

Hodge Utility Operating Company  
Hodge, Louisiana

Annual Financial Statements  
With Independent Auditor's Report

As of and For the Year Ended  
December 31, 2009  
With Supplemental Information Schedules

KENNETH D. FOLDEN & CO.

CERTIFIED PUBLIC ACCOUNTANTS

302 EIGHTH STREET  
JONESBORO, LA 71251  
(318) 259-7316  
FAX (318) 259-7315

Hodge Utility Operating Company  
Hodge, Louisiana

Annual Financial Statements  
With Independent Auditor's Report  
As of and For the Year Ended December 31, 2009  
With Supplemental Information Schedules

**CONTENTS**

	<u>Statement or Schedule</u>	<u>Page</u>
<b>Independent Auditor's Report</b>		2 - 3
<b>Basic Financial Statements:</b>		
Balance Sheets	A	4
Statements of Revenues, Expenses, and Changes in Retained Earnings	B	5
Statements of Cash Flows	C	6
Notes to the Financial Statements		7 - 14
<b>Supplemental Information Schedules</b>		
Schedule of Cash Receipts and Disbursements - Restricted Accounts Required by Indenture of Mortgage	1	15
Schedule of Monthly Deposit Requirements	2	16
<b>Independent Auditor's Report on Internal Control and On Compliance and Other Matters:</b>		
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		17 - 18
<b>Schedule of Findings and Questioned Costs</b>	3	19 - 21

# Kenneth D. Folden & Co.

Kenneth D. Folden, CPA  
Members  
Society of Louisiana  
Certified Public Accountants  
email: [kfolden@foldencpa.com](mailto:kfolden@foldencpa.com)

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

Ted W. Sanderlin, CPA  
Members  
American Institute of  
Certified Public Accountants  
email: [tsanderlin@foldencpa.com](mailto:tsanderlin@foldencpa.com)

## INDEPENDENT AUDITOR'S REPORT

Hodge Utility Operating Company  
Hodge, Louisiana

We were engaged to audit 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, 2009, as listed in the Table of Contents. These financial statements are the responsibility of the Combined Utility System, Village of Hodge, Louisiana, and of the Hodge Utility Operating Company, Hodge, Louisiana'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.

We were unable to obtain written representations from the Combined Utility System, Village of Hodge, Louisiana, and the Hodge Utility Operating Company, Hodge, Louisiana's management, or a legal representation letter from the Combined Utility System, Village of Hodge, Louisiana, and the Hodge Utility Operating Company, Hodge, Louisiana's legal counsel, as required by generally accepted auditing standards.

Because of the limitations described above, we are unable to express, and do not express, an opinion on the Combined Utility System, Village of Hodge, Louisiana, and the Hodge Utility Operating Company, Hodge, Louisiana financial statements as listed in the Table of Contents.

As described in Note 3, the Combined Utility System, Village of Hodge, Louisiana, and the Hodge Utility Operating Company, Hodge, Louisiana prepare their financial statements on the prescribed basis of accounting that demonstrates compliance with the bond indenture dated December 18, 2003, which does not necessarily conform to generally accepted accounting principles.

We found evidence that Smurfit Stone Container Enterprises was in default under the provisions of the utility contract between the Village of Hodge and Smurfit Stone Container Corporation during the period under audit. An explanation of the default is summarized in the accompanying schedule of findings as Item 2009-2 and Item 2009-3.

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. As discussed in the second paragraph above, we were unable to express opinions on the financial statements referred to in the first paragraph. Similarly, we are unable to express and do not express opinions on the supplemental schedules listed in the table of contents. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2013, 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. Felden & Co., CPAs*

