

CHENIERE-DREW WATER SYSTEM, INC.

WEST MONROE, LOUISIANA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

SEPTEMBER 30, 2000

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
SEPTEMBER 30, 2000

CONTENTS

	<u>PAGE</u>
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.....	7-1

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

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

PAM BATTAGLIA, CPA
JAY CUTHBERT, CPA
JAY HUGHES, 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

November 21, 2000

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, 2000, 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, 2000, 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, 2000

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	525,417
Certificates of Deposit	60,000
Accounts Receivable - Water Billings	98,782
Unbilled Revenues Receivable	13,221
Accounts Receivable - Other	4,928
Prepaid Insurance	<u>13,487</u>

<u>TOTAL CURRENT ASSETS</u>	<u>715,835</u>
-----------------------------	----------------

FIXED ASSETS

Water Distribution System	3,318,146
Equipment	649
Land	27,246
Less: Accumulated Depreciation	<u>(1,013,428)</u>

<u>NET FIXED ASSETS</u>	<u>2,332,613</u>
-------------------------	------------------

OTHER ASSETS

Investment in L.L.C.	86,896
Deposits	<u>215</u>

<u>TOTAL OTHER ASSETS</u>	<u>87,111</u>
---------------------------	---------------

<u>TOTAL ASSETS</u>	<u><u>3,135,559</u></u>
---------------------	-------------------------

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
BALANCE SHEET
SEPTEMBER 30, 2000

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES

Accounts Payable	80,857
Accrued Expenses	3,829
Current Maturities of Long Term Debt	<u>28,132</u>

<u>TOTAL CURRENT LIABILITIES</u>	<u>112,818</u>
----------------------------------	----------------

<u>METER DEPOSITS PAYABLE</u>	<u>82,855</u>
-------------------------------	---------------

LONG-TERM LIABILITIES

Long Term Debt Net of Current Portion	<u>625,825</u>
---------------------------------------	----------------

<u>TOTAL LIABILITIES</u>	<u>821,498</u>
--------------------------	----------------

MEMBERS' EQUITY

Retained Earnings	<u>2,314,061</u>
-------------------	------------------

TOTAL LIABILITIES AND

<u>MEMBERS' EQUITY</u>	<u>3,135,559</u>
------------------------	------------------

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
STATEMENT OF MEMBERS' EQUITY
FOR THE YEAR ENDED SEPTEMBER 30, 2000

<u>MEMBERS EQUITY AT BEGINNING OF YEAR</u>	2,130,849
<u>DISTRIBUTIONS</u>	-
<u>NET INCOME (LOSS)</u>	<u>183,212</u>
<u>MEMBERS EQUITY AT BEGINNING OF YEAR</u>	<u><u>2,314,061</u></u>

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
STATEMENT OF INCOME
FOR THE YEAR ENDED SEPTEMBER 30, 2000

SALES

Water Revenues	628,921
Tapping Fees	44,843
Late Charges	17,374
Service and Reconnect Charges	10,685
Membership fees	2,475
Other	24,461
<u>TOTAL SALES</u>	<u>728,759</u>

COST OF SALES

Water Taps	33,027
Tapping Materials	8,530
Sales Tax-Materials	736
Handling Charges	619
Damage Claims	506
Contract Labor	3,370
Chlorine	26,895
Connect Fees	8,120
<u>TOTAL COST OF SALES</u>	<u>81,803</u>

TOTAL GROSS PROFIT

646,956

OPERATING EXPENSES

Accounting	13,298
Advertising	158
Bad Debts	-
Bank Charges	795
Board Fees	27,200
Depreciation	77,364
Engineering Costs	-
Insurance	14,917
Interest	50,272
Management Expense	161,515
Miscellaneous	17,554
Office and Postage	4,029
Professional Fees	16,721
Repairs and Maintenance	2,857
Taxes and Inspections	208
Telephone	1,197
Utilities	108,134
<u>TOTAL OPERATING EXPENSES</u>	<u>496,219</u>

OPERATING INCOME (LOSS)

150,737

OTHER REVENUES (EXPENSES)

Interest Earned	32,475
-----------------	--------

TOTAL OTHER REVENUES (EXPENSES)

32,475

NET INCOME (LOSS)

183,212

CHENIERE-DREW WATER SYSTEM, INC.
 WEST MONROE, LOUISIANA
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED SEPTEMBER 30, 2000

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income (Loss) 183,212

Adjustments to Reconcile Net Income to

Net Cash Provided by Operating Activities:

Depreciation and Amortization 77,364

(Increase) Decrease in:

Accounts Receivable - Water Billings (25,886)

Accounts Receivable - Other 42,452

Prepaid Insurance (4,140)

Increase (Decrease) in:

Accounts Payable (17,007)

Accrued Expenses (1,214)

Meter Deposits 520

Total Adjustments 108,531

Net Cash Provided (Used) by Operating
Activities 291,743

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of Fixed Assets (369,157)

Increase (Decrease) in Investment in LLC (86,896)

Net Cash Provided (Used) by Investing
Activities (456,053)

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on Long-Term Debt (27,560)

Net Cash Provided (Used) by
Financing Activities (27,560)

NET INCREASE IN CASH (191,870)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 717,287

CASH AND CASH EQUIVALENTS AT END OF YEAR 525,417

Cash Paid During the Year for:
Interest 50,272

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2000

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, 2000

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.

ADVERTISING EXPENSES

The Water System expenses advertising costs as they are incurred. Advertising expenses for the year ended December 31, 2000 were \$153.

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, 2000

NOTE 2: LONG-TERM DEBT (Continued)

FOR YEAR ENDED <u>SEPTEMBER 30,</u>	<u>PRINCIPAL MATURITIES</u>
2001	30,391
2002	32,832
2003	562,602
2004	<u>-0-</u>
<u>TOTAL</u>	<u>625,825</u>

Interest expense on the above note amounted to \$50,272 for the year ended September 30, 2000.

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, 2000.

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, 2000, the Water System's uninsured cash balances total \$100,080.

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, 2000, the Water System was not committed to any projects or agreements to provide future goods or services.

During 1999, the Water System was involved in litigation involving a chlorine leak at its Eagle Lake well site. The property owners and the property owners' employees filed suit against the Water System, its insurer, its operator, and its operators' insurer.

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2000

NOTE 5: COMMITMENTS AND CONTINGENCIES (Continued)

A settlement occurred where the Water System would pay for medical costs incurred by the property owners and that the Water System and M-N Utilities would purchase the property where the leak occurred. The Water System and M-N Utilities formed Commanche Properties, LLC, with each owning 50%. The Commanche Properties, LLC, purchased the property as part of the settlement. The investment in LLC in the amount of \$86,896 represents the Water System's 50% portion of this property. Subsequent to September 30, 2000, Commanche Properties, LLC has put the property and house on the market to sell. As of the end of field work, it was still not sold.

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, 2000.