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

FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2003
WITH SUPPLEMENTAL INFORMATION SCHEDULES

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 9.1.04

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

FINANCIAL REPORT

**DECEMBER 31, 2003
WITH SUPPLEMENTAL INFORMATION SCHEDULES**

**VILLAGE OF HODGE COMBINED UTILITY SYSTEM
AND
HODGE UTILITY OPERATING COMPANY
FINANCIAL REPORT
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DECEMBER 31, 2003**

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INDEPENDENT AUDITOR'S REPORT

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

Mr. Mike Entz, President
Hodge Utility Operating Company
Hodge, LA 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 and for the year ended December 31, 2003, as listed in the Table of Contents. These financial statements are the responsibility of company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The preceding year's financial statements of the Combined Utility System Village of Hodge, Louisiana and of the Hodge Utility Operating Company, Hodge, Louisiana have been included for comparative purposes and were taken from the financial report of that year; the financial statements referenced for the year ended December 31, 2002, were audited by another auditor whose report dated April 28, 2003, expressed an unqualified opinion that those financial statements were in accordance with the 1972 indenture of mortgage and the 1990 bond indenture.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 the 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 the prescribed basis of accounting that demonstrates compliance with the indenture of mortgage dated March 1, 1972, and the bond indenture dated January 1, 1990, and the bond indenture dated December 18, 2003, which does not necessarily conform to generally accepted accounting principles.

In our opinion, the 2003 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, Louisiana, and Hodge Utility Operating Company as of December 31, 2003, 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, and the bond indenture dated December 18, 2003.

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

Our audits were 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 purpose of additional analysis and is not a required part of the financial statements of the Combined Utility System, Village of Hodge, Louisiana, and Hodge Utility Operating Company, Hodge, Louisiana. Such information, except for that portion marked "unaudited", on which no opinion was expressed 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2004, in our consideration of the Combined Utility System and the Hodge Utility Operating Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.


Kenneth D. Folden & Company

April 23, 2004
Jonesboro, Louisiana

Village of Hodge Combined Utility System
and
Hodge Utility Operating Company
Balance Sheets
December 31, 2003

| <u>Assets</u> | <u>Combined Utility System</u> | <u>Hodge Utility Operating Company</u> | <u>Totals (Memorandum Only)</u> | |
|---|------------------------------------|--|-------------------------------------|-----------------------------|
| | | | <u>2003</u> | <u>2002</u> |
| Cash | \$ 0 | \$ 7,389 | \$ 7,389 | \$ 10,835 |
| Due from Combined Utility System | 0 | 4,679,692 | 4,679,692 | 3,791,493 |
| Restricted Assets- | | | | |
| Revenue Account- | | | | |
| Hodge Customers Bank Account | 4,038 | 0 | 4,038 | 31,155 |
| Receivables-Hodge Customers Bank Account | 38,045 0 | 0 0 | 38,045 0 | 84,711 0 |
| Operating Account- | | | | |
| Bank Account | 541,000 | 0 | 541,000 | 795 |
| Investments | 0 | 0 | 0 | 6,219,629 |
| Bond Fund Accounts- | | | | |
| Interest Fund Bank Account | 0 | 0 | 0 | 383 |
| Interest Fund Investments | 0 | 0 | 0 | 3,212,121 |
| Bond Retirement Fund Bank Account | 32,915 | 0 | 32,915 | 397 |
| Bond Retirement Fund Investments | 83,425,109 | 0 | 83,425,109 | 10,838,844 |
| Reserve Fund Bank Account | 0 | 0 | 0 | 1,559 |
| Reserve Fund Investments | 0 | 0 | 0 | 13,694,130 |
| Reserve and Contingency Account- | | | | |
| Bank Account | 600,000 | 0 | 600,000 | 227 |
| Investments | 0 | 0 | 0 | 1,475,702 |
| Accrued Interest Receivable | 25,467 | 0 | 25,467 | 25,571 |
| Plant, Property and Equipment | <u>265,006,230</u> | <u>0</u> | <u>265,006,230</u> | <u>265,006,230</u> |
| Total Assets | <u>\$349,672,804</u> | <u>\$4,687,081</u> | <u>\$354,359,885</u> | <u>\$304,393,782</u> |