February 8, 2013  
Jonesboro, Louisiana

Hodge Utility Operating Company  
Hodge, Louisiana

Combined Balance Sheet  
As of December 31, 2009

	Combined Utility System	Hodge Utility Operating Company	Total (Memorandum Only)	
			2009	2008
<b>ASSETS:</b>				
<b>Current Assets</b>				
Cash & Cash Equivalents	\$ -	\$ 7,566	\$ 7,566	\$ 17,714
Due from Village of Hodge Combined Utility System	-	4,440,807	4,440,807	3,268,543
Total Current Assets	-	4,448,373	4,448,373	3,286,257
<b>Restricted Assets</b>				
Cash	13,048	-	13,048	13,992
Receivables - Hodge Customers	35,894	-	35,894	38,077
Revenue Fund	138,447	-	138,447	-
Operating Fund	207,813	-	207,813	4,624,383
Reserve and Contingency Fund	370,104	-	370,104	602,628
Bond Fund	19,001	-	19,001	-
Total Restricted Assets	784,307	-	784,307	5,279,080
<b>Non-Current Assets</b>				
Capital Assets (net of accumulated depreciation)	314,866,677	-	314,866,677	314,866,677
Total Assets	<u>\$ 315,650,985</u>	<u>\$ 4,448,373</u>	<u>\$ 320,099,358</u>	<u>\$ 323,432,014</u>
<b>LIABILITIES:</b>				
<b>Current Liabilities</b>				
Accounts Payable	\$ -	\$ 4,448,373	\$ 4,448,373	\$ 3,286,257
<b>Payable from Restricted Assets</b>				
Accrued Revenue Bond Interest	5,769,777	-	5,769,777	1,442,444
Due to Hodge Utility Operating Company	4,408,499	-	4,408,499	3,268,543
Revenue Bonds Payable	58,085,000	-	58,085,000	58,085,000
Total Liabilities	<u>68,263,276</u>	<u>4,448,373</u>	<u>72,711,649</u>	<u>66,082,244</u>
<b>EQUITY:</b>				
<b>Net Assets</b>				
Contributed Capital	174,887,404	-	174,887,404	174,887,404
Reserved for Utility System Operations	3,825,000	-	3,825,000	3,825,000
Reserved for Bond Contingency	600,000	-	600,000	600,000
Unreserved	68,075,305	-	68,075,305	78,037,365
Total Equity	<u>247,387,709</u>	<u>-</u>	<u>247,387,709</u>	<u>257,349,770</u>
Total Liabilities and Equity	<u>\$ 315,650,985</u>	<u>\$ 4,448,373</u>	<u>\$ 320,099,358</u>	<u>\$ 323,432,014</u>

The accompanying notes are an integral part of this statement.

Hodge Utility Operating Company  
Hodge, Louisiana

Statement of Revenues, Expenses, and Changes in Net Assets  
For the Year Ended December 31, 2009

			Total (Memorandum Only) 2009	Total (Memorandum Only) 2008
	Combined Utility System	Hodge Utility Operating Company		
<b>OPERATING REVENUES:</b>				
Smurfit-Stone Container Corporation	\$ 23,393,826	\$ -	\$ 23,393,826	\$ 71,884,663
Hodge Residents Revenues	374,100	-	374,100	484,139
Hodge Water and Sewer Revenues	-	-	-	2,550
Operating Fees	-	29,403,665	29,403,665	66,571,950
Total Operating Revenues	<u>23,767,926</u>	<u>29,403,665</u>	<u>53,171,591</u>	<u>138,943,301</u>
<b>OPERATING EXPENSES:</b>				
Operating Fees	29,403,665	-	29,403,665	66,571,950
Administrative and Supervision	-	-	-	145,548
Salaried Labor	-	-	-	735,000
Production and Service Labor	-	-	-	1,869,000
Maintenance Labor	-	-	-	966,000
Overtime Premium	-	-	-	177,444
Employee Benefits	-	-	-	1,111,128
Maintenance Materials	-	-	-	4,524,996
Operating Supplies	-	-	-	1,555,248
Insurance	-	-	-	836,928
Fuel Gas	-	21,790,945	21,790,945	41,877,446
Tire Derived Fuel	-	-	-	327,508
Purchase Outside Services	-	587,254	587,254	82,259
Purchased Electricity and Demand	-	4,765,283	4,765,283	9,857,343
Purchased Coke	-	2,260,183	2,260,183	2,506,102
Miscellaneous Expense	-	-	-	-
Total Operating Expenses	<u>29,403,665</u>	<u>29,403,665</u>	<u>58,807,330</u>	<u>133,143,900</u>
Operating Income (Loss)	(5,635,738)	-	(5,635,738)	5,799,401
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Interest on Investments	1,010	-	1,010	59,355
Bond Interest Expense	(4,327,333)	-	(4,327,333)	(4,327,333)
Total Non-Operating Revenues	<u>(4,326,322)</u>	<u>-</u>	<u>(4,326,322)</u>	<u>(4,267,978)</u>
<b>NET INCOME (LOSS)</b>	(9,962,061)	-	(9,962,061)	1,531,423
<b>NET ASSETS - December 31, 2008</b>	78,037,365	-	78,037,365	76,505,942
<b>NET ASSETS - December 31, 2009</b>	<u>\$ 68,075,305</u>	<u>\$ -</u>	<u>\$ 68,075,305</u>	<u>\$ 78,037,365</u>

The accompanying notes are an integral part of this statement.

