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**VILLAGE OF HODGE
LOUISIANA**

**FINANCIAL STATEMENTS
JUNE 30, 2004**

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 1-26-05

VILLAGE OF HODGE, LOUISIANA
FINANCIAL STATEMENTS
JUNE 30, 2004

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McGEHEE AND KEEN, LLC
CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 1344
806 North Trenton
Ruston, Louisiana 71273-1344

INDEPENDENT AUDITORS' REPORT

The Honorable Quenton Causey, Mayor
and Board of Aldermen
Village of Hodge
P.O. Drawer 280
Hodge, Louisiana 71247

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Hodge, Louisiana, as of and for the year ended June 30, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Hodge's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village of Hodge, Louisiana, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

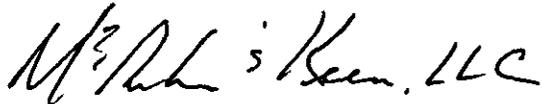
As described in Note 1, the Village of Hodge, Louisiana, has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments, as of June 30, 2004.

In accordance with Government Auditing Standards, we have also issued our report dated December 23, 2004, on our consideration of the Village of Hodge's internal control over financial reporting and on 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.

The management's discussion and analysis and budgetary comparison information on pages 4 through 8 and 30, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PAGE TWO

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Hodge's basic financial statements. The supplemental schedule of per diem payments is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental schedule of per diem payments has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "McGehee and Keen, LLC". The signature is written in a cursive, flowing style.

McGehee and Keen, LLC
Certified Public Accountants
December 23, 2004

**REQUIRED SUPPLEMENTAL INFORMATION
(PART I)**

TELEPHONE
(318) 259-4704



P.O. DRAWER 280
HODGE, LOUISIANA 71247

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

The Village has adopted the reporting principles and methods of the Governmental Accounting Standards Board's (GASB) Statement No. 34. This statement requires a "management's discussion and analysis" (MD&A) to be presented in financial reports which include the basic financial statements. The MD&A provides an overview of the financial activities of the Village based upon currently known facts, decisions, and conditions. Our MD&A follows; please read it in conjunction with the financial statements which begin on page 10.

Basic Financial Statements

The basic financial statements include government-wide and fund financial statements. The government-wide statements consist of a Statement of Net Assets and a Statement of Activities and provide information about the financial activities of the Village as a whole. The government-wide statements present a long-term view of our finances. Fund financial statements consist of the respective fund's balance sheet and statement of revenues, expenditures and changes in fund balance, if applicable. The fund statements tell how the Village's services were financed in the short-term and what remains for future spending. The primary difference between the fund and government-wide statement presentation methods is that expenditures for capital assets are expensed in the fund financial statements but capitalized and depreciated in the government-wide statements.

Statement of Net Assets and Statement of Activities

One of the most important questions asked about the Village's finances is, "Is the Village of Hodge as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Village as a whole and about our activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is a method similar to accounting used by most private-sector companies. All revenues and expenses of the current year are reported under this method regardless of when cash is received or disbursed.

These two statements report the Village's net assets and the changes in the net assets. You can think of net assets - the difference between assets and liabilities - as one way to measure the financial health, or financial position, of the Village. Increases/(decreases) in the Village's net assets are one indicator of whether its financial health is improving/(deteriorating). You will need to consider other nonfinancial factors, however, such as changes in the Village's tax base and the condition of the Village's roads, to assess the overall health of the Village.

In the Statement of Net Assets and Statement of Activities, we divide the Village into two kinds of activities:

Governmental Activities - Most of the Village's basic services are reported here, including the police, fire, sanitation, highways and streets, services to others, and general administration. Sales tax, occupational licenses, property taxes, franchise fees, charges for services, and fines finance most of these activities. Expenses primarily include salaries, depreciation, materials and supplies, repairs and maintenance, and insurance.

Business-Type Activities - The Village's water and sewer system are reported here. The Village charges a fee to customers to help cover part of the cost of these services. These charges plus transfers from the general fund finance most of these services. Expenses primarily include repairs and maintenance, depreciation, and operating supplies.

Government-Wide Financial Analysis

As noted above, net assets may serve as a useful indicator of the Village's financial position. The GASB Statement 34 reporting model was utilized for the first time for the year ended June 30, 2004. It was not required under this statement to restate prior period operating results to provide comparative data to the current year's operations, but in future years when prior year information is available, a comparative analysis will be presented. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the Village's governmental and business-type activities.

Table 1
Total Net Assets

| | Governmental Activities | Business- Type Activities | Total Primary Government |
|------------------------------|----------------------------|---------------------------------|--------------------------------|
| Current and Other Assets | \$ 806,771 | \$ 57,387 | \$ 864,158 |
| Capital Assets | <u>262,070</u> | <u>359,097</u> | <u>621,167</u> |
| Total Assets | <u>1,068,841</u> | <u>416,484</u> | <u>1,485,325</u> |
| Liabilities | <u>18,700</u> | <u>39,809</u> | <u>58,509</u> |
| Net Assets: | | | |
| Investment in Capital Assets | 262,070 | 359,097 | 621,167 |
| Unrestricted | <u>788,071</u> | <u>17,578</u> | <u>805,649</u> |
| Total Net Assets | <u>\$ 1,050,141</u> | <u>\$ 376,675</u> | <u>\$ 1,426,816</u> |

The largest portion of the Village's net assets are invested in cash (48%) and capital assets (44%). Net assets invested in capital assets consist of land, buildings, water and sewer system, and equipment. The Village uses these capital assets to provide services to its citizens; consequently, capital assets are not available for future spending.

About 56% (\$805,649) of total net assets is unrestricted. Nearly all unrestricted net assets are composed of cash as of June 30, 2004. Unrestricted net assets can be used to finance the day-to-day operations of the Village without constraints.

