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**CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA**

**FINANCIAL STATEMENTS
SEPTEMBER 30, 1997
AND
AUDITORS' REPORT**

CHENIERE-DREW WATER SYSTEM, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Cheniere-Drew Water System, Inc.
West Monroe, Louisiana

We have audited the accompany balance sheet of Cheniere-Drew Water System, Inc. as of September 30, 1997 and the related statements of income, members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cheniere-Drew Water System, Inc. as of September 30, 1997, and the results of its operation and cash flows for the year then ended, in conformity with generally accepted accounting principles.

*Minchew Robinson Gardner
Langston ; Bryan*

January 10, 1998

CHENIERE-DREW WATER SYSTEM, INC.

BALANCE SHEET
SEPTEMBER 30, 1997

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 465,942
Cash restricted as a sinking fund, current portion (Note 2)	20,000
Accounts receivable - net of \$1,302 allowance for uncollectible accounts	<u>69,246</u>
Total current assets	<u>\$ 555,188</u>

PROPERTY, PLANT AND EQUIPMENT:

Distribution system, wells, tanks and related equipment	\$ 2,714,880
Vehicles	23,934
Land	<u>27,246</u>
	\$ 2,766,060
Less: Accumulated depreciation	<u>(794,773)</u>
Total property, plant and equipment - net of depreciation	<u>\$ 1,971,287</u>

OTHER ASSETS:

Cash restricted as a sinking fund - net of current portion of of \$20,000 (Note 2)	\$ 43,736
Deposits	<u>215</u>
Total other assets	<u>\$ 43,951</u>

TOTAL ASSETS

\$ 2,570,426

The accompanying notes are an integral
part of the financial statements.

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 41,809
Accrued interest payable	4,778
Current maturities of long-term debt	<u>20,000</u>

Total current liabilities	\$ 66,587
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LONG-TERM DEBT - net of current maturities of \$20,000 (Note 2)	465,000
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METER DEPOSITS PAYABLE	81,359
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COMMITMENTS AND CONTINGENCIES (Note 3)	<u>0</u>
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Total liabilities	\$ <u>612,946</u>
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MEMBERS' EQUITY:

Memberships	\$ 56,557
Retained earnings	
Appropriated	63,736
Unappropriated	<u>1,837,187</u>

Total members' equity	\$ <u>1,957,480</u>
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TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ <u>2,570,426</u>
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The accompanying notes are an integral part of the financial statements.

CHENIERE-DREW WATER SYSTEM, INC.

INCOME STATEMENT
FOR THE YEAR ENDED SEPTEMBER 30, 1997

REVENUES

Water service revenues	\$ 551,774
Tap fees	41,950
Late charges	19,810
Service and reconnect charges	1,885
Interest income	<u>20,717</u>

Total revenues \$ 636,136

OPERATING EXPENSES

Bank charges	\$ 252
Board fees	8,300
Board members' expenses	2,950
Depreciation	61,672
Installations	37,063
Insurance	11,258
Interest	29,316
Management and overhead expense	135,005
Office and postage	3,541
Officers' expenses	3,600
Professional fees	6,199
Repairs and maintenance	109,669
Salaries and wages	2,516
Taxes and inspections	406
Utilities	<u>88,162</u>

Total operating expenses \$ 499,909

NET INCOME

\$ 136,227

The accompanying notes are an integral
part of the financial statements.

CHENIERE-DREW WATER SYSTEM, INC.

STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED SEPTEMBER 30, 1997

	Retained Earnings		
	<u>Memberships</u>	<u>Appropriated</u>	<u>Unappropriated</u>
BALANCE - BEGINNING OF YEAR	\$ 54,267	\$ 67,682	\$ 1,697,014
Increase in memberships	2,290		
Change in appropriation for sinking fund requirements		(3,946)	3,946
Net income			136,227
BALANCE - END OF YEAR	<u>\$ 56,557</u>	<u>\$ 63,736</u>	<u>\$ 1,837,187</u>

The accompanying notes are an integral
part of the financial statements.