Hodge Utility Operating Company  
Hodge, Louisiana

Statement of Cash Flows  
For the Year Ended December 31, 2009

	Combined Utility System	Hodge Utility Operating Company	Total (Memorandum Only)	
			2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net Income (Loss)	\$ (9,962,061)	\$ -	\$ (9,962,061)	\$ 1,531,423
Adjustments to reconcile Net Income (Loss) to net cash provided by (used in) operating activities:				
Depreciation	-	-	-	-
(Increase) Decrease in Operating Assets:				
Due from Village of Hodge Combined Utility System	-	(1,172,264)	(1,172,264)	1,915,925
Receivables - Hodge Customers	2,183	-	2,183	(5,793)
Accrued Interest Receivable	-	-	-	-
Increase (Decrease) in Operating Liabilities:				
Accounts Payable	-	1,162,116	1,162,116	(1,905,294)
Due to Operating Company	5,467,288	-	5,467,288	(1,915,925)
Total Adjustments	5,469,471	(10,148)	5,459,323	(1,911,087)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>(4,492,590)</b>	<b>(10,148)</b>	<b>(4,502,738)</b>	<b>(379,664)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of Property, Plant & Equipment	-	-	-	-
Proceeds from the sale of fixed assets	-	-	-	-
Capital contribution from Smurfit Stone Container Enterprises	-	-	-	-
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Notes Payable Borrowings	-	-	-	-
Notes Payable Repayments	-	-	-	-
<b>Net Cash Provided By (Used In) Financing Activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(4,492,590)</b>	<b>(10,148)</b>	<b>(4,502,738)</b>	<b>(379,664)</b>
<b>CASH AND CASH EQUIVALENTS - December 31, 2008</b>	<b>5,241,003</b>	<b>17,714</b>	<b>5,258,717</b>	<b>5,638,381</b>
<b>CASH AND CASH EQUIVALENTS - December 31, 2009</b>	<b>\$ 748,413</b>	<b>\$ 7,566</b>	<b>\$ 755,979</b>	<b>\$ 5,258,717</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>				
Noncash Financing Transactions:				
Equipment Contributed by Smurfit Stone	\$ -	\$ -	\$ -	\$34,544,249
Total Noncash Financing Transactions	\$ -	\$ -	\$ -	\$34,544,249
Cash Paid During the Year:				
Interest (Net of Amounts Capitalized)	\$ -	\$ -	\$ -	\$ 4,327,333

The accompanying notes are an integral part of this statement.

Hodge Utility Operating Company  
Hodge, Louisiana

Notes to the Financial Statements  
As of and For the Year Ended December 31, 2009

**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 Refunding Bonds, Series 2003, 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 this indenture are outstanding (said Fund being hereinafter referred to as the "Revenue Fund"). The Revenue Fund shall be held and administered by the Trustee. Upon and after the issuance of any Bonds issued pursuant to this Indenture, the Village hereby obligates and binds itself irrevocably to set aside and pay to the Trustee in trust for the account of the Revenue Fund as promptly as practicable after receipt thereof of all Revenues derived by the Village through the ownership and operation by it of the project, and all other monies required to be deposited in the Revenue Fund pursuant to this Indenture further covenants and agrees that all such Revenues and other monies now or hereafter imposed thereon by law or contract, to the payment of which and for the purposes said Revenues and other monies as provided herein are hereby pledged.



Monies in the Revenue Fund not required for individual disbursement for the purposes for which said Fund is created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Trustee in Securities which shall mature prior to the respective dates when monies held for the credit of such Fund will be required for the purpose intended. The Trustee shall not be liable for any depreciation in value of any such investments. All income and profit resulting from the investment or reinvestment of said Fund shall accrue to and be deposited in the Revenue Fund.

Deposit of Revenues: All Revenues shall be promptly deposited into the Revenue Fund. As soon as practicable in each month after the deposit of Revenues in the Revenue Fund, the Trustee shall withdraw from the Revenue Fund such monies in the amounts and manner set forth in Sections 6.3, 6.4, 6.5 and 6.6 hereof.

