentin Canoy, Mayor  
Village of Hodge  
Hodge, Louisiana 70127

Mr. M.C. Jackson, III, President  
Hodge Utility Operating Company  
Hodge, Louisiana 70127

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, 1996, 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. These 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 1, 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 dated March 1, 1971, 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, 1996, and the results of its operations and its cash flows for the year then ended in substantially valid to indenture of mortgage dated March 1, 1971, 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 1971 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. Fadden & Co.*  
Kenneth D. Fadden & Co.  
Certified Public Accountants

Jonesboro, Louisiana  
April 17, 1997

**VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
BALANCE SHEETS  
DECEMBER 31, 1995**

	Combined Utility System	Hodge Utility Operating Company	Totals (Memorandum Only)	
			1995	1995
<b>Liabilities:</b>				
Accounts payable		\$1,000,121	\$1,000,121	\$2,500,864
Payable from restricted assets				
Accrued revenue bond interest	3,506,674		3,506,674	3,553,879
Due to operating company	3,003,540		3,003,540	2,500,344
Revenue bonds payable	122,000,000		122,000,000	121,000,000
<b>Total Liabilities</b>	<b>128,510,214</b>	<b>3,003,121</b>	<b>128,510,214</b>	<b>148,000,379</b>
<b>Fund Equity:</b>				
Contributed capital	85,000,378	None	85,000,378	85,000,378
Retained earnings				
Reserved for utility system operations	2,998,461		2,998,461	2,109,918
Reserved for revenue bond retirement	1,712,337		1,712,337	1,509,406
Unreserved	25,007,662		25,007,662	23,832,120
<b>Total retained earnings</b>	<b>29,628,460</b>	<b>0</b>	<b>29,628,460</b>	<b>27,451,444</b>
<b>Total Fund Equity</b>	<b>114,628,838</b>	<b>0</b>	<b>114,628,838</b>	<b>112,451,710</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$243,139,052</b>	<b>\$3,003,121</b>	<b>\$246,142,171</b>	<b>\$240,452,089</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, 1996**

	Combined Utility System	Hodge Utility Operating Company	Totals (Memorandum Only)	
			1996	1995
<b>Operating revenues</b>				
State Container Corporation	\$48,646,219		\$48,646,219	\$58,064,179
Hodge resident revenues	479,999		479,999	366,296
Hodge water and sewer facilities	51,550		1,800	1,800
Operating fees		28,684,196	28,684,196	28,685,998
<b>Total operating revenues</b>	<b>49,178,768</b>	<b>28,684,196</b>	<b>68,612,566</b>	<b>68,279,469</b>
<b>Operating expenses</b>				
Operating fees		28,684,196	28,684,196	28,685,998
Administrative and supervision		108,976	108,976	100,000
Salaries labor		600,140	600,140	585,672
Production and service labor		1,893,640	1,893,640	2,244,750
Maintenance labor		1,991,285	1,991,285	1,991,163
Overtime premium		365,985	265,985	276,820
Employee benefits		1,112,002	1,112,002	1,110,791
Maintenance materials		1,545,685	1,545,685	1,818,925
Operating supplies		1,738,112	1,738,112	1,279,644
Insurance		1,486,140	1,486,140	1,348,180
Fuel gas		19,882,178	19,882,178	18,713,621
Purchased outside service		68,284	68,284	44,921
Fuel oil				28,682
<b>Total operating expenses</b>	<b>28,684,196</b>	<b>28,684,196</b>	<b>57,348,391</b>	<b>53,771,980</b>
<b>Operating income</b>	<b>12,244,174</b>	<b>0</b>	<b>12,244,174</b>	<b>11,507,489</b>
<b>Nonoperating revenues (expenses)</b>				
Interest on investments	1,275,835		1,275,835	1,257,778
Bond interest expense	(10,543,184)		(10,543,268)	(10,668,954)
<b>Total non-operating revenues (expenses)</b>	<b>(9,267,349)</b>	<b>0</b>	<b>(9,267,433)</b>	<b>(9,411,176)</b>
<b>NET INCOME (Loss)</b>	<b>2,976,825</b>	<b>0</b>	<b>2,976,825</b>	<b>2,096,313</b>
Retained earnings, beginning of year	27,650,685	0	27,650,685	25,957,346
<b>Retained earnings, end of year</b>	<b>\$30,627,510</b>	<b>0</b>	<b>\$30,627,510</b>	<b>\$28,053,659</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, 1995