CHENIERE-DREW WATER SYSTEM, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 1997**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income	\$ 136,227
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation	61,672
Increase in accounts receivable	(14,023)
Increase in trade accounts payable	7,584
Increase in meter deposits payable	<u>4,965</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES\$ 196,425**CASH FLOWS USED BY INVESTING ACTIVITIES**

Payments for property and equipment	\$ <u>(258,643)</u>
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CASH FLOWS PROVIDED BY FINANCING ACTIVITIES

Reduction in sinking fund balance	\$ 3,946
Principal payments on long-term debt	(20,000)
Sales of membership	<u>2,290</u>

NET CASH USED BY FINANCING ACTIVITIES\$ (13,764)**NET DECREASE IN CASH**

\$ (75,982)

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR541,924**CASH AND CASH EQUIVALENTS - END OF YEAR**\$ 465,942**SUPPLEMENTAL DISCLOSURE:**

Interest paid	\$ <u><u>29,316</u></u>
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The accompanying notes are an integral
part of the financial statements.

CHENIERE-DREW WATER SYSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company maintains its accounts on the accrual basis of accounting. The water system was originated with a loan of \$730,000 from the Department of Housing and Urban Development. The water system was substantially complete and began operations May 31, 1975.

Cash and Cash Equivalents

The Company considers all unrestricted bank deposits to be cash and cash equivalents.

Property, Plant and Equipment

Fixed assets are stated at cost. Depreciation is provided over the estimated useful lives of the respective assets using straight-line methods. Substantially all assets are depreciated over a 40 year life. Maintenance and repairs are charged to operations currently, while new assets, major renewals and betterments are capitalized.

Income Taxes

The Company, a non-profit corporation, is exempt from Federal and Louisiana income taxes.


Concentrations

The Company operates in the rural Drew and Cheniere areas of West Monroe, Louisiana.

NOTE 2 - LONG-TERM DEBT AND SINKING FUND REQUIREMENTS

As of September 30, 1997, the Company owes the Department of Housing and Urban Development \$485,000. Interest payments at 5.625% are required on February 1 and August 1 of each year. Principal payments are due annually on August 1.

Terms of the loan require the Company to maintain a sinking fund and to deposit 1/12 of its annual principal and interest obligation to the account monthly. As of September 30, 1997, the sinking fund had a balance of \$3,736.

 The Company was also required to establish a Bond Reserve Fund by depositing \$416 each month until the account reached \$50,000. Also required was the establishment of a Replacement and Extension fund at the rate of \$160 per month until the balance reached \$10,000. These funds were held in certificates of deposit at September 30, 1997.

CHENIERE-DREW WATER SYSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - LONG-TERM DEBT AND SINKING FUND REQUIREMENTS (Cont'd)

Maturities of long-term debt and sinking fund requirements for the next five years are as follows:

	<u>Maturities</u>	<u>Sinking Fund</u>
September 30, 1998	\$ 20,000	\$ 7,693
1999	20,000	7,505
2000	20,000	8,151
2001	25,000	7,917
2002	25,000	7,682
2003 and thereafter	375,000	

NOTE 3 - COMMITMENTS AND CONTINGENCIES

The Company, because of the nature of its operations, routinely engages in agreements with engineers and contractors to provide future goods and services. The Company is not aware of any unpaid claim or threat of litigation as of September 30, 1997 that would have a material effect on these financial statements.

The Company, in the ordinary course of business, maintains cash demand and time deposits at several financial institutions. From time to time, deposits may exceed the \$100,000 of deposit insurance provided by the FDIC. As of September 30, 1997, there was on deposit at Central Bank \$60,000 in excess of the insured amount.

NOTE 4 - SUBSEQUENT EVENTS

The Company intends to forego the renewal of its contract with M-N Utilities, Inc., which has for several years provided the Company with billing, collection and management services. The current contract is due to expire March 31, 1998.

CHENIERE-DREW WATER SYSTEM, INC.
SUMMARY OF AUDIT REPORTS
YEAR ENDED SEPTEMBER 30, 1997&1996

	YEAR ENDED <u>9/30/97</u>	YEAR ENDED <u>9/30/96</u>
<u>INCOME:</u>		
WATER REVENUES	\$ 551,774	\$ 511,404
TAP FEES-NET	4,887	5,338
LATE CHARGES	21,695	18,271
INTEREST	<u>20,717</u>	<u>23,480</u>
TOTAL	599,073	558,493
<u>EXPENSES:</u>		
REPAIRS	109,669	6,340
OPERATING EXPENSES	262,189	236,869
INTEREST	29,316	29,319
DEPRECIATION	<u>61,672</u>	<u>57,271</u>
TOTAL EXPENSES	<u>462,846</u>	<u>329,799</u>
<u>NET INCOME:</u>	<u>\$ 136,227</u>	<u>\$ 228,694</u>
 NOTE BALANCE - GMAC	 \$ 485,000	 \$ 505,000

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