#### Operating Fund

There is hereby created a special fund of the Village to be known as the "Combined Utility System Operating Fund" (herein referred to as the "Operating Fund"). Said Fund shall be held by the Trustee and shall be administered by the Operating Company. On the date of delivery of the Series 2003 Bonds there shall be deposited in the Operating Fund the sum of \$3,825,000, representing budgeted amounts necessary for operation and maintenance for the Project for the period ending January 31, 2005. Thereafter, the Trustee shall, on or before the last day of each calendar month, commencing January 31, 2005, 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 budgeted for expenses of operation and maintenance for the next succeeding calendar month, 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 Project for the Village under the provisions of the Operating Agreement, including, without limitation, the costs of operation and maintenance, accrual items and other related deferral items, the costs of fuel furnished by the Operating Company and all other Operating Expenses as defined in the Operating Agreement.

#### Bond Fund

There is hereby created a special fund of the Village to be known as the "Combined Utility System Bond Fund" (hereinafter referred to as the "Bond Fund"). The Bond Fund and the accounts herein shall be held and administered by the Trustee and shall be used solely for the purpose of paying the principal of and premium, if any, and interest on the Bonds, and of retiring the Bonds prior to the maturity and the manner herein provided. After making the payments hereinabove provided for into the Operating Fund, the Trustee shall pay out of the Revenues theretofore paid into the Revenue Fund, in trust for the account of the Bond Fund, certain amounts, sufficient to pay the principal of, the premium, if any, and interest on all the Bonds from time to time outstanding as the same respectively become due and payable, whether at maturity or upon redemption or acceleration or otherwise. Such amounts to be paid into the Bond Fund shall be as follows and in the following order of priority, to-wit:

1. There is hereby created, for the purpose of paying the interest on outstanding Bonds as the same becomes due and payable, an Interest Account in the Bond Fund (hereinafter referred to as the "Interest Account"). On or before the date on which such interest payment is due, the Trustee shall pay from the Revenue Fund into the Bond Fund to the credit of the Interest Account an amount equal to the installment of interest then falling due on all Bonds then outstanding. In addition, if any Bonds bear interest at a variable, floating or adjusted rate, the Trustee shall pay from the Revenue Fund into the Bond Fund to the credit of the Interest Account on the day prior to any interest payment date, any additional amount due on the next succeeding interest payment date.

2. There is also hereby created, for the purpose of paying outstanding Bonds as they mature, a Principal Account in the Bond Fund (hereinafter referred to as the "Principal Account"). Not later than each date upon which an installment of principal of the Bonds falls due, the Trustee shall pay from the Revenue Fund into the Bond Fund to the credit of the Principal Account an amount equal to the installment of principal next falling due.

3. There is also hereby created, for the purpose of meeting the specified sinking fund installment requirements of any additional Series of Bonds, a Bond Retirement Account in the Bond Fund (hereinafter referred to as the "Bond Retirement Account"). Beginning on the day specified in the Supplemental Indenture authorizing the issuance of said additional Series of Bonds, the Trustee shall pay from the Revenue Fund into the Bond Fund to the credit of the Bond Retirement Account an amount equal to the amount specified in the Supplemental Indenture.

4. Monies in the Interest Account, Principal Account and Bond Retirement Account in the Bond Fund shall be transmitted by the Trustee to the Paying Agent not later than the payment date upon which any interest or principal is due on the Bonds, either at maturity thereof or redemption date prior to maturity, in amounts sufficient to meet such maturing installments of principal of and premium, if any, and interest on the Bonds when due. In the event that there shall be a deficiency on such date in the Interest Account or Principal Account or Bond Retirement Account in the Bond Fund in that order, the Trustee shall promptly make up such deficiency from the Reserve and Contingency Fund.

5. Whenever and so long as the combined assets of the Bond Fund and the Redemption Fund shall be sufficient to provide monies to retire all Bonds then outstanding, including such interest thereon as thereafter may become due and payable and any premiums payable upon redemption thereof, no further payments need to be made into the Bond Fund.

The Bond Fund shall be drawn upon for the purpose of paying the principal of and premium, if any, and interest on the Bonds. Monies and Securities set aside from time to time with the Paying Agent for such payments shall be held in trust for the owners of the Bonds in respect of which the same shall have been so set aside. Until so set aside, all monies or Securities in the Bond Fund shall be held in trust for the benefit of the owners of all Bonds at the time outstanding, equally and ratably.