	Combined Utility System	Hodge Utility Operating Company	Totals (Memorandum Only)	
			1995	1994
<b>Cash Flows From Operating Activities</b>				
Net Income (Loss)	\$1,976,885	\$0	\$1,976,885	\$2,684,385
Adjustments to reconcile net income (loss) to net cash provided by operating activities (Increase) decrease in:				
Due from combined utility system		(473,794)	(473,794)	312,394
Receivables - Hodge customers	(521,458)		(521,458)	421
Accrued interest receivable	(75,325)		(75,325)	13,656
Fuel oil inventory				29,883
Deferred charges				719,885
Increase (decrease) in:				
Accounts payable		473,258	473,258	(89,133)
Accrued revenue bond interest	(46,794)		(46,794)	(43,497)
Due to operating company	473,676		473,676	(312,894)
Contingent legal fees				(248,884)
Advances from State				(719,885)
Net Cash Provided (Used) by Operating Activities	3,412,611	(1,000)	3,411,611	2,268,673
<b>Cash Flows From Investing Activities</b>				
Acquisition of equipment	(5,599,518)		(5,599,518)	(8,346,841)
Purchases of investments	(138,748,344)		(138,748,344)	(128,798,138)
Proceeds from sale of investments	124,695,818		124,695,818	128,795,273
Net Cash Provided (Used) by Investing Activities	(1,632,044)	\$0	(1,632,044)	(8,279,699)
<b>Cash Flows From Financing Activities</b>				
Contribution by State for construction	3,598,518		3,598,518	8,761,000
Principal paid on revenue bonds	(2,488,888)		(2,488,888)	(1,258,000)
Net Cash Provided (Used) by Financing Activities	1,109,630	\$0	1,109,630	7,503,000
Net Income (Decrease) in Cash	\$4,889,484	\$(1,000)	\$4,888,484	\$21,087
Cash at Beginning of Year	48,000	4,520	52,520	21,527
Cash at End of Year	\$4,937,484	\$3,520	\$4,941,004	\$42,614
<b>Supplemental Disclosures</b>				
Non-cash Financing Transactions				
Equipment cost offset by State	\$5,599,518		\$5,599,518	\$8,761,841
Total non-cash financing transactions	\$5,599,518	\$0	\$5,599,518	\$8,761,841
Cash paid during the year				
Interest (net of accounts capitalized)	\$18,243,284		\$18,243,284	\$18,688,051

The accompanying notes are an integral part of this statement.

VILLAGE OF HEDGE COMBINED UTILITY SYSTEM  
AND  
HEDGE UTILITY OPERATING COMPANY  
NOTES TO THE FINANCIAL STATEMENT  
YEAR ENDED DECEMBER 31, 1998

(1) Organizational and Historical Background

The qualified clerics of the Village of Hedge, 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 Hedge 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, 1998, the Village issued \$35,000,000 of its Combined Utility System Revenue Bonds, Series 1998, under a bond indenture dated January 1, 1998, authorized by a resolution duly passed and approved by the Mayor and Board of Aldermen of the Village. The bonds were issued for the principal 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, 1998, 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 1998 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 1998 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 to 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.



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VILLAGE OF BOIDGE COMBINED UTILITY SYSTEM  
AND  
BOIDGE UTILITY OPERATING COMPANY  
BOIDGE, LOUISIANA

FINANCIAL REPORT  
DECEMBER 31, 1996

Under provisions of state law, this report is a public document. A copy of this report has been submitted to the Auditor, or reviewed, every year 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: 01-09-1997

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VILLAGE OF FORT COCKER COMBINED UTILITY SYSTEM  
AND  
TRIDGE UTILITY OPERATING COMPANY  
NOTES TO THE FINANCIAL STATEMENT  
YEAR ENDED DECEMBER 31, 1986

(C) Flow of Funds: Restrictions on The (C) (continued)

4. Reserve Account - From the proceeds of the 1971 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 requirements (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 rules 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 1971 Bonds pursuant to Section 641 (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 (rule of system) and Section 612 (interest and amortization 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 15th 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 each 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, 1972, 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.

When the 1972 payment date, the trustee shall on the 15th day of each month, beginning with the first month revenues are received and on the 15th 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 each 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 lower 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 a set 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 FORDGE COMBINED UTILITY SYSTEM  
AND  
FORDGE UTILITY OPERATING COMPANY  
SCHEDULE OF INSURANCE IN FORCE (UNAUDITED)  
DECEMBER 31, 1998**

