

CHENIERE-DREW WATER SYSTEM, INC.

WEST MONROE, LOUISIANA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

SEPTEMBER 30, 1998

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
SEPTEMBER 30, 1998

TABLE OF CONTENTS

Independent Auditors' Report	1
Balance Sheet	2-3
Statement of Members' Equity	4
Statement of Income	5
Statement of Cash Flows	6
Notes to Financial Statements	7-10

JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.

JULIAN B. JOHNSTON, CPA
ROWLAND H. PERRY, CPA, APC
CHARLES L. JOHNSON, JR., CPA

A. RENA HOLLINGSWORTH, CPA
JAY HUGHES, CPA
LARRY B. PERKINS, CPA
VIOLET M. ROUSSEL, CPA



Certified Public Accountants
3007 Armand Street
Monroe, Louisiana 71201
Telephone (318) 322-5156 or (318) 323-1411
Facsimile (318) 323-6331

- Accounting & Auditing
 - H.U.D. Audits
 - Non-Profit Organizations
- Business & Financial Planning
- Tax Preparation & Planning
 - Individual & Partnership
 - Corporate & Fiduciary
- Bookkeeping & Payroll Services

December 21, 1998

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Cheniere-Drew Water System, Inc. as of September 30, 1998, 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.

Except as discussed in the following paragraph, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain written representations from the Board of Directors of the System concerning transactions prior to July 1, 1998, which took place under substantially different management.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the written representations referred to in the preceding paragraph been furnished to us by the Board, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Cheniere-Drew Water System, Inc. as of September 30, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Johnston, Perry, Johnson & Associates, L.L.P.

JOHNSTON, PERRY, JOHNSON & ASSOCIATES, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
BALANCE SHEET
SEPTEMBER 30, 1998

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	153,057
Certificates of Deposit	140,000
Accounts Receivable - Water Billings	75,995
Unbilled Revenues Receivable	8,624
Accounts Receivable - Other	122,415
Prepaid Insurance	<u>6,268</u>

TOTAL CURRENT ASSETS 506,359

FIXED ASSETS

Water Distribution System	2,900,246
Land	27,246
Less: Accumulated Depreciation	(<u>863,470</u>)

NET FIXED ASSETS 2,064,022

OTHER ASSETS

Deposits	215
Cash Restricted for Retirement of Debt	<u>67,957</u>

TOTAL OTHER ASSETS 68,172

TOTAL ASSETS 2,638,553

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

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
BALANCE SHEET
SEPTEMBER 30, 1998

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES

Accounts Payable	128,570
Accrued Expenses	6,484
Current Maturities of Long-Term Debt	<u>20,000</u>

TOTAL CURRENT LIABILITIES 155,054

METER DEPOSITS PAYABLE

76,200

LONG-TERM LIABILITIES

Long-Term Debt Net of Current Portion 445,000

TOTAL LIABILITIES 676,254

MEMBERS' EQUITY

Retained Earnings 1,962,299

TOTAL LIABILITIES AND MEMBERS' EQUITY 2,638,553

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

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
STATEMENT OF MEMBERS' EQUITY
FOR THE YEAR ENDED SEPTEMBER 30, 1998

MEMBERS' EQUITY

RETAINED EARNINGS AT BEGINNING OF YEAR

As Previously Reported 1,957,480

Prior Period Adjustment 26,524

Balance at Beginning of Year as Restated 1,984,004

NET INCOME (LOSS) (21,705)

MEMBERS' EQUITY

RETAINED EARNINGS AT END OF YEAR 1,962,299

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

CHENIERE-DREW WATER SYSTEM, INC.
 WEST MONROE, LOUISIANA
 STATEMENT OF INCOME
 FOR THE YEAR ENDED SEPTEMBER 30, 1998

OPERATING REVENUE

Water Revenues	595,857
Tapping Fees	29,580
Late Charges	11,847
Service and Reconnect Charges	2,830
Membership Fees	1,945
Other	<u>6,285</u>

TOTAL OPERATING REVENUE

648,344

OPERATING EXPENSES

Auto Expense	2,604
Bad Debts	1,351
Bank Charges	406
Board Fees	14,300
Board Members Expenses	6,800
Contract Labor	4,209
Depreciation	83,672
Equipment Rental	2,727
Installations	19,944
Insurance	14,668
Interest	28,833
Management Expense	104,060
Miscellaneous	2,459
Office and Postage	11,310
Payroll Taxes	8,163
Professional Fees	47,594
Rent	800
Repairs and Maintenance	78,448
Salaries	88,725
Taxes and Inspections	3,211
Telephone	9,198
Utilities	<u>94,363</u>

TOTAL OPERATING EXPENSES

627,845

OPERATING INCOME

20,499

OTHER REVENUES (EXPENSES)

Interest Earned	17,972
Loss on Disposal of Assets	(<u>60,176</u>)

TOTAL OTHER REVENUES (EXPENSES)

(42,204)

NET INCOME (LOSS)

(21,705)

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

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 1998

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income (Loss)		(21,705)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	83,672	
Loss on Disposal of Assets	60,176	
(Increase) Decrease in:		
Accounts Receivable - Water Billings	(6,749)	
Accounts Receivable - Other	(7,339)	
Prepaid Insurance	(2,268)	
Increase (Decrease) in:		
Accounts Payable	94,076	
Accrued Expenses	(188)	
Meter Deposits	<u>3,245</u>	
Total Adjustments		<u>224,625</u>
Net Cash Provided by Operating Activities		<u>202,920</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from Sale of Fixed Assets	85,000	
Purchases of Fixed Assets	(436,584)	
Decrease in Certificates of Deposit	200,000	
Increase in Restricted Cash	(<u>4,221</u>)	
Net Cash Provided (Used) by Investing Activities		(<u>155,805</u>)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from Short-Term Loans	140,000	
Payments on Short-Term Loans	(140,000)	
Payments on Long-Term Debt	(<u>20,000</u>)	
Net Cash Provided (Used) by Financing Activities		(<u>20,000</u>)

<u>NET INCREASE IN CASH</u>	27,115
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	<u>125,942</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>153,057</u>

Cash Paid During the Year for:	
Interest	29,251

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

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 1998

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF OPERATIONS

The Cheniere-Drew Water System, Inc. was incorporated in the State of Louisiana October 23, 1969 as a non-profit corporation.