#### Redemption Fund

There is hereby created a special fund of the Village to be known as the "Combined Utility System Redemption Fund" (hereinafter referred to as the "Redemption Fund") and said Fund shall be held and administered by the Trustee. There shall be deposited to the credit of the Redemption Fund (1) monies transferred to such Fund to effectuate a redemption of Bonds pursuant to Section 3.1(a) or (c), and (2) certain proceeds transferred pursuant to Section 4.7 and Section 4.12. Monies on deposit in the Redemption Fund shall be used as promptly as practicable for the purpose of redeeming or purchasing Bonds prior to maturity in the manner provided in Article III hereof.

Monies on deposit in the Redemption Fund to be used for the redemption of bonds shall be transmitted by the Trustee to the Paying Agent not later than the date set for redemption.

#### 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" (herein referred to as the "Reserve and Contingency Fund") and said Fund shall be held in trust by the Trustee. After making the payments herein above provided for into the Operating Fund and into the Bond Fund, the Trustee shall on or before March 1 of each year pay out of the Revenue Fund into the Reserve and Contingency Fund that amount, if any, as may be recommended by the Consulting Engineer as necessary in the next succeeding twelve months for the purposes for which the

the Reserve and Contingency Fund was created. In connection with the making of any such withdrawal or deposit the Trustee will be entitled to rely on a certificate of the Operating Company with respect to the amount of the then commitments or obligations incurred by or on behalf of the Village for any of the purposes listed in this Section 6.6.

Monies in the Reserve and Contingency Fund shall be used from time to time to make up any deficiencies in the Interest Account, Principal Account or Bond Retirement Account in the Bond Fund; and such monies in the Reserve and Contingency Fund are hereby pledged as additional payments into the Bond Fund to the extent required to make up any such deficiencies. To the extent not required for any such deficiency, monies in the Reserve and Contingency Fund may be applied to any one or more of the following purposes:

- to pay, or to reimburse the Village for the payment of, the cost of renewals and replacements to the Project, other than minor items of property;
- to pay, or to reimburse the Village for the payment of, extraordinary operation and maintenance costs including the cost of preventing or correcting any unusual loss or damage (including major repairs), to the Project in order to keep the Project in good operating condition; and
- to pay, or to reimburse the Village for the payment of, the additions, betterments and improvements (other than Utility System Improvements) to the Project.

Except for the purpose of making up deficiencies in the payments required to be made into the Interest Account, Principal Account and Bond Retirement Account in the Bond Fund as aforesaid and except for the withdrawal of excess monies as aforesaid, monies in the Reserve and Contingency Fund shall be paid out by the Trustee only upon receipt by it of a requisition of the Operating Company, which requisition shall also be signed by the Consulting Engineer if the amount shall be in excess of \$50,000 per any one item, directing the disbursement of such money for one or more of the purposes authorized herein. Each such requisition shall state with respect to each item (a) the item number of the payment; (b) the name of the person, firm or corporation to whom payment is due for such item; (c) the amount to be paid; (d) that an obligation in the stated amount has been incurred for one or more of the purposes authorized by this Section and specifying the same; (e) that the item is a proper and reasonable charge against the Reserve and Contingency Fund; and (f) that the amount so specified has not theretofore been authorized to be paid.

Whenever and so long as the combined assets of the Bond Fund, Reserve and Contingency Fund and Redemption Fund shall be sufficient to provide monies to retire all bonds then outstanding, including such interest thereon as thereafter may become due and payable and any premiums upon redemption thereof, no further payments need to be made into the Reserve and Contingency Fund, and the monies on deposit in the Reserve and Contingency Fund shall be transferred to the Bond Fund and applied in accordance with the provisions thereof.

#### Investment

Monies held for the credit of the Interest Account, Principal Account and Bond Retirement Account in the Bond Fund and the Redemption Fund shall be invested by the Trustee in Securities which shall mature not later than the respective dates when the monies held for the credit of such Accounts will be required for the purposes intended.

Monies in the Operating Fund, shall, to the fullest extent practicable and reasonable, be invested by the Trustee in Securities which shall mature not later than the respective dates when monies held for the credit of such Fund shall be required for the purposes intended.

Monies in the Reserve and Contingency Fund not required for immediate disbursement for the purposes for which said Fund is created shall, to the fullest extent practicable and reasonable, be invested and

reinvested by the Trustee, solely in Securities maturing, or subject to redemption at the option of the owner thereof, not later than the final maturity date of the Bonds.

