

CHENIERE-DREW WATER SYSTEM, INC.

WEST MONROE, LOUISIANA

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FINANCIAL STATEMENTS

FOR THE YEAR ENDED

SEPTEMBER 30, 1999

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CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
SEPTEMBER 30, 1999

CONTENTS

	<u>PAGE</u>
Independent Auditors' Report.....	1
Balance Sheet.....	2-3
Statement of Members' Equity.....	4
Statement of Income.....	5-6
Statement of Cash Flows.....	7
Notes to Financial Statements.....	8-11

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

December 3, 1999

## 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, 1999, 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 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.

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, 1999, 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, 1999

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	717,287
Certificates of Deposit	60,000
Accounts Receivable - Water Billings	76,118
Unbilled Revenues Receivable	9,999
Accounts Receivable - Other	47,380
Prepaid Insurance	<u>9,347</u>

TOTAL CURRENT ASSETS 920,131

FIXED ASSETS

Water Distribution System	2,949,638
Land	27,246
Less: Accumulated Depreciation	( <u>936,064</u> )

NET FIXED ASSETS 2,040,820

OTHER ASSETS

Deposits	<u>215</u>
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TOTAL OTHER ASSETS 215

TOTAL ASSETS 2,961,166

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



CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
BALANCE SHEET  
SEPTEMBER 30, 1999

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES

Accounts Payable	63,850
Accrued Expenses	2,615
Current Maturities of Long-Term Debt	<u>26,041</u>

TOTAL CURRENT LIABILITIES 92,506

METER DEPOSITS PAYABLE

82,335

LONG-TERM LIABILITIES

Long-Term Debt Net of Current Portion	<u>655,476</u>
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TOTAL LONG-TERM LIABILITIES 655,476

TOTAL LIABILITIES 830,317

MEMBERS' EQUITY

Retained Earnings	<u>2,130,849</u>
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TOTAL MEMBERS' EQUITY 2,130,849

TOTAL LIABILITIES AND MEMBERS' EQUITY 2,961,166

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, 1999

<u>MEMBERS' EQUITY AT BEGINNING OF YEAR</u>	1,962,299
Distributions	-
Net Income (Loss)	<u>168,550</u>
<u>MEMBERS' EQUITY AT END OF YEAR</u>	<u>2,130,849</u>

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, 1999

SALES

Water Revenues	605,574
Tapping Fees	42,940
Late Charges	17,437
Service and Reconnect Charges	7,759
Membership Fees	2,790
Other	<u>9,691</u>

<u>TOTAL SALES</u>	686,191
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COST OF SALES

Water Taps	34,390
Tapping Materials	7,977
Sales Tax - Materials	842
Handling Charges	709
Damage Claims	607
Contract Labor	2,176
Connect Fees	<u>7,100</u>

<u>TOTAL COST OF SALES</u>	<u>53,801</u>
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<u>TOTAL GROSS PROFIT</u>	<u>632,390</u>
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OPERATING EXPENSES

Accounting	14,874
Advertising	402
Bad Debts	17
Bank Charges	839
Board Fees	18,600
Depreciation	72,594
Engineering Costs	2,953
Insurance	12,905
Interest	33,102
Management Expense	151,562
Miscellaneous	9,703
Office and Postage	4,682
Professional Fees	18,449
Repairs and Maintenance	37,043
Taxes and Inspections	180
Telephone	1,746
Utilities	<u>103,402</u>

<u>TOTAL OPERATING EXPENSES</u>	<u>483,053</u>
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The accompanying notes are an integral part of these financial statements.

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
STATEMENT OF INCOME (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 1999

<u>OPERATING INCOME (LOSS)</u>		149,337
<u>OTHER REVENUE (EXPENSES)</u>		
Interest Earned	<u>19,213</u>	
<u>TOTAL OTHER REVENUE (EXPENSES)</u>		<u>19,213</u>
<u>NET INCOME (LOSS)</u>		<u>168,550</u>

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, 1999

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income (Loss) 168,550

Adjustments to Reconcile Net Income to  
 Net Cash Provided by Operating Activities:

Depreciation and Amortization 72,594

(Increase) Decrease in:

Accounts Receivable - Water Billings ( 123)

Accounts Receivable - Other 73,660

Prepaid Insurance ( 3,079)

Increase (Decrease) in:

Accounts Payable ( 64,720)

Accrued Expenses ( 3,869)

Meter Deposits 6,135

Total Adjustments 80,598

Net Cash Provided (Used) by Operating  
 Activities 249,148

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of Fixed Assets ( 49,392)

Decrease in Certificates of Deposit 80,000

Decrease in Restricted Cash 67,957

Net Cash Provided (Used) by Investing  
 Activities 98,565

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from Long-Term Loans 684,195

Payments on Long-Term Loans (465,000)

Payments on Long-Term Debt ( 2,678)

Net Cash Provided (Used) by  
 Financing Activities 216,517

NET INCREASE IN CASH 564,230

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 153,057

CASH AND CASH EQUIVALENTS AT END OF YEAR 717,287

Cash Paid During the Year for:  
 Interest 36,451

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, 1999

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, 1999

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

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 was the servicing agent for the above note. This note was paid off in 1999 and a new note with Community Trust Bank was obtained in the original amount of \$684,195.

Terms of this new loan include an interest rate of 7.75% with 60 monthly payments of \$6,486 until July 23, 2004, with the balance due at that time.

Maturities of long-term debt principal for the next four years are approximately as follows:



CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 1999

NOTE 2: LONG-TERM DEBT (Continued)

FOR YEAR ENDED SEPTEMBER 30,	PRINCIPAL MATURITIES
2000	28,132
2001	30,391
2002	32,832
2003	<u>564,121</u>
	<u>655,476</u>

Interest expense on the above note amounted to \$33,102 for the year ended September 30, 1999.

NOTE 3: LINE OF CREDIT

The Water System has a business line of credit from Community Trust Bank for \$750,000, bearing interest at 8%. There were no advances on this line of credit at September 30, 1999.

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, 1999, the Water System's uninsured cash balances total \$49,709.

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, 1999, 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. As of the date of the audit report, approximately \$47,000 is still owed by the Louisiana Department of Transportation and Development with all work completed on the above project.



CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 1999

NOTE 5: COMMITMENTS AND CONTINGENCIES (Continued)

The Water System is involved in litigation involving a chlorine leak at its Eagle Lake well site. The property owners and the property owners' employees have filed suit against the Water System, its insurer, its operator, and its operators' insurer. Management is assessing the possibility of an out-of-court settlement with the plaintiffs because the Water System's insurer has denied judgment. It is likely that the defendants in the lawsuits have at least a minimal amount of exposure for damages, but management is unable to make an evaluation of the range of potential loss.

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: RELATED PARTY TRANSACTIONS

There were no material related party transactions for the year ended September 30, 1999.