Type of Insurance Coverage	Policy Number	Effective Dates		Limits	Recoverable
		From	To		
<b>General Liability</b>					
National Union	B78GL121109	11/01/95	11/01/98	\$1,000,000	\$500,000
<b>Workers' Compensation</b>					
National Union	B2MWC1119447	11/01/95	11/01/98	\$1,000,000	\$500,000
National Union of LA	415-6017	11/01/95	11/01/98	\$500,000	\$500,000
<b>Property</b>					
AFC	1M8021-81-89	08/01/96	08/01/97	\$30,000,000	
AFC	1M8021-81-89	08/01/96	08/01/97	\$30,000,000	
Glenside	1P6144168	08/01/96	08/01/97	\$30,000,000	
London	1A66030	08/01/96	08/01/97	\$30,000,000	
SL	2L1P82101080	08/01/96	08/01/97	\$100,000,000	
Winnon	1L761871900	08/01/96	08/01/97	\$100,000,000	
Fireman's Fund	5SP3460215	08/01/96	08/01/97	\$100,000,000	
<b>Environmental Liability</b>					
American InFL Specialty		1/23/95	11/30/98	\$10,000,000	\$500,000

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED BY ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Honorable Quentin Canoy, Mayor  
Village of Hodge  
Hodge, Louisiana 71247

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

We have audited the 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, 1996, and have issued our report thereon dated April 17, 1997.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to the Combined Utility System, Village of Hodge, Louisiana, and to the Hodge Utility Operating Company, Hodge, Louisiana is the responsibility of management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Combined Utility System's, and of the Hodge Utility Operating Company's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted no immaterial instances of noncompliance.

This report is intended for the information of the management of Hodge Utility Operating Company and Board of Aldermen of the Village of Hodge, Louisiana. However, this report is a matter of public record and its distribution is not limited.

  
Kenneth D. Falden & Co.  
Certified Public Accountants

Shreveport, Louisiana  
April 17, 1997

VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
SCHEDULE OF MONTHLY DEPOSIT REQUIREMENTS  
FOR THE YEAR ENDED DECEMBER 31, 1998

**Revenue Fund**

Based on an annual budget of \$41,854,700 the average monthly deposit to the Revenue Fund is \$3,571,216.

**Interest Account**

Deposits to the Interest Account for the Series 1972 bonds - January through February, \$199,767 ; March through December, \$178,167.

Deposits to the Interest Account for the Series 1990 bonds - January through December, \$607,680.

**Sinking Fund**

Deposits to Sinking Fund Account - January and February, \$280,808; March through December \$288,333.

**Reserve and Contingency Account**

Deposits to Reserve and Contingency - January and February, \$39,077 ; March through December \$36,750.

**VILLAGE OF HEDGE COMBINED UTILITY SYSTEM  
AND  
HEDGE UTILITY OPERATING COMPANY  
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS - RESTRICTED  
ACCOUNTS REQUIRED BY INDENTURE OF MORTGAGE  
YEAR ENDED DECEMBER 31, 1996**

	Revenue Account	Hedge Operating Account	Resident Revenue Account	1972 Bond Interest Account	1996 Bond Interest Account
Cash, January 1, 1996	508,266	3425	512,175	5197	5799
Cash receipts					
Stone Container Corp.	49,486,229				
Hedge resident revenue			454,509		
Hedge water and sewer			2,599		
Deposits in trust			2,603		
Investment interest	248,858	54,869		27,813	182,099
Maturity/face - investments	28,231,941	28,713,492		2,288,918	8,538,074
Transfers in	1,184,300	16,957,635		2,160,468	8,178,889
Total cash available	80,140,794	55,725,596	482,805	4,428,768	17,001,771
Cash disbursements					
Transfers out	38,580,800	18,211,889	421,889		
Purchase - investments	35,331,405	17,514,872		2,288,918	8,633,574
Operating expenditures					
Bond Interest				2,118,608	8,178,889
Bond Principal					
Total cash disbursements	73,912,205	35,726,761	421,889	4,428,518	17,001,574
Cash, December 31, 1996	4,228,589	508	60,855	342	181
Investments					
Investments, January 1, 1996	1,198,036	1,782,688		777,974	2,844,159
Purchases	35,331,485	27,514,872		2,288,918	8,633,574
Maturity/face	(38,231,941)	(28,713,452)		(2,288,918)	(8,538,074)
Investments, December 31, 1996	0	582,678	0	746,966	2,947,625
Total cash and investments at December 31, 1996	54,368,490	5783,187	60,855	2747,148	52,948,001

**VILLAGE OF HEDGE COMBINED UTILITY SYSTEM  
and  
HEDGE UTILITY OPERATING COMPANY  
NOTES TO THE FINANCIAL STATEMENT  
YEAR ENDED DECEMBER 31, 1996**

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

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

Revenue bonds payable January 1, 1996	\$111,400,000
Bonds retired	<u>2,400,000</u>
Revenue bonds payable, December 31, 1996	<u>\$109,000,000</u>

**Revenue bonds:**

\$66,000,000 Combined Utility System revenue bonds, coupon and registered, dated March 1, 1972; \$5,000,000 due on March 1, 1996, and \$61,000,000 on March 1, 2007; interest rates from 5.8% to 6%.