Notwithstanding anything to the contrary contained herein, any investment made by the Trustee pursuant to this Section shall be made in accordance with the written directions of the Village, and the Village agrees that it shall give such written directions and in such manner that the applicable funds shall at all times be invested to the fullest extent practicable and reasonable and with due regard to the amounts needed from time to time to make payments therefrom. In the event monies that are invested are needed to meet obligations thereof for which funds are not otherwise available, then the Trustee shall sell, or present for redemption, said investments to the extent required to provide funds for such purpose.

The Trustee shall not be liable for any depreciation in value of any such investment.

All income and profits resulting from the investment or reinvestment of the Interest Account, Principal Account and Bond Retirement Account in the Bond Fund shall be deposited in the Revenue Fund.

All income and profits resulting from the investment or reinvestment of the Operating Fund shall accrue to and be deposited in the Operating Fund. All income and profits resulting from the investment or reinvestment of the Reserve and Contingency Fund and the Redemption Fund shall accrue to and be deposited in the Reserve and Contingency Fund and the Redemption Fund, respectively.

### **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 December 18, 2003, 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.

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, 2009 is as follows:

Balance, January 1, 2009	\$ 314,866,677
Additions	-
Retirements	-
Balance, December 31, 2009	<u>\$ 314,866,677</u>

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

#### 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, 2009	\$ 58,085,000
Bonds Retired	-
Bonds Issued	-
Revenue Bonds Payable, December 31, 2009	<u>\$ 58,085,000</u>

Revenue Bonds:

- \$58,085,000 on March 1, 2024, interest rate of 7.45% payable semi-annually.

Due to the bankruptcy of Smurfit Stone Container Enterprises and the default on the interest payments of the revenue bonds, the outstanding debt of the bonds becomes current. The following schedule shows all principal due plus accrued interest for the year ended December 31, 2009:

Year Ending December 31	Principal	Interest	Total
2009	\$ 58,085,000	\$ 4,327,332	\$ 62,412,332
Total	\$ 58,085,000	\$ 4,327,332	\$ 62,412,332

**6. INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables and payables at December 31, 2009 are as follows:

	Receivable	Payable
Village of Hodge Combined Utility System	\$ -	\$ 4,408,499
Hodge Utility Operating Company	4,440,807	
Total	\$ 4,440,807	\$ 4,408,499

**7. EMPLOYEES RETIREMENT**

Neither the Combined Utility System nor Hodge Utility Operating Company has employees receiving pay directly. No retirement system exists. All employees and related retirement are carried by Smurfit-Stone Container Enterprise 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.

**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. On November 1, 2004, Jefferson Smurfit Corporation, a Delaware Corporation, entered into a merger agreement with Stone Container Corporation, under the name of Smurfit-Stone Container Enterprises, Inc., a corporation organized and existing under the laws of the State of Delaware.

**10. LITIGATION AND CLAIMS**

We have been unable to obtain a legal representation letter from the Hodge Utility Operating Company's legal counsel.

**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, 2009, revenues received by the Operating Company from the Village of Hodge for water and sewer usage were \$2,550. Expenses paid to the Village of Hodge were \$122,621.

## **12. CHAPTER 11 BANKRUPTCY**

Smurfit-Stone Container Enterprises filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy code on January 29, 2009. Smurfit-Stone Container Enterprises' audit report, for the year ended December 31, 2008, stated that the Enterprises' external auditors issued a going concern exception in their Independent Auditor's Report on Smurfit-Stone Container Enterprises' 2008 financial statements. Smurfit-Stone Container Enterprises is the primary customer of the Combined Utility System, Village of Hodge, Louisiana, and the Hodge Utility Operating Company, Hodge, Louisiana. Based on the original 1972 Operating Agreement, Continental Can Company, or its assigns, has guaranteed the principal and interest on the bond issues. As such, a going concern exception is included in the Independent Auditor's Report on the 2008 Financial Statements of the Combined Utility System, Village of Hodge, Louisiana, and the Hodge Utility Operating Company, Hodge, Louisiana.

The Combined Utility System, Village of Hodge, Louisiana, and the Hodge Utility Operating Company, Hodge, Louisiana, defaulted the March and September, 2009, interest payments on the Village of Hodge Revenue Refunding Bonds Series 2003. Beginning in January, 2009, the Combined Utility System, Village of Hodge, Louisiana, and the Hodge Utility Operating Company, Hodge, Louisiana, have violated the terms of the indenture of mortgage of the Village of Hodge Revenue Refunding Bonds Series 2003, by not flowing revenues and payments through the proper funds and accounts of the bond trustee.