Table 2
Change in Net Assets

| | Governmental Activities | Business- Type Activities | Total Primary Government |
|---|----------------------------|---------------------------------|--------------------------------|
| Revenues | | | |
| Program Revenues: | | | |
| Charges for Services | \$ 83,886 | \$ 18,316 | \$ 102,202 |
| Operating Grants and Contributions | 13,370 | 0 | 13,370 |
| Capital Grants and Contributions | 1,477 | 0 | 1,477 |
| General Revenues: | | | |
| Taxes | 544,492 | 0 | 544,492 |
| Licenses | 22,065 | 0 | 22,065 |
| Other | <u>7,417</u> | <u>328</u> | <u>7,745</u> |
| Total Revenues | <u>672,707</u> | <u>18,644</u> | <u>691,351</u> |
| Program Expenses | | | |
| General Government | 131,737 | 0 | 131,737 |
| Fire | 30,532 | 0 | 30,532 |
| Police | 205,768 | 0 | 205,768 |
| Sanitation | 29,700 | 0 | 29,700 |
| Highways and Streets | 159,115 | 0 | 159,115 |
| Service to Others | 22,191 | 0 | 22,191 |
| Water and Sewer | <u>0</u> | <u>37,972</u> | <u>37,972</u> |
| Total Expenses | <u>579,043</u> | <u>37,972</u> | <u>617,015</u> |
| Excess (Deficiency) Before Transfers | 93,664 | (19,328) | 74,336 |
| Transfers | <u>(113,133)</u> | <u>113,133</u> | <u>0</u> |
| Increase (Decrease) in Net Assets | (19,469) | 93,805 | 74,336 |
| Net Assets-Beginning | <u>1,069,610</u> | <u>282,870</u> | <u>1,352,480</u> |
| Net Assets-Ending | <u>\$ 1,050,141</u> | <u>\$ 376,675</u> | <u>\$ 1,426,816</u> |

Governmental activities were responsible for a decrease in the Village's net assets of about 1% (\$19,469), for the year ended June 30, 2004. This decrease was mainly due to an increase in transfers to the business-type activities to finance improvements to the sewer system.

Business-type activities increased net assets by about 7% (\$93,805) for the year ended June 30, 2004. Key elements of this increase are as follows:

- (1) The Village transferred \$113,133 from the General fund for the primary purpose of constructing sewer improvements.
- (2) The Village experienced about a \$19,000 operating loss for the current year. There was about a \$41,000 operating loss reported in the prior year. The difference between these operating losses was primarily the result of a decrease in repairs and maintenance expense in the current year.

The Village does not charge sufficient fees to cover the operating expenses of the water and sewer fund, but depends on being able to transfer funds from the general fund to cover operating expenses.

Fund Financial Statements

As of June 30, 2004, the governmental fund reported a fund balance of \$788,071, which is a decrease of less than 1% (\$3,045) in the fund balance from the previous year. The key element for this decrease is the transfer of about \$108,000 more to the water and sewer fund than in the prior year.

Amounts reported for business-type activities in the Village's individual funds are identical to the business-type activities reported in the government-wide presentation.

General Fund Budgetary Highlights

The Village did not amend the 2003-2004 budget for differences between actual and budgeted revenues and/or expenditures, as there were no unfavorable variances exceeding 5% of the amounts budgeted. However, there were significant variances between actual results and budgeted amounts, as reported on page 30. Revenue was about 11% (\$67,000) over budgeted amounts. The budget had projected sales tax to remain fairly consistent with the prior year; however, sales tax revenue was about 15% (\$52,000) more than budgeted. Expenditures for general government were about 18% (\$29,000) less than budgeted primarily due to equipment repairs and maintenance being considerably less than budgeted. Police expenditures were about 21% (\$51,000) less than budgeted due to the following key elements: (1) Auto expenses were about 83% (\$13,000) less than budgeted, (2) Insurance expense was about 50% (\$12,000) less than budgeted, (3) Salaries and benefits were about 16% (\$24,000) less than budgeted. Expenditures for the street department were about \$200,000 less than budgeted, because the proposed street project was postponed. Finally, operating transfers were 29% (\$47,000) less than budgeted, due to the cost of sewer improvements being less than anticipated.

Capital Assets

The Village invested \$127,596 in capital assets for the fiscal year ending June 30, 2004, through the general fund. For the upcoming year, the Village plans to fund another sewer improvement project with funds from the general fund, which is estimated to cost about \$110,000. The Village also plans to purchase a police car for about \$25,000 using funds from the general fund. An additional \$5,000 has been set aside to fund the purchase of police equipment, if needed. The Village also set aside \$25,000 for the purchase of fire equipment and \$6,000 for any general and administrative equipment, if needed. There are no plans to issue debt to finance the purchase of any other future project. More detailed information about the Village's capital assets is presented in the notes to the financial statements.

Next Year's Budget and Rates

The Village considered many factors when setting the budget for the year ending June 30, 2005. Anticipated general fund revenues are \$589,750, which is about 12% (\$83,000) less than the actual 2004 amounts. This budgetary decrease is primarily due to a decrease in 2005 sales tax collections from the abnormally high levels of 2004. General fund expenditures are expected to be \$1,311,148, a 94% (\$635,000) increase from the 2004 actual amounts. This budgetary increase is primarily due to increases in anticipated capital outlays.

Business-type activities are expected to continue to be underfunded, as discussed above, with the general fund providing monies to cover any deficits and capital outlay. If the budget estimates for the general fund are realized, a deficit of about \$721,400 is expected in the governmental fund.

Requests for Additional Information

This financial report is designed to provide citizens and taxpayers with a general overview of the finances of the Village of Hodge and to show accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Village of Hodge at P.O. Drawer 280, Hodge, LA 71247. The phone number for the Village is (318) 259-4704.