Village of Hodge Combined Utility System
and
Hodge Utility Operating Company
Balance Sheets (cont'd)
December 31, 2003

| | Combined Utility System | Hodge Utility Operating Company | Totals (Memorandum Only) | |
|--|-----------------------------|------------------------------------|-----------------------------|-----------------------------|
| | | | 2003 | 2002 |
| <u>Liabilities & Equity</u> | | | | |
| Liabilities- | | | | |
| Accounts Payable | \$ 0 | \$4,687,081 | \$ 4,687,081 | \$ 3,802,328 |
| Payable from Restricted Assets- | | | | |
| Accrued Revenue Bond Interest | 1,703,164 | 0 | 1,703,164 | 2,615,000 |
| Due to Operating Company | 4,679,692 | 0 | 4,679,692 | 3,791,493 |
| Revenue Bonds Payable | <u>138,935,000</u> | <u>0</u> | <u>138,935,000</u> | <u>93,550,000</u> |
| Total Liabilities | <u>\$145,317,856</u> | <u>\$4,687,081</u> | <u>\$150,004,937</u> | <u>\$103,758,821</u> |
| Equity- | | | | |
| Contributed Capital | <u>\$125,817,899</u> | <u>\$ 0</u> | <u>\$125,817,899</u> | <u>\$125,817,899</u> |
| Total Contributed Capital | <u>\$125,817,899</u> | <u>\$ 0</u> | <u>\$125,817,899</u> | <u>\$125,817,899</u> |
| Retained Earnings | | | | |
| Reserved for Utility System Operations | \$ 583,083 | \$ 0 | \$ 583,083 | \$ 4,708,580 |
| Reserved for Revenue Bond Retirement | 77,353,966 | 0 | 77,353,966 | 11,436,746 |
| Reserved for Bond Contingency | 600,000 | 0 | 600,000 | 1,475,929 |
| Unreserved | <u>0</u> | <u>0</u> | <u>0</u> | <u>57,195,807</u> |
| Total Retained Earnings | <u>\$ 78,537,049</u> | <u>\$ 0</u> | <u>\$ 78,537,049</u> | <u>\$ 74,817,062</u> |
| Total Liabilities & Equity | <u>\$349,672,804</u> | <u>\$4,687,081</u> | <u>\$354,359,885</u> | <u>\$304,393,782</u> |