The Water System originated with a \$730,000 loan from the Department of Housing and Urban Development and was substantially completed and began operations May 31, 1975.

The Water System provides water to members residing in the Cheniere-Drew area.

METHOD OF ACCOUNTING

The Water System prepares its financial statements on the accrual method of accounting, recognizing income when earned and expenses when incurred.

CASH AND CASH EQUIVALENTS

The Water System considers all highly liquid investments with maturities of three months or less to be cash equivalents.

INVESTMENTS

Investments consist of certificates of deposit and are carried at cost which approximates fair value.

ACCOUNTS RECEIVABLE

An allowance for uncollectible accounts in the amount of \$600 has been provided. Management believes that accounts receivable are substantially collectible and requires customers to provide meter deposits.

USE OF ESTIMATES

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 1998

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

UNBILLED REVENUES

Unbilled revenues consist of water revenues earned but not billed.

FIXED ASSETS AND DEPRECIATION

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. Expenditures for maintenance and repairs are charged to expense as incurred. Major improvements are capitalized.

INCOME TAXES

The Water System, a non-profit corporation under Internal Revenue Code Section 501(c)(12) is exempt from Federal and Louisiana income taxes. Accordingly, no provision for income taxes has been made in the financial statements.

NOTE 2: LONG-TERM DEBT AND SINKING FUND REQUIREMENTS

On March 28, 1973, Cheniere-Drew Water System, Inc. obtained a note payable to the United States Department of Housing and Urban Development in the amount of \$730,000 collateralized by the Water System and a pledge of net revenue from the ownership and/or operation of the Water System. The note was subsequently sold to a trust that was established at sale in a mortgage securitization. GMAC Commercial Mortgage Corporation is the servicing agent for the above note. Interest payments at 5.625% are due on February 1 and August 1 of each year with principal payments due annually on August 1.

Original terms of the loan require the Water System 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, 1998, the sinking fund had a balance of \$7,957 and requirements were \$7,692.

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 1998

NOTE 2: LONG-TERM DEBT AND SINKING FUND REQUIREMENTS (Continued)

The Water System 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 are held in a certificate of deposit at September 30, 1998 in the amount of \$60,000.

The total amount of these restricted funds at September 30, 1998 is \$67,957.

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

<u>For Year Ended September 30,</u>	<u>Principal Maturities</u>	<u>Interest Requirements</u>	<u>Annual Sinking Fund Requirement</u>
1999	20,000	26,156	46,156
2000	20,000	25,031	45,031
2001	25,000	23,906	48,906
2002	25,000	22,500	47,500
2003	25,000	21,094	46,094
2004	<u>350,000</u>	109,406	459,406
and thereafter	<u>465,000</u>		

Interest expense on the above note amounted to \$26,863 for the year ended September 30, 1998.

NOTE 3: LINE OF CREDIT

The Water System has a business line of credit from Bank One, Louisiana, NA for \$40,000 secured by a Bank One certificate of deposit in the amount of \$40,000. There were no advances on this line of credit at September 30, 1998.

NOTE 4: CONCENTRATIONS OF RISK

The Water System maintains cash balances at several financial institutions located in north Louisiana. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At September 30, 1998, the Water System's uninsured cash balances total \$58,576.

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 1998

NOTE 4: CONCENTRATIONS OF RISK (Continued)

Concentrations of credit risk with respect to water billing receivables are limited due to the large number of customers and small balances. This risk is minimized further by customer meter deposits.

NOTE 5: COMMITMENTS AND CONTINGENCIES

The Water System, because of the nature of its operations, routinely engages in agreements with engineers and contractors to provide future goods and services. At September 30, 1998, the Water System was committed to a water main relocation project on Louisiana Highway #546. The cost to be expended by the Water System of approximately \$56,000 is to be refunded 100% by the Louisiana Department of Transportation and Development.

The Water System is involved in various claims both for and against the Water System. Management believes that any financial responsibility in excess of insurance coverage that may be incurred in settlement of such claims would not be material to the Water System's financial position.

NOTE 6: CONTRACT FOR OPERATION AND MAINTENANCE OF THE UTILITY SYSTEM

The Water System contracts with M-N Utilities, Inc. to operate and maintain the Water System on a monthly basis. The Board is in the process of negotiating a 5-year contract with M-N Utilities, Inc.

NOTE 7: RETAINED EARNINGS RESTATEMENT

The Water System began recording unbilled revenue and prepaid insurance for the year ended September 30, 1998. Prior period increases to retained earnings are \$8,700 and \$4,000 for unrecorded prior period unbilled revenue and prepaid insurance, respectively. The Water System also adjusted meter deposits payable, sales tax payable and sewer billings payable for the prior period. The increases to retained earnings as a result of these adjustments are \$8,404, \$1,084 and \$4,336, respectively. The effect on net income of the prior period is not determinable.