GOVERNMENT WIDE FINANCIAL STATEMENTS

VILLAGE OF HODGE, LOUISIANA
STATEMENT OF NET ASSETS
JUNE 30, 2004

| | <u>Governmental Activities</u> | <u>Business Type Activities</u> | <u>Total</u> |
|----------------------------|------------------------------------|---|---------------------|
| ASSETS | | | |
| Cash | \$ 658,157 | \$ 21,386 | \$ 679,543 |
| Receivables--Net | 119,432 | 1,275 | 120,707 |
| Due from Other Governments | 12,833 | 0 | 12,833 |
| Prepaid Insurance | 16,349 | 2,083 | 18,432 |
| Restricted Assets | | | |
| Cash-Customers' Deposits | 0 | 32,643 | 32,643 |
| Capital Assets--Net | <u>262,070</u> | <u>359,097</u> | <u>621,167</u> |
| TOTAL ASSETS | <u>1,068,841</u> | <u>416,484</u> | <u>1,485,325</u> |
| LIABILITIES | | | |
| Accounts Payable | 10,986 | 6,609 | 17,595 |
| Accrued Expenses | 7,714 | 557 | 8,271 |
| Customers' Deposits | <u>0</u> | <u>32,643</u> | <u>32,643</u> |
| TOTAL LIABILITIES | <u>18,700</u> | <u>39,809</u> | <u>58,509</u> |
| NET ASSETS | | | |
| Invested in Capital Assets | 262,070 | 359,097 | 621,167 |
| Unrestricted | <u>788,071</u> | <u>17,578</u> | <u>805,649</u> |
| TOTAL NET ASSETS | <u>\$ 1,050,141</u> | <u>\$ 376,675</u> | <u>\$ 1,426,816</u> |

See accompanying notes to financial statements.

VILLAGE OF HODGE, LOUISIANA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | |
|---|-------------------|-------------------------|--|--|----------------------------|------------------------|---------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business Activities | Total |
| PRIMARY GOVERNMENT | | | | | | | |
| GOVERNMENTAL ACTIVITIES: | | | | | | | |
| General Government | \$ 131,737 | \$ 0 | \$ 0 | \$ 0 | \$ (131,737) | \$ 0 | \$ (131,737) |
| Fire | 30,532 | 0 | 3,170 | 0 | (27,362) | 0 | (27,362) |
| Police | 205,768 | 37,332 | 10,200 | 1,477 | (156,759) | 0 | (156,759) |
| Sanitation | 29,700 | 6,625 | 0 | 0 | (23,075) | 0 | (23,075) |
| Highways and Streets | 159,115 | 2,404 | 0 | 0 | (156,711) | 0 | (156,711) |
| Services to Related Party | 22,191 | 37,525 | 0 | 0 | 15,334 | 0 | 15,334 |
| TOTAL GOVERNMENTAL ACTIVITIES | <u>579,043</u> | <u>83,886</u> | <u>13,370</u> | <u>1,477</u> | <u>(480,310)</u> | <u>0</u> | <u>(480,310)</u> |
| BUSINESS-TYPE ACTIVITIES: | | | | | | | |
| Water and Sewer | 37,972 | 18,316 | 0 | 0 | 0 | (19,656) | (19,656) |
| TOTAL PRIMARY GOVERNMENT | <u>\$ 617,015</u> | <u>\$ 102,202</u> | <u>\$ 13,370</u> | <u>\$ 1,477</u> | <u>(480,310)</u> | <u>(19,656)</u> | <u>(499,966)</u> |
| GENERAL REVENUES: | | | | | | | |
| Taxes | | | | | | | |
| Ad Valorem | | | | | 130,052 | 0 | 130,052 |
| Sales and Use | | | | | 402,384 | 0 | 402,384 |
| Franchise | | | | | 12,056 | 0 | 12,056 |
| Licenses | | | | | 22,065 | 0 | 22,065 |
| Investment Earnings | | | | | 4,786 | 328 | 5,114 |
| Other Revenue | | | | | 2,631 | 0 | 2,631 |
| TRANSFERS | | | | | <u>(113,133)</u> | <u>113,133</u> | <u>0</u> |
| TOTAL GENERAL REVENUES AND TRANSFERS | | | | | <u>460,841</u> | <u>113,461</u> | <u>574,302</u> |
| CHANGE IN NET ASSETS | | | | | (19,469) | 93,805 | 74,336 |
| NET ASSETS-BEGINNING | | | | | <u>1,069,610</u> | <u>282,870</u> | <u>1,352,480</u> |
| NET ASSETS-ENDING | | | | | <u>\$ 1,050,141</u> | <u>\$ 376,675</u> | <u>\$ 1,426,816</u> |

See accompanying notes to financial statements.

FUND FINANCIAL STATEMENTS

VILLAGE OF HODGE, LOUISIANA
BALANCE SHEET
GOVERNMENTAL FUND
GENERAL FUND
JUNE 30, 2004

ASSETS

| | |
|-----------------------------------|--------------------------|
| Cash and Cash Equivalents | \$ 658,157 |
| Receivables--Net | 119,432 |
| Receivable from Other Governments | 12,833 |
| Prepaid Insurance | <u>16,349</u> |
| TOTAL ASSETS | \$ <u>806,771</u> |

LIABILITIES AND FUND BALANCE

LIABILITIES:

| | |
|--------------------------|----------------------|
| Accounts Payable | \$ 10,986 |
| Accrued Expenses | <u>7,714</u> |
| TOTAL LIABILITIES | <u>18,700</u> |

FUND BALANCE:

| | |
|---|--------------------------|
| Unreserved | <u>788,071</u> |
| TOTAL FUND BALANCE | <u>788,071</u> |
| TOTAL LIABILITIES AND FUND BALANCE | \$ <u>806,771</u> |

RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004

| | |
|--|-------------------|
| Total Fund Balances-Governmental Fund | \$ 788,071 |
|--|-------------------|

Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported in
the governmental funds.

| | |
|--|----------------------------|
| | <u>278,493</u> |
| Net Assets of Governmental Activities | \$ <u>1,066,564</u> |

VILLAGE OF HODGE, LOUISIANA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES--GOVERNMENTAL FUND
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