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, 2003

| | Combined Utility System | Hodge Utility Operating Company | Totals (Memorandum Only) | |
|--|------------------------------|------------------------------------|------------------------------|------------------------------|
| | | | 2003 | 2002 |
| OPERATING REVENUES: | | | | |
| Stone Container Corporation | \$62,808,472 | \$ 0 | \$ 62,808,472 | \$58,099,133 |
| Hodge Resident Revenues | 420,667 | 0 | 420,667 | 760,804 |
| Hodge Water and Sewer Facilities | 2,550 | 0 | 2,550 | 2,550 |
| Operating Fees | <u>0</u> | <u>52,080,181</u> | <u>52,080,181</u> | <u>38,688,892</u> |
| Total Operating Revenues | <u>\$63,231,689</u> | <u>\$52,080,181</u> | <u>\$115,311,870</u> | <u>\$97,551,379</u> |
| OPERATING EXPENSES: | | | | |
| Operating Fees | \$52,080,181 | \$ 0 | \$ 52,080,181 | \$38,688,892 |
| Administrative and Supervision | 0 | 108,500 | 108,500 | 106,716 |
| Salaried Labor | 0 | 603,240 | 603,240 | 603,240 |
| Production and Service Labor | 0 | 2,497,851 | 2,497,851 | 2,501,712 |
| Maintenance Labor | 0 | 2,077,739 | 2,077,739 | 2,114,901 |
| Overtime Premium | 0 | 294,015 | 294,015 | 300,972 |
| Employee Benefits | 0 | 1,667,873 | 1,667,873 | 1,672,381 |
| Maintenance Materials | 0 | 3,179,302 | 3,179,302 | 3,099,262 |
| Operating Supplies | 0 | 817,309 | 817,309 | 949,946 |
| Insurance | 0 | 1,274,238 | 1,274,238 | 1,305,096 |
| Fuel Gas | 0 | 33,318,201 | 33,318,201 | 20,794,776 |
| Purchased Outside Service | 0 | 57,988 | 57,988 | 47,561 |
| Purchased Electricity and Demand | <u>0</u> | <u>6,183,925</u> | <u>6,183,925</u> | <u>5,192,329</u> |
| Total Operating Expenses | <u>\$52,080,181</u> | <u>\$52,080,181</u> | <u>\$104,160,362</u> | <u>\$77,377,784</u> |
| OPERATING INCOME (LOSS) | <u>\$11,151,508</u> | <u>\$ 0</u> | <u>\$ 11,151,508</u> | <u>\$20,173,595</u> |
| NON-OPERATING REVENUES (Expenses) | | | | |
| Interest on Investments | \$ 398,643 | \$ 0 | \$ 398,643 | \$ 588,393 |
| Bond Interest Expense | (7,326,664) | 0 | (7,326,664) | (8,016,500) |
| Bond Issue Expense | <u>(503,500)</u> | <u>0</u> | <u>(503,500)</u> | <u>0</u> |
| Total Non-Operating Revenues (Expenses) | <u>\$ (7,431,521)</u> | <u>\$ 0</u> | <u>\$ (7,431,521)</u> | <u>\$ (7,428,107)</u> |
| NET INCOME (LOSS) | <u>\$ 3,719,987</u> | <u>\$ 0</u> | <u>\$ 3,719,987</u> | <u>\$12,745,488</u> |
| Retained Earnings at Beginning of Year | <u>74,817,062</u> | <u>0</u> | <u>74,817,062</u> | <u>62,071,574</u> |
| Retained Earnings at End of Year | <u>\$78,537,049</u> | <u>\$ 0</u> | <u>\$78,537,049</u> | <u>\$74,817,062</u> |

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, 2003

| | Combined Utility System | Hodge Utility Operating Company | Totals (Memorandum Only) | |
|---|-------------------------------|------------------------------------|-------------------------------|------------------------------|
| | | | 2003 | 2002 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Net Income (Loss) | \$ 3,719,987 | \$ 0 | \$ 3,719,987 | \$ 12,745,488 |
| Adjustment to Reconcile Net Loss to Net Cash Provided by Operating Activities: | | | | |
| (Increase) Decrease in- | | | | |
| Due from Combined Utility System | 0 | (888,199) | (888,199) | (1,081,892) |
| Receivables-Hodge Customers | 46,666 | 0 | 46,666 | 609 |
| Accrued Interest Receivable | 104 | 0 | 104 | 116,455 |
| Increase (Decrease) in- | | | | |
| Accounts Payable | 0 | 884,753 | 884,753 | 1,079,614 |
| Accrued Revenue Bond Interest | (911,836) | 0 | (911,836) | (343,000) |
| Due to Operating Company | <u>888,199</u> | <u>0</u> | <u>888,199</u> | <u>1,081,892</u> |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ <u>3,743,120</u> | \$ <u>(3,446)</u> | \$ <u>3,739,674</u> | \$ <u>13,599,166</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Purchases of Investments | \$(330,520,177) | \$ 0 | \$(330,520,177) | \$(213,913,740) |
| Proceeds from Sale of Investments | <u>282,535,494</u> | <u>0</u> | <u>282,535,494</u> | <u>212,784,152</u> |
| NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES | \$ <u>(47,984,683)</u> | \$ <u>0</u> | \$ <u>(47,984,683)</u> | \$ <u>(1,129,588)</u> |