## **13. SUBSEQUENT EVENTS**

On April 10, 2010, Smurfit Stone Container Enterprises (SSCE), the Village of Hodge, and the U.S. Bank Trust National Association (Indenture Trustee) entered into an agreement that is binding to all parties (including predecessors and successors). The agreement provided for the 2003 Bondholders a claim against Smurfit Stone Container Enterprises of \$75,500,000. This allowed pre-petition, non-priority, unsecured claim fully satisfies any and all past, present, and/or future obligations of SSCE and/or the Village to the Bond Trustee and/or the 2003 Bondholders. An amended and restated operating agreement was enacted by the Village of Hodge and the Hodge Utility Operating Company on June 30, 2010 that outlines the obligations of both parties.

On May 27, 2011, at a Smurfit Stone Container Enterprises stockholder meeting, stockholders voted to approve a merger with Rock-Tenn Company. Rock-Tenn agreed to purchase all outstanding SSCE's common stock. Under the amended and restated operating agreement, Rock-Tenn became the successor of SSCE and continues to operate per the April 10, 2010 operating agreement.

Management has evaluated subsequent events through the date that the financial statements were available to be issued, February 8, 2013. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Hodge Utility Operating Company  
Hodge, Louisiana

Schedule of Cash Receipts and Disbursements -  
Restricted Accounts Required by Indenture Mortgage

For the Year Ended December 31, 2009

	Revenue Account	Resident Revenue Account	2003 Bond Interest Account	Hodge Utility Operating Account	2003 Operating Account	2003 Reserve and Contingency Account
Cash - December 31, 2008	\$ -	\$ 13,992	\$ -	\$ 17,714	\$ 4,624,383	\$ 602,628
<b>Cash Receipts</b>						
Smurfit-Stone Container Corporation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hodge Residents Revenues	-	376,283	-	-	-	-
Hodge Water and Sewer Revenues	-	-	-	-	-	-
Investment Interest	65	-	240	-	63	642
Transfers In	138,382	-	238,043	19,722,999	238,664	-
Total Cash Available	<u>138,447</u>	<u>390,275</u>	<u>238,283</u>	<u>19,740,713</u>	<u>4,863,111</u>	<u>603,270</u>
<b>Cash Disbursements</b>						
Transfers Out	-	377,227	219,282	-	4,655,297	233,167
Bond Principal	-	-	-	-	-	-
Bond Interest	-	-	-	-	-	-
Operating Payments	-	-	-	19,733,147	-	-
Total Cash Disbursements	<u>-</u>	<u>377,227</u>	<u>219,282</u>	<u>19,733,147</u>	<u>4,655,297</u>	<u>233,167</u>
Cash - December 31, 2009	<u>\$ 138,447</u>	<u>\$ 13,048</u>	<u>\$ 19,001</u>	<u>\$ 7,566</u>	<u>\$ 207,813</u>	<u>\$ 370,104</u>



Hodge Utility Operating Company  
Hodge, Louisiana

Schedule of Monthly Deposit Requirements  
For the Year Ended December 31, 2009

As per the explanation in Note 12, Hodge Utility Operating Company did not operate according to the Operating Agreement. Therefore, no monthly deposits were made as required.

# Kenneth D. Folden & Co.

Kenneth D. Folden, CPA  
Members  
Society of Louisiana  
Certified Public Accountants  
email: [kfolden@foldencpa.com](mailto:kfolden@foldencpa.com)

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

Ted W. Sanderlin, CPA  
Members  
American Institute of  
Certified Public Accountants  
email: [tsanderlin@foldencpa.com](mailto:tsanderlin@foldencpa.com)

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Hodge Utility Operating Company  
Hodge, Louisiana

We were engaged to audit the financial statements of the the business-type activities and each major fund of the Hodge Utility Operating Company, as of and for the year ended December 31, 2009, which collectively comprise the Hodge Utility Operating Company's basic financial statements and have issued our report thereon dated February 8, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Hodge Utility Operating Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hodge Utility Operating Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hodge Utility Operating Company's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hodge Utility Operating Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as Item 2009-1, Item 2009-2, and Item 2009-3.