REVENUES

| | |
|---------------------------------|-----------------------|
| Taxes | |
| <i>Ad Valorem</i> | \$ 130,052 |
| Franchise | 12,056 |
| Sales and Use | 402,384 |
| Licenses | 22,065 |
| Intergovernmental | |
| <i>Right-of-Way Maintenance</i> | 2,404 |
| Fire Insurance Rebates | 3,170 |
| State Grants | 1,477 |
| Supplemental Pay-Police | 10,200 |
| Charges for Services | |
| Connection Fees | 360 |
| Garbage Fees | 5,470 |
| Mowing | 600 |
| Services to Related Party | 36,576 |
| Fines and Forfeitures | 37,332 |
| Investment Earnings | 4,786 |
| Other Revenues | |
| Rent | 589 |
| Royalties | 2,631 |
| Sale of Barrels | 528 |
| Miscellaneous | <u>27</u> |
| TOTAL REVENUES | <u>672,707</u> |

EXPENDITURES

| | |
|---------------------------|-----------------------|
| General Government | 127,960 |
| Fire | 15,228 |
| Police | 190,744 |
| Sanitation | 24,400 |
| Highways and Streets | 147,993 |
| Services to Related Party | 22,191 |
| Capital Outlay | <u>34,103</u> |
| TOTAL EXPENDITURES | <u>562,619</u> |

**EXCESS OF REVENUES
OVER EXPENDITURES**

110,088

OTHER FINANCING USES

Operating Transfers Out (113,133)

TOTAL OTHER FINANCING USES

(113,133)

**DEFICIENCY OF REVENUES UNDER
EXPENDITURES AND OTHER USES**

(3,045)

FUND BALANCE-BEGINNING

791,116

FUND BALANCE-ENDING

\$ 788,071

See accompanying notes to financial statements.

VILLAGE OF HODGE, LOUISIANA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

NET CHANGE IN FUND BALANCES-GOVERNMENTAL FUNDS \$ (3,045)

**Amounts Reported for Governmental Activities in the Statement of
Activities are Different Because:**

Governmental Funds report capital outlays as expenditures.

However, in the Statement of Activities the cost of those assets
is allocated over their estimated useful lives and reported as
depreciation expense. This is the amount by which depreciation
exceeded capital outlays in the current period.

(16,424)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (19,469)

VILLAGE OF HODGE, LOUISIANA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

| | <u>Water and Sewer Enterprise Fund</u> |
|---|--|
| ASSETS | |
| CURRENT ASSETS: | |
| Cash | \$ 21,386 |
| Accounts Receivable | 1,275 |
| Prepaid Insurance | <u>2,083</u> |
| TOTAL CURRENT ASSETS | <u>24,744</u> |
| NON-CURRENT ASSETS: | |
| Restricted Assets | |
| Cash-Customers' Deposits | <u>32,643</u> |
| Total Restricted Assets | <u>32,643</u> |
| Capital Assets--Net of Accumulated Depreciation | <u>359,097</u> |
| TOTAL NON-CURRENT ASSETS | <u>391,740</u> |
| TOTAL ASSETS | <u>416,484</u> |
| LIABILITIES | |
| CURRENT LIABILITIES | |
| Accounts Payable | 6,609 |
| Sales Tax Payable | <u>557</u> |
| TOTAL CURRENT LIABILITIES | <u>7,166</u> |
| NON-CURRENT LIABILITIES | |
| Customers' Deposits Payable | <u>32,643</u> |
| TOTAL NON-CURRENT LIABILITIES | <u>32,643</u> |
| TOTAL LIABILITIES | <u>39,809</u> |
| NET ASSETS | |
| Invested in Capital Assets | 359,097 |
| Unrestricted | <u>17,578</u> |
| TOTAL NET ASSETS | <u>\$ 376,675</u> |

See accompanying notes to financial statements.

VILLAGE OF HODGE, LOUISIANA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2004

| | <u>Water and Sewer Enterprise Fund</u> |
|--------------------------------------|--|
| OPERATING REVENUES | |
| Water Sales | \$ 10,550 |
| Sewer Fees | 4,306 |
| Delinquent Fees | <u>3,460</u> |
| TOTAL OPERATING REVENUES | <u>18,316</u> |
| OPERATING EXPENSES | |
| Depreciation | 13,028 |
| Insurance | 4,085 |
| Miscellaneous | 44 |
| Operations and Maintenance of System | 8,993 |
| Outside Services | 8,457 |
| Safe Drinking Water Fee | 815 |
| Purchased Utilities | <u>2,550</u> |
| TOTAL OPERATING EXPENSES | <u>37,972</u> |
| OPERATING LOSS | <u>(19,656)</u> |
| NON-OPERATING REVENUES | |
| Interest Income | <u>328</u> |
| TOTAL NON-OPERATING REVENUES | <u>328</u> |
| LOSS BEFORE TRANSFERS | (19,328) |
| TRANSFERS IN | <u>113,133</u> |
| CHANGE IN NET ASSETS | 93,805 |
| TOTAL NET ASSETS-BEGINNING | <u>282,870</u> |
| TOTAL NET ASSETS-ENDING | <u>\$ 376,675</u> |

See accompanying notes to financial statements.

VILLAGE OF HODGE, LOUISIANA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2004

| | <u>Water and Sewer Enterprise Fund</u> |
|---|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash Received from Customers and Users | \$ 21,163 |
| Cash Payments for Goods and Services | <u>(22,079)</u> |
| NET CASH USED BY OPERATING ACTIVITIES | <u>(916)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Operating Transfers from General Fund | <u>19,640</u> |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | <u>19,640</u> |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | |
| Capital Contributed from General Fund | 93,493 |
| Payment of Construction Costs | <u>(93,493)</u> |
| NET CASH USED BY CAPITAL FINANCING ACTIVITIES | <u>0</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest Received | <u>327</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>327</u> |
| NET INCREASE IN CASH | 19,051 |
| CASH AT BEGINNING OF YEAR | <u>34,977</u> |
| CASH AT END OF YEAR | <u>\$ 54,029</u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES: | |
| Operating Loss | \$ (19,656) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities-- | |
| Depreciation | 13,028 |
| (Increase) Decrease in Accounts Receivable | 47 |
| (Increase) Decrease in Prepaid Insurance | (161) |
| Increase (Decrease) in Accounts Payable | 3,457 |
| Increase (Decrease) in Sales Tax Payable | (431) |
| Increase (Decrease) in Customers' Deposits | <u>2,800</u> |
| Total Adjustments | <u>18,740</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ (916)</u> |

See accompanying notes to financial statements.