Village of Hodge Combined Utility System
and
Hodge Utility Operating Company
Statements of Cash Flows (cont'd)
Year Ended December 31, 2003

| | <u>Combined Utility System</u> | <u>Hodge Utility Operating Company</u> | <u>Totals (Memorandum Only)</u> | |
|---|------------------------------------|--|-------------------------------------|------------------------------|
| | | | <u>2003</u> | <u>2002</u> |
| CASH FLOWS FROM | | | | |
| FINANCING ACTIVITIES: | | | | |
| Principal Paid on Revenue Bonds | \$(12,700,000) | \$ 0 | \$(12,700,000) | \$(12,500,000) |
| Issuance of Series 2003 Bonds | <u>58,085,000</u> | <u>0</u> | <u>58,085,000</u> | <u>0</u> |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | <u>\$ 45,385,000</u> | <u>\$ 0</u> | <u>\$ 45,385,000</u> | <u>\$(12,500,000)</u> |
| Net Increase (Decrease) in Cash | \$ 1,143,437 | \$ (3,446) | \$ 1,139,991 | \$ (30,422) |
| Cash at Beginning of Year | <u>34,516</u> | <u>10,835</u> | <u>45,351</u> | <u>75,773</u> |
| Cash at End of Year | <u>\$ 1,177,953</u> | <u>\$ 7,389</u> | <u>\$ 1,185,342</u> | <u>\$ 45,351</u> |
| <i>Supplemental Disclosures of Cash Flow Information:</i> | | | | |
| Noncash Financing Transactions: | | | | |
| Equipment Contributed by Stone | \$ <u>0</u> | \$ <u>0</u> | \$ <u>0</u> | \$ <u>10,185,885</u> |
| Total Noncash Financing Transactions | \$ <u>0</u> | \$ <u>0</u> | \$ <u>0</u> | \$ <u>10,185,885</u> |
| Cash Paid During the year: | | | | |
| Interest (Net of Amounts Capitalized) | \$ <u>7,326,664</u> | \$ <u>0</u> | \$ <u>7,326,664</u> | \$ <u>8,016,500</u> |

The accompanying notes are an integral part of this statement.

Village of Hodge Combined Utility System
and
Hodge Utility Operating Company
Notes to Financial Statement
December 31, 2003

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.

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

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

Village of Hodge Combined Utility System
and
Hodge Utility Operating Company
Notes to Financial Statement
December 31, 2003

other monies required by the deposited in the revenue fund pursuant to 1972 mortgage and 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 the 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 are 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.

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 with the first month's revenue 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 the maturity and 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.

Village of Hodge Combined Utility System
and
Hodge Utility Operating Company
Notes to Financial Statement
December 31, 2003

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, 2001, 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.

4. **Reserve Account** – From the proceeds of the 1972 bonds 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 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 or principal and interest maturing the 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 any 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 interest, no further payments need to be paid into the Bond Fund.

Redemption Fund: There is hereby credited 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 Section 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.

Village of Hodge Combined Utility System
and
Hodge Utility Operating Company
Notes to Financial Statement
December 31, 2003

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 by the 1972 bonds 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 ten percent 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 the 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 into 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 ten percent (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 the 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.

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.

Village of Hodge Combined Utility System
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Notes to Financial Statement
December 31, 2003

Interest Earned on Investments: After January 1, 1973, interest earned in the various funds in 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 conformed to the 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 Financial Statement
December 31, 2003

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

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

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 reported 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 that 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, 2003 is as follows:

| | |
|----------------------------|----------------------|
| Balance January 1, 2003 | \$265,006,230 |
| Additions | 0 |
| Retirements | 0 |
| Balance, December 31, 2003 | <u>\$265,006,230</u> |

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 Financial Statement
December 31, 2003

5. CHANGES IN LONG-TERM DEBT

The following is a summary of the Series 1972, Series 1990, and Series 2003 bond transactions for the Village of Hodge Combined Utility System for the year:

| | |
|--|----------------------|
| Revenue Bonds Payable January 1, 2003 | \$ 93,550,000 |
| Bonds Retired | (12,700,000) |
| Bonds Issued | <u>58,085,000</u> |
| Revenue Bonds Payable, December 31, 2003 | <u>\$138,935,000</u> |

Revenue Bonds:

\$19,150,000 on March 1, 2007, interest rate of 6%.