\$43,000,000 Combined Utility System revenue bonds, fully registered without coupons, dated January 1, 1990, due on March 1, 2010; interest at rate of 9%.

The annual requirements to amortize all debt outstanding as of December 31, 1996, including interest payments of \$132,863,333, are as follows:

Year Ending	Principal	Interest	Total
1997		19,259,000	19,259,000
1998	5,000,000	18,278,333	23,278,333
1999		18,259,000	18,259,000
2000		18,239,000	18,239,000
2001		18,219,000	18,219,000
2002-2006		51,259,000	51,259,000
2007-2008	124,000,000	8,125,000	132,125,000
	<u>\$129,000,000</u>	<u>\$132,863,333</u>	<u>\$161,863,333</u>

**(7) Interfund Receivables and Payables**

Interfund receivables and payables at December 31, 1996 are as follows:

	Receivable	Payable
Village of Hedge Combined Utility System		
Hedge Utility Operating Company	<u>3,000,000</u>	<u>3,000,000</u>
	<u>\$3,000,000</u>	<u>\$3,000,000</u>

**(8) Employees Retirement**

Neither the Village of Hedge nor Hedge 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.

**(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.

**VILLAGE OF HODGE COMBINED UTILITY SYSTEM  
AND  
HODGE UTILITY OPERATING COMPANY  
NOTES TO THE FINANCIAL STATEMENT  
YEAR ENDED DECEMBER 31, 1996**

**(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 "original maintenance" measurement basis. 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 assets) is segregated into contributed capital and retained earnings components.

Depreciation of all depreciable 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 (or pay-as-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 Trustees 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, 1996 is as follows:

Balance January 1, 1996	\$219,198,386
Additions	<u>5,599,518</u>
Total	224,797,904
Retirements	<u>0</u>
Balance, December 31, 1996	<u>224,797,904</u>

Plant, property, and equipment acquired in 1996 of \$5,599,518 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, 1996

(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 1998 Bonds, there shall be paid into this fund such amount of the proceeds derived from the sale of the 1998 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 600, of the 1998 Project and all utility systems improvements.

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

Fund and/or Account	Fund and/or Account Credited
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 1998 Project, interest earned in the various funds and accounts are to be credited to funds and/or accounts as shown above for the 1973 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, 1998, which do not necessarily conform to generally accepted accounting principles applied to government 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.

**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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of management of Hedge Utility Operating Company and the Board of Aldermen, Village of Hedge, Louisiana. However, this report is a matter of public record and its distribution is not limited.



Kenneth D. Fobler & Co.  
Certified Public Accountants

Jonesboro, Louisiana  
April 17, 1997

VILLAGE OF INDUCE COMBINED UTILITY SYSTEM  
AND  
INDUCE UTILITY OPERATING COMPANY  
NOTICE TO THE FINANCIAL STATEMENT  
YEAR ENDED DECEMBER 31, 1996

(4) *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 \$ 1,100,000. 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 to the issuer provider. 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, on or before the payment of its bond fund, certain Bond 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 Bond 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 901(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, 1990, 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 system date next following the date on which such sinking fund installment falls due.

At its option, to be exercised prior to the 65th day preceding any sinking fund redemption date, the Village may deliver to the trustee 1972 bonds which mature on March 1, 1990 or 2007, which shall be cancelled. These bonds shall be applied at their principal amount as a credit against the next ensuing sinking fund payment required to be made.

1972 Bond Retirement Account	1972 Bond Reserve Account	1998 Bond Reserve Account	Reserve & Contingency Account	Hedge Utility Operating Company
\$276	\$8	\$1,369	\$571	\$6,320
46,585	244,355	469,453	63,649	
2,485,815	4,693,645	46,497,547	3,251,131	
<u>2,631,663</u>	<u>166</u>			<u>26,211,669</u>
4,941,635	4,938,166	46,968,287	3,415,677	26,211,639
	243,766	469,453	69,290	
2,541,639	4,694,234	46,498,747	3,348,795	26,211,639
<u>2,680,000</u>				
4,941,639	4,938,080	46,968,280	3,415,085	26,211,638
<u>180</u>	<u>166</u>	<u>69</u>	<u>571</u>	<u>4,892</u>
1,395,000	4,693,645	9,298,711	1,528,659	
2,541,639	4,694,234	46,498,747	3,348,795	
<u>(3,463,085)</u>	<u>16,693,645)</u>	<u>(46,497,547)</u>	<u>(3,351,131)</u>	
2,133,690	4,694,234	9,298,911	1,529,283	0
<u>52,734,050</u>	<u>54,674,460</u>	<u>57,340,860</u>	<u>51,723,855</u>	<u>54,582</u>