VILLAGE OF HODGE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

The Village of Hodge, Louisiana, was incorporated under the provisions of the Lawrason Act January 31, 1928. The Village operates under a Mayor-Board of Aldermen form of government with three aldermen. Services provided by the Village include police protection, fire protection, sanitation, services to others, and street maintenance. The Village also operates a water distribution system and sewer system for about 300 customers. The Village is located in Jackson Parish, Louisiana.

The accompanying basic financial statements of the Village of Hodge, Louisiana, are prepared in accordance with governmental accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing generally accepted accounting principles for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Village has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Village has chosen not to do so. The more significant accounting policies established in GAAP and used by the Village are discussed below.

In June, 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. Certain of the significant changes in the Statement include the following:

For the first time the financial statements include:

- (1) A Management's Discussion and Analysis (MD &A) section providing an analysis of the overall financial position and results of operations for the Village of Hodge.
- (2) Financial statements prepared using full accrual accounting for all of the activities of the Village of Hodge.

A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements). The Village has elected to implement the general provisions of the Statement in the current year and chose not to retroactively report infrastructure assets (i.e., general infrastructure assets acquired or constructed prior to July 1, 2003, are not reported in the financial statements).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

GASB Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under the provisions of this Statement, the Village of Hodge is considered a primary government, since it is a special purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments. As used in GASB Statement No. 14, fiscally independent means that the municipality may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges, and issue bonded debt. Component units can be identified by financial accountability and whether exclusion would create misleading or incomplete financial statements. No component units were identified for the Village of Hodge.

VILLAGE OF HODGE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basic Financial Statements--Government-Wide Statements

The Village's basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village's major funds). Both government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Village's fire protection, police protection, highways and streets, sanitation, services to others, and general administrative services are classified as governmental activities. The Village's water and sewer services are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column. They are reported on a full accrual, *economic resource* basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net assets are reported in three parts--invested in capital assets, restricted net assets, and unrestricted net assets.

The government-wide Statement of Activities reports both the gross and net costs of each of the Village's functions and business-type activities. The functions are also supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating grants, and capital grants. Program revenues must be directly associated with the function or a business-type activity. The net costs (by function or business-type activity) are normally covered by general revenue (taxes, intergovernmental revenues, interest income, etc.). The Village does not allocate indirect costs.

The government-wide focus is more on the sustainability of the Village as an entity and the change in the Village's net assets resulting from the current year's activities.

C. Basic Financial Statements--Fund Financial Statements

The financial transactions of the Village of Hodge are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following funds are used by the Village of Hodge:

Governmental Funds--The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Village of Hodge:

General Fund

The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary Funds--The focus of proprietary fund measurement is upon determination of operating income, changes in net asset, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the Village:

VILLAGE OF HODGE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Enterprise Funds

Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured, basis of accounting refers to the when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for services, interest income, royalties, rent, and intergovernmental revenues. Sales tax collected and held by the sales tax collection agency at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

The Village reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

VILLAGE OF HODGE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Deposits and Investments

Cash and cash equivalents consist of cash on hand, demand deposits, interest-bearing demand deposits, and short-term time deposits with original maturities of three months or less from date of acquisition.

Under state law, the Village of Hodge may invest funds in collateralized certificates of deposits, government backed securities, commercial paper, the state sponsored investment pool, and mutual funds consisting solely of government backed securities. Investments are reported at fair value.

F. Restricted Assets

Restricted assets represent resources that must be expended in a specific manner. The "customers' deposits" account is used to report proceeds from customers' meter deposits. A corresponding liability is presented to record these funds held by the enterprise fund. In situations where it is permissible to spend restricted resources, the Village typically depletes the available restricted resources before consuming unrestricted resources.

G. Compensated Absences

Employees earn either one, two, or three weeks of vacation time each year, depending upon years of service. Employees earn seven days to six weeks of sick leave each year. Vacation and sick leave cannot be accumulated.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" on the fund financial statements balance sheets, as well as all other outstanding balances between funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

VILLAGE OF HODGE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All trade and ad valorem tax receivables are shown net of an allowance for uncollectibles. Uncollectible amounts due for ad valorem taxes and water and sewer revenue are recognized as bad debts through the establishment of an allowance account.

Ad Valorem taxes are levied on a calendar year basis and become delinquent on December 31. The Village bills and collects its own Ad Valorem taxes. For the 2003 Ad Valorem Taxes, one rate of tax was levied on property within the corporate limits, as follows:

6.90 mills for the general maintenance of the Village. This millage was approved by the Village Council September 2, 2003. This millage is the maximum millage that can be assessed without the approval of voters.

For the year ended June 30, 2004, taxes of \$130,131 were levied on property. There were no amounts receivable at June 30, 2004.

The following are the principal taxpayers and related ad valorem tax revenue for the Village:

| | |
|--------------------------------|-------------------|
| Smurfit-Stone Container | \$ 90,355 |
| General Electric Railcar | 13,135 |
| Hodge Bank and Trust | 5,740 |
| Caterpillar Financial Services | 2,603 |
| Railcar Associates, L.P./ALM | <u>2,482</u> |
| Total | <u>\$ 114,315</u> |

The qualified electors of the Village of Hodge authorized a one cent sales and use tax levy to be dedicated and used for the purpose of providing funds for any lawful corporate purpose of the Village for an undefined period of time. The tax was first levied on December 1, 1983.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are capitalized at historical cost. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. All capital assets, other than land, are depreciated using the straight-line method over the following estimated useful lives:

| | |
|-----------------------------------|-------------|
| Buildings | 40 years |
| Water and Sewer Systems | 10-40 years |
| Machinery and Equipment | 5-15 years |
| Improvements other than Buildings | 20 years |

General infrastructure capital assets consisting of streets, bridges, sidewalks, and drainage systems acquired before July 1, 2003, are excluded from capital assets.