\$74,400,000 Combined Utility System revenue bonds, full 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, 2003, including interest payments of \$89,929,620, are as follows:

| <u>Year Ending December 31</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------------|----------------------|---------------------|----------------------|
| 2004 | \$ 80,850,000 | \$ 6,989,082 | \$ 87,839,082 |
| 2005 | 0 | 4,327,332 | 4,327,332 |
| 2006 | 0 | 4,327,332 | 4,327,332 |
| 2007 | 0 | 4,327,332 | 4,327,332 |
| 2008 | 0 | 4,327,332 | 4,327,332 |
| 2009-2023 | 0 | 64,909,988 | 64,909,988 |
| 2024 | <u>58,085,000</u> | <u>721,222</u> | <u>58,806,222</u> |
| | <u>\$138,935,000</u> | <u>\$89,929,620</u> | <u>\$228,864,620</u> |

Current Debt Refunding:

On December 18, 2003, the Village of Hodge issued new bonds to refund the Series 1990 and 1972 Bonds. The new issue is called the Village of Hodge Revenue Refunding Bonds Series 2003 in the amount of \$58,085,000. The maturity is March 1, 2024, with an interest rate of 7.45% payable semi-annually on March 1 and September 1. The bonds were used to refund the Series 1990 and 1972 bonds and release funds from various trust accounts to finance the \$9.4 million upgrade to the recovery boiler

Village of Hodge Combined Utility System
and
Hodge Utility Operating Company
Notes to Financial Statement
December 31, 2003

superheater, turbine generator casing, and PCB transformers during 2002 and 2003. The bonds issuance costs were \$503,500, which was funded by Smurfit Stone Container, and were expensed during the year.

The Series 1990 Bonds were redeemed January 20, 2004 and the Series 1972 Bonds were redeemed January 26, 2004. There were no penalties or premiums for refunding the Series 1990 and 1972 Bonds and no gain or loss was incurred. The benefits derived from the refunding include:

- Interest savings of \$1.2 million will be realized in 2004 and a net present value of interest savings of \$6.7 million will be realized over the life of the Series 2003 bonds;
- Cash flow is increased by reducing debt service requirements by \$12.9 million annually during the years 2004 through 2006 and \$9.3 million annually during the years 2007 through March 2010.

6. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at December 31, 2003 are as follows:

| | <u>Receivable</u> | <u>Payable</u> |
|--|-------------------|----------------|
| Village of Hodge Combined Utility System | \$ 0 | \$4,679,692 |
| Hodge Utility Operating Company | \$4,679,692 | \$ 0 |

7. EMPLOYEES RETIREMENT

Neither the Village of Hodge nor Hodge Utility Operating Company has employees receiving pay directly. No retirement system exists. All employees and related retirement are carried by Smurfit-Stone Container Corporation or its assigns.

8. ASSIGNMENT

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

Village of Hodge Combined Utility System
and
Hodge Utility Operating Company
Notes to Financial Statement
December 31, 2003

9. MERGER

On May 10, 1998, Jefferson Smurfit Corporation, a Delaware Corporation, now known as Smurfit-Stone Container Corporation entered into an Agreement and Plan of Merger with JSC Acquisition Corporation, a wholly owned subsidiary of the Company, and Stone Container Corporation. Pursuant to the terms of the Merger Agreement, JSC Acquisition was merged with and into Stone on November 18, 1998.

10. LITIGATION AND CLAIMS

We have been advised that the Hodge Utility Operating Company (company) is not involved in any litigation at December 31, 2003.

11. 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, 2003, revenues received by the Operating Company from the Village of Hodge were \$2,550 for water and sewer usage. Expenses paid to the Village of Hodge were \$46,529.