Hodge Utility Operating Company's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Hodge Utility Operating Company's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members of the Board of Directors of the Hodge Utility Operating Company, management of the Hodge Utility Operating Company, the Louisiana Legislative Auditor, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Kenneth D. Folden & Co., CPAs*

February 8, 2013  
Jonesboro, Louisiana

Hodge Utility Operating Company  
Hodge, Louisiana

Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2009

We have audited the basic financial statements of the Hodge Utility Operating Company as of and for the year ended December 31, 2009, and have issued our report thereon dated February 8, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-133. Our audit of the financial statements as of December 31, 2009 resulted in an unqualified opinion.

**A. SUMMARY OF AUDITOR'S REPORTS**

**Report on Internal Control and Compliance Material to Financial Statements**

Internal Control

Material Weaknesses  Yes  No      Other Conditions  Yes  No

Compliance

Compliance Material to Financial Statements  Yes  No

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

**CURRENT YEAR**

**2009-1-Compliance with Timely Filing of Report**

Criteria: Louisiana state statute (RS 24:513) requires that the audit report and audited financial statements be completed within six months of the close of the fiscal year.

Condition: The Combined Utility System, Village of Hodge and the Hodge Utility Operating Company did not have audited annual financial statements filed within six months of the close of the year as required by Louisiana state statute. Due to the bankruptcy of a related party and the subsequent violation of the bond agreement, the audit report was not completed until these issues were resolved.

Effect: The Combined Utility System, Village of Hodge and the Hodge Utility Operating Company is in violation of Louisiana state statute.

Recommendation: The Combined Utility System, Village of Hodge and the Hodge Utility Operating Company should become timely in filing the audit report and the audited financial statements as required by state law.

Management Response: Management is currently in the process of having the audit report and audited financial statements completed and issued.

### **2009-2-Violation of Bond Agreement - Nonpayment of Interest**

Criteria: Under the terms of the indenture of mortgage for the Refunding Bonds, Series 2003, interest payments are to be made in March and September of each year until 2024, when the principle of the bonds is to be repaid.

Condition: The Combined Utility System, Village of Hodge and the Hodge Utility Operating Company did not make the interest payments for March and September, 2009 due to the bankruptcy of Smurfit Stone Container Enterprises (SSCE). SSCE is the primary customer of the Combined Utility System.

Effect: Because the interest payments were not made, the Combined Utility System, Village of Hodge and the Hodge Utility Operating Company were in violation of the indenture of mortgage for the Refunding Bonds, Series 2003.

Recommendation: The Combined Utility System, Village of Hodge and the Hodge Utility Operating Company should become current with interest payments to bondholders.

Management Response: Per discussion in Note 12 and Note 13, the Combined Utility System, Village of Hodge and the Hodge Utility Operating Company have fully satisfied the claim of the 2003 Bondholders.

### **2009-3-Violation of Operating Agreement**

Criteria: Under the terms of the Operating Agreement, revenues and payments should flow through the proper funds and accounts of the bond trustee.

Condition: The Combined Utility System, Village of Hodge and the Hodge Utility Operating Company did not flow revenues and payments to the bond trustee because funds were not received from Smurfit Stone Container Enterprises.

Effect: The Combined Utility System, Village of Hodge and the Hodge Utility Operating Company was in violation of the operating agreement.

Recommendation: The Combined Utility System, Village of Hodge and the Hodge Utility Operating Company should follow the procedures provided in the operating agreement.

Management Response: Per discussion in Note 12 and Note 13, the Combined Utility System, Village of Hodge and the Hodge Utility Operating Company have fully satisfied the claim of the 2003 Bondholders. An amended and restated operating agreement has been entered.

## **PRIOR YEAR**

Instance of Non-Compliance

### **2008-01 - Late Report**

Condition: Louisiana state law requires that the Village of Hodge Combined Utility System and the Hodge Utility Operating Company have an annual audit performed and submitted to the Legislative Auditor within six (6) months after the close of their fiscal year. For the year ended December 31, 2008, this requirement was not met.

Effect: The Village of Hodge Combined Utility System and the Hodge Utility Operating Company are in non-compliance with state law.

Cause: Due to issues related to the bankruptcy of a related party, certain representation letters were not provided to the auditor, and until there was a decision not to sign those letters, the audit could not be completed.

Recommendation: Management should institute procedures to insure future filings are timely.

Management Response: Management has put in place procedures to insure future filings are timely.