VILLAGE OF HODGE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

L. Prepaid Insurance

Payments made to insurance companies for insurance coverage that will benefit periods beyond June 30, 2004, are recorded as prepaid items in the asset section of the fund financial statements balance sheet.

M. Budget Information

The Village of Hodge prepared an operating budget on its General Fund and Special Revenue Fund for the year ended June 30, 2004. Budgetary data utilized in preparing the operating budget is gathered from actual prior year operating revenues and expenditures and from expected and known changes in future revenues and expenditures. It is monitored by management and amended throughout the year as necessary. Appropriates lapse at year-end and must be reappropriated for the following year to be expended.

The 2003-2004 general fund budget was published in the official journal and made available for public inspection. A public hearing for the proposed budget was held on June 26, 2003, and the budget was adopted by the mayor and board of aldermen. There were no amendments made to the budget.

NOTE 2 - CASH AND CASH EQUIVALENTS

At June 30, 2004, the Village has cash and restricted cash (book balances) totaling \$712,186, as follows:

| | |
|-----------------|-------------------|
| Cash on Hand | \$ 525 |
| Demand Deposits | 600,605 |
| Time Deposits | <u>111,055</u> |
| Total | <u>\$ 712,185</u> |

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal or exceed the amount on deposit with the fiscal agent. These securities are held in the name of the pledging agent bank in a holding or custodial bank that is mutually acceptable to both parties.

The Village maintains its cash accounts in various banks. Each bank provides Federal Deposit Insurance Corporation (FDIC) coverage of \$100,000 for all demand deposits and \$100,000 for all time deposits (time deposits are defined as any interest bearing account). At June 30, 2004, the Village has \$607,598 in deposits (collected bank balances). These deposits are secured from risk by \$100,000 of federal deposit insurance and \$751,563 of pledged securities held by a custodial bank in the name of the fiscal agent bank.

VILLAGE OF HODGE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 3 - RECEIVABLES

The receivables of \$120,707 at June 30, 2004, are as follows:

| | <u>General Fund</u> | <u>Enterprise Fund</u> | <u>Total</u> |
|---------------|-------------------------|----------------------------|------------------|
| Taxes | | | |
| Sales and Use | 115,428 | 0 | 115,428 |
| Franchise | 2,578 | 0 | 2,578 |
| Accounts | 575 | 1,275 | 1,850 |
| Other | <u>851</u> | <u>0</u> | <u>851</u> |
| Total | <u>\$119,432</u> | <u>\$ 1,275</u> | <u>\$120,707</u> |

NOTE 4 - DUE FROM OTHER GOVERNMENTS

The amounts due from other governments at June 30, 2004, are as follows:

| | <u>General Fund</u> | <u>Enterprise Fund</u> | <u>Total</u> |
|---|-------------------------|----------------------------|------------------|
| Right-of-Way Maintenance | \$ 1,202 | \$ 0 | \$ 1,202 |
| DWI Fines from Jackson Parish Sheriff | 1,025 | 0 | 1,025 |
| Reimbursement of Services from the Hodge Utility Operating Company | <u>10,606</u> | <u>0</u> | <u>10,606</u> |
| Total | <u>\$ 12,833</u> | <u>\$ 0</u> | <u>\$ 12,833</u> |

NOTE 5 - RESTRICTED ASSETS--PROPRIETARY FUND TYPE

Restricted assets were applicable to the following at June 30, 2004:

Customers' Deposits \$ 32,643

NOTE 6 - CAPITAL ASSETS

Capital assets and depreciation activity as of and for the year ended June 30, 2004, for the Village of Hodge is as follows:

| | <u>Beginning Balance 07/01/03</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance 06/30/04</u> |
|------------------------------------|---|--------------------|------------------|--|
| Governmental Activities: | | | | |
| Capital Assets | | | | |
| Land | \$ 39,291 | \$ 0 | \$ 0 | \$ 39,291 |
| Buildings | 203,012 | 9,044 | 0 | 212,056 |
| Improvements Other than Buildings | 56,224 | 0 | 0 | 56,224 |
| Machinery and Equipment | <u>505,862</u> | <u>25,059</u> | <u>(22,654)</u> | <u>508,267</u> |
| Total Capital Assets | <u>804,389</u> | <u>34,103</u> | <u>(22,654)</u> | <u>815,838</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 118,609 | 5,207 | 0 | 123,816 |
| Improvements Other than Buildings | 53,877 | 208 | 0 | 54,085 |
| Machinery and Equipment | <u>353,410</u> | <u>45,111</u> | <u>(22,654)</u> | <u>375,867</u> |
| Total Accumulated Depreciation | <u>525,896</u> | <u>50,526</u> | <u>(22,654)</u> | <u>553,768</u> |
| Governmental Capital Assets, Net | <u>\$ 278,493</u> | <u>\$ (16,423)</u> | <u>\$ 0</u> | <u>\$ 262,070</u> |

VILLAGE OF HODGE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 6 - CAPITAL ASSETS (CONTINUED)

| | Beginning Balance <u>07/01/03</u> | <u>Additions</u> | <u>Deletions</u> | Ending Balance <u>06/30/04</u> |
|------------------------------------|---|------------------|------------------|--------------------------------------|
| Business-Type Activities: | | | | |
| Capital Assets | | | | |
| Water and Sewer Systems | \$ 330,711 | \$ 93,493 | \$ 0 | \$ 424,204 |
| Machinery and Equipment | <u>37,282</u> | <u>0</u> | <u>0</u> | <u>37,282</u> |
| Total | <u>367,993</u> | <u>93,493</u> | <u>0</u> | <u>461,486</u> |
| Less Accumulated Depreciation for: | | | | |
| Water and Sewer Systems | 52,079 | 13,028 | 0 | 65,107 |
| Machinery and Equipment | <u>37,282</u> | <u>0</u> | <u>0</u> | <u>37,282</u> |
| Total Accumulated Depreciation | <u>89,361</u> | <u>13,028</u> | <u>0</u> | <u>102,389</u> |
| Business-Type Capital Assets, Net | <u>\$ 278,632</u> | <u>\$ 80,465</u> | <u>\$ 0</u> | <u>\$ 359,097</u> |