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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, 2003

| | Revenue Account | Hodge Operating Account | Resident Revenue Account | 1972 Bond Interest Account | 1990 Bond Interest Account | 1972 Bond Retirement Account |
|--|----------------------------|-------------------------------|--------------------------------|----------------------------------|----------------------------------|------------------------------------|
| Cash, January 1, 2003 | \$ 0 | \$ 795 | \$ 31,155 | \$ 174 | \$ 209 | \$ 102 |
| Cash Receipts- | | | | | | |
| Stone Container Corp. | 51,696,472 | 0 | 0 | 0 | 0 | 0 |
| Hodge Resident Revenue | 0 | 0 | 432,217 | 0 | 0 | 0 |
| Hodge Water & Sewer | 0 | 0 | 2,550 | 0 | 0 | 0 |
| Deposits in Transit | 0 | 0 | 0 | 0 | 0 | 0 |
| Investment Interest | 265 | 60,327 | 0 | 6,155 | 31,000 | 35,761 |
| Maturity/Sale-Investments | 0 | 87,376,220 | 0 | 2,752,182 | 14,943,331 | 14,622,237 |
| Transfers In | <u>20,661,856</u> | <u>50,342,912</u> | <u>0</u> | <u>1,053,250</u> | <u>6,138,000</u> | <u>16,452,110</u> |
| Total Cash Available | <u>\$72,358,593</u> | <u>\$137,780,254</u> | <u>\$465,922</u> | <u>\$ 3,811,761</u> | <u>\$ 21,112,540</u> | <u>\$ 31,110,210</u> |
| Cash Disbursement | | | | | | |
| Transfers Out | \$72,358,593 | \$ 56,623,663 | \$461,884 | \$ 519,955 | \$ 2,596,455 | \$ 28,514 |
| Purchase-Investments | 0 | 81,156,591 | 0 | 2,244,806 | 12,238,585 | 27,648,781 |
| Bond Principal | 0 | 0 | 0 | 0 | 0 | 3,400,000 |
| Bond Interest | <u>0</u> | <u>0</u> | <u>0</u> | <u>1,047,000</u> | <u>6,277,500</u> | <u>0</u> |
| Total Cash Disbursements | <u>\$72,358,593</u> | <u>\$137,780,254</u> | <u>\$461,884</u> | <u>\$ 3,811,761</u> | <u>\$ 21,112,540</u> | <u>\$ 31,077,295</u> |
| Cash, December 31, 2003 | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 4,038</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 32,915</u> |
| Investments | | | | | | |
| Investments, January 1, 2003 | \$ 0 | \$ 6,219,628 | \$ 0 | \$ 507,376 | \$ 2,704,745 | \$ 3,089,139 |
| Purchases | 0 | 81,156,592 | 0 | 2,244,806 | 12,238,586 | 27,648,782 |
| Maturity/Sales | <u>0</u> | <u>(87,376,220)</u> | <u>0</u> | <u>(2,752,182)</u> | <u>(14,943,331)</u> | <u>(14,622,237)</u> |
| Investments December 31, 2003 | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 16,115,684</u> |
| Total Cash and Investments at December 31, 2003 | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 4,038</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 16,148,599</u> |