Depreciation expense of \$50,526 for the year ended June 30, 2004, was charged to the following governmental functions:

| | |
|---|------------------|
| General Government | \$ 3,777 |
| Fire | 15,304 |
| Police | 15,023 |
| Sanitation | 5,300 |
| Highways and Streets | <u>11,122</u> |
| Total Governmental Depreciation Expense | <u>\$ 50,526</u> |

NOTE 7 - ON-BEHALF PAYMENTS

Employees of the Village of Hodge's Police Department received salary supplements of \$10,200 from the State of Louisiana for the year ended June 30, 2004. There were no fringe benefits paid on this supplemental salary.

NOTE 8 - INTERFUND TRANSFERS

Interfund receivable/payable balances resulting from interfund transactions are as follows:

| | Transfers <u>In</u> | Transfers <u>Out</u> |
|--------------|------------------------|-------------------------|
| General Fund | \$ | \$ 113,133 |
| Utility Fund | <u>113,133</u> | <u> </u> |
| Totals | <u>\$ 113,133</u> | <u>\$ 113,133</u> |

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

VILLAGE OF HODGE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 9 - RETIREMENT SYSTEMS

Some of the employees of the Village of Hodge are members of the following statewide retirement systems: Municipal Employees Retirement System of Louisiana (Plan B), or Municipal Police Employees Retirement System of Louisiana. These systems are cost-sharing, multiple-employer defined benefit pension plans administered by separate boards of trustees. Pertinent information relative to each plan follows:

A. Municipal Employees Retirement System of Louisiana (System)

Plan Description. All permanent employees working at least 35 hours per week who are not covered by another pension plan and certain elected municipal officials are eligible to participate in the System. Under Plan B, employees can retire at any age with at least 30 years of creditable service or at age 60 with a minimum of 10 years of creditable service. Generally, the monthly amount of the retirement benefit shall consist of an amount equal to 2% of the employee's final compensation multiplied by their years of creditable service. However, under certain conditions as outlined in the statutes, the benefits are limited to specified amounts. The System also provides death and disability benefits. Benefits are established or amended by state statute.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Municipal Employees Retirement System of Louisiana, 7937 Office Park Boulevard, Baton Rouge, Louisiana 70809, by calling (504) 925-4810, or by visiting the System's website www.mersla.com.

Funding Policy. Under Plan B, members are required by state statute to contribute 5% of their annual covered salary and the Village is required to contribute at an actuarially determined rate, currently 7.75% of annual covered payroll. Contributions to the System also include one-fourth of 1% of the taxes shown to be collectible by the tax rolls of each parish. These tax dollars are divided between Plan A and Plan B based proportionately on the salaries of the active members of each plan. The contribution requirements of plan members and the Village are established and may be amended by state statute. As provided by R.S. 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The Village contributions to the System under Plan B for the year ending June 30, 2004, were \$3,768, equal to the required contributions for the year.

B. Municipal Police Employees Retirement System of Louisiana (System)

Plan Description. Some of the full-time police department employees engaged in law enforcement participate in the System. Employees who retire at or after age 50 with at least 20 years of creditable service or at or after age 55 with at least 12 years of creditable service are entitled to a retirement benefit, payable monthly for life, equal to 3 1/3% of their final-average salary for each year of creditable service. The System also provides death and disability benefits. Benefits are established or amended by state statute.

The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Municipal Police Employees Retirement System of Louisiana, 8401 United Plaza Boulevard, Baton Rouge, Louisiana 70809-2250, or by calling (504) 929-7411.

VILLAGE OF HODGE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 10 - RETIREMENT SYSTEMS (CONTINUED)

Funding Policy. Plan members are required by state statute to contribute 7.5% of their annual covered salary and the Village is required to contribute at an actuarially determined rate, currently 15.25% of annual covered payroll. The contribution requirements of plan members and the Village are established and may be amended by state statute. As provided by R.S. 11:103, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The Village contributions to the System for the year ending June 30, 2004, were \$3,347, equal to the required contributions for the year.

NOTE 11 - RELATED PARTY TRANSACTIONS

Since the mayor and mayor pro-tem serve on the Board of Directors of the Hodge Utility Operating Company ("Operating Company"), the Operating Company is considered to be a related party. During the year ended June 30, 2004, revenues for franchise taxes and for services rendered were received by the general fund from the Operating Company were \$45,485 and expenses paid from the enterprise fund to the Operating Company were \$2,550 for the year.

NOTE 12 - ECONOMIC DEPENDENCY

The Village of Hodge is economically dependent upon Smurfit-Stone Container Corporation, which provides the majority of property tax and sales tax revenue for the Village. There were no receivables at June 30, 2004, due from Smurfit-Stone Container Corporation.

NOTE 13 - PRIOR PERIOD ADJUSTMENT

The account balances for the Village's beginning general fund balance and the beginning water and sewer net assets have been restated from the amount previously reported to reflect corrections for the understatement of the beginning balances for the year ended June 30, 2004. The net change in the beginning general fund balance was an increase of \$39,084 and the net change in the beginning water and sewer net assets was an increase of \$1,922.

**REQUIRED SUPPLEMENTAL INFORMATION
(PART II)**

VILLAGE OF HODGE, LOUISIANA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
--BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

| | Budget | Actual Amounts Budgetary Basis | Variance with Budget Favorable (Unfavorable) |
|--|-------------------|---|---|
| REVENUES | | | |
| Taxes | | | |
| Ad Valorem | \$ 140,000 | \$ 130,052 | \$ (9,948) |
| Franchise | 2,500 | 12,056 | 9,556 |
| Sales and Use | 350,000 | 402,384 | 52,384 |
| Licenses | 15,000 | 22,065 | 7,065 |
| Intergovernmental | | | |
| Right-of-Way Maintenance | 0 | 2,404 | 2,404 |
| Fire Insurance Rebates | 2,750 | 3,170 | 420 |
| State Grants | 0 | 1,477 | 1,477 |
| Supplemental Pay-Police | 7,000 | 10,200 | 3,200 |
| Charges for Services | | | |
| Connection Fees | 0 | 360 | 360 |
| Garbage Fees | 4,500 | 5,470 | 970 |
| Mowing | 2,000 | 600 | (1,400) |
| Service to Others | 35,000 | 36,576 | 1,576 |
| Fines | 35,500 | 37,332 | 1,832 |
| Investment Earnings | 8,000 | 4,786 | (3,214) |
| Other Revenues | | | |
| Rent | 200 | 589 | 389 |
| Royalties | 0 | 2,631 | 2,631 |
| Sale of Barrels | 0 | 528 | 528 |
| Miscellaneous | 3,500 | 27 | (3,473) |
| TOTAL REVENUES | 605,950 | 672,707 | 66,757 |
| EXPENDITURES | | | |
| General Government | 156,750 | 127,960 | 28,790 |
| Fire | 22,280 | 15,228 | 7,052 |
| Police | 241,650 | 190,744 | 50,906 |
| Sanitation | 30,475 | 24,400 | 6,075 |
| Highways and Streets | 345,450 | 147,993 | 197,457 |
| Services to Related Party | 26,800 | 22,191 | 4,609 |
| Capital Outlay | 96,000 | 34,103 | 61,897 |
| TOTAL EXPENDITURES | 919,405 | 562,619 | 356,786 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (313,455) | 110,088 | 423,543 |
| OTHER FINANCING USES | | | |
| Operating Transfers Out | (160,000) | (113,133) | 46,867 |
| TOTAL OTHER FINANCING USES | (160,000) | (113,133) | 46,867 |
| DEFICIENCY OF REVENUES UNDER EXPENDITURES AND OTHER USES | (473,455) | (3,045) | 470,410 |
| FUND BALANCE-BEGINNING | 814,932 | 791,116 | (23,816) |
| FUND BALANCE-ENDING | \$ 341,477 | \$ 788,071 | \$ 446,594 |

OTHER REPORTS

McGEHEE AND KEEN, LLC
CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 1344
806 North Trenton
Ruston, Louisiana 71273-1344

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Quenton Causey, Mayor
and Board of Aldermen
Village of Hodge
P.O. Drawer 280
Hodge, Louisiana 71247

We have audited the financial statements of the government activities, the business-type activities, and each major fund of the Village of Hodge, Louisiana, as of and for the year ended June 30, 2004, which collectively comprise the Village of Hodge's basic financial statements and have issued our report thereon dated December 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 Village of Hodge'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.

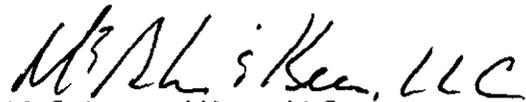
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Hodge's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Village of Hodge's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. This reportable condition is described in the accompanying schedule of findings and questioned costs as finding #2004-1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

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This report is intended solely for the information of the Village of Hodge and the Legislative Auditor of Louisiana 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.

A handwritten signature in black ink that reads "McGehee and Keen, LLC". The signature is written in a cursive, somewhat stylized font.

McGehee and Keen, LLC
Certified Public Accountants
December 23, 2004

VILLAGE OF HODGE, LOUISIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

We have audited the financial statements of the Village of Hodge, Louisiana, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 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. Our audit of the financial statements as of June 30, 2004 resulted in an unqualified opinion. The following is a summary of our audit observations on internal control, tests of compliance, and findings related to the financial statements that are required to be reported in accordance with Government Auditing Standards:

Section 1 Summary of Auditors' Reports

Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses Yes No Reportable Conditions Yes No

Compliance

Compliance Material to Financial Statements Yes No

Section 2 Financial Statement Findings

Finding 2004-1. Separation of Duties. The Village of Hodge has too few personnel involved in the accounting system to have adequate separation of duties for internal control.

VILLAGE OF HODGE, LOUISIANA
MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2004

SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS

FINDINGS

2004-1. Separation of Duties. Too few personnel involved in the accounting system to have adequate separation of duties for internal control.

MANAGEMENT'S RESPONSES

The Village has an accounting workload that can be easily managed by two employees (one full-time and one part-time). The hiring of additional employees to provide enhanced internal control does not appear to be the best use of the Village's resources.

SECTION II MANAGEMENT LETTER

No findings.

VILLAGE OF HODGE, LOUISIANA
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS

FINDINGS

MANAGEMENT'S RESPONSES

No findings.

SECTION II MANAGEMENT LETTER

| | |
|--|-----------|
| 2003-ML1. Need for Increased Controls over Processing of Payroll. Gross payroll was not decreased by deduction for garnishment and savings. | Resolved. |
|--|-----------|

| | |
|---|-----------|
| 2003-ML2. Audit Not Completed Within Six Months of Close of Fiscal Year. The audited financial statements were issued late due to problems in the firm performing the audit. | Resolved. |
|---|-----------|

OTHER SUPPLEMENTAL SCHEDULE

VILLAGE OF HODGE, LOUISIANA
SCHEDULE OF PER DIEM PAYMENTS TO ALDERMEN
FOR THE YEAR ENDED JUNE 30, 2004

| <u>Aldermen</u> | <u>Amount</u> |
|-----------------|-----------------|
| James Culpepper | \$ 3,025 |
| Leon Knox, Jr. | 3,025 |
| Carla Smith | <u>3,025</u> |
| Total | <u>\$ 9,075</u> |