| 1990 Bond Retirement Account | 1972 Bond Reserve Account | 1990 Bond Reserve Account | Reserve & Contingency Account | Hodge Utility Operating Account | 2003 Operating Account | 2003 Reserve & Contingency Account |
|------------------------------------|---------------------------------|---------------------------------|-------------------------------------|---------------------------------------|------------------------------|--|
| \$ 295 | \$ 795 | \$ 764 | \$ 227 | \$ 10,835 | \$ 0 | \$ 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 85,341 | 76,853 | 90,308 | 12,738 | 0 | 0 | 0 |
| 36,498,919 | 17,408,494 | 103,378,324 | 5,555,788 | 0 | 0 | 0 |
| <u>68,842,502</u> | <u>0</u> | <u>1,551</u> | <u>416,998</u> | <u>51,190,000</u> | <u>3,836,000</u> | <u>600,000</u> |
| <u>\$105,427,057</u> | <u>\$17,486,142</u> | <u>\$103,470,947</u> | <u>\$5,985,751</u> | <u>\$51,200,835</u> | <u>\$3,836,000</u> | <u>\$600,000</u> |
| \$ 68,418 | \$ 4,425,853 | \$ 9,438,548 | \$ 1,905,665 | \$51,193,446 | \$3,295,000 | \$ 0 |
| 96,058,639 | 13,060,288 | 94,032,399 | 4,080,086 | 0 | 0 | 0 |
| 9,300,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <u>\$105,427,057</u> | <u>\$17,486,141</u> | <u>\$103,470,947</u> | <u>\$5,985,751</u> | <u>\$51,193,446</u> | <u>\$3,295,000</u> | <u>\$ 0</u> |
| \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 7,389 | \$ 541,000 | \$600,000 |
| \$ 7,749,705 | \$ 4,348,206 | \$ 9,345,926 | \$ 1,475,702 | \$ 0 | \$ 0 | \$ 0 |
| 96,058,639 | 13,060,288 | 94,032,400 | 4,080,086 | 0 | 0 | 0 |
| (36,498,919) | (17,408,494) | (103,378,326) | (5,555,788) | 0 | 0 | 0 |
| <u>\$ 67,309,425</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| <u>\$ 67,309,425</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 7,389</u> | <u>\$ 541,000</u> | <u>\$600,000</u> |

Village of Hodge Combined Utility System
and
Hodge Utility Operating Company
Schedule of Monthly Deposit Requirements
Year Ended December 31, 2003

Revenue Fund

Based on an annual budget of \$58,642,989, the average monthly deposit to the Revenue Fund is \$4,886,916.

Interest Account

Deposits to the Interest Account for the Series 1972 bonds – January through December, \$95,750.

Deposits to the Interest Account for the Series 1990 bonds – January through December, \$558,000.

Sinking Fund

Deposits to Sinking Fund Account for the Series 1972 bonds – January through November, \$283,333; December, \$237,169.

Deposits to Sinking Fund Account for the Series 1990 bonds – January through November, \$775,000; December, \$765,052.

Reserve and Contingency Account

Deposits to Reserve and Contingency – January, \$37,908; February through December, \$37,909.

Village of Hodge Combined Utility System
and
Hodge Utility Operating Company
Schedule of Insurance in Force (Unaudited)
December 31, 2003

| <u>Type of Insurance Coverage</u> | <u>Insuring Company and Policy Number</u> | <u>Effective Dates</u> | | <u>Limits</u> |
|---|---|------------------------|-----------|---------------|
| | | <u>From</u> | <u>To</u> | |
| General Liability | Self-Insured | 4/1/03 | 4/01/04 | \$ 2,000,000 |
| Excess Liability Umbrella | American International Group BE2880359 | 4/1/03 | 4/1/04 | 3,000,000 |
| Workers' Compensation | Self-Insured RMWCX 5276472 (AOS) RMWCX 5276473 (MO) | 4/1/03 | 4/1/04 | 1,000,000 |
| Workers' Compensation and Employer's Liability | Zurich American Insurance Company RMWC 5276470 (NY, WI) RMWC 5276471 (MD) RMWC 5276469 | 4/1/03 | 4/1/04 | 2,000,000 |

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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*

To the Honorable Quenton Causey, Mayor
Village of Hodge
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, 2003, and have issued our report thereon dated April 23, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 & Company

April 23, 2004
Jonesboro, Louisiana

Village of Hodge Combined Utility System
and
Hodge Utility Operating Company
Schedule of Findings and Questioned Costs
Year Ended December 31, 2003

A. SUMMARY OF AUDIT RESULTS

1. The auditor's 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, 2003. Also, there were no prior year findings for the year ended December 31, 2002.

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.