

CHENIERE-DREW WATER SYSTEM, INC.

WEST MONROE, LOUISIANA

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FINANCIAL STATEMENTS

FOR THE YEAR ENDED

SEPTEMBER 30, 2004 AND 2003

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CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
SEPTEMBER 30, 2004 AND 2003

CONTENTS

	<u>PAGE</u>
Independent Auditors' Report.....	1
Balance Sheet.....	2-3
Statement of Income.....	4-5
Statement of Members' Equity.....	6
Statement of Cash Flows.....	7
Notes to Financial Statements.....	8-11
Supplementary Information	
Statement of Functional Expenses.....	12

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November 12, 2004

## 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, 2004 and 2003, and the related statements of income, members' equity, and cash flows for the years 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 auditing standards generally accepted in the United States of America. 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, 2004 and 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
BALANCE SHEET  
AS OF SEPTEMBER 30, 2004 AND 2003

ASSETS

	<u>9/30/2004</u>	<u>9/30/2003</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	662,013	523,413
Accounts Receivable - Water Billings	126,206	105,769
Unbilled Revenues Receivable	19,083	15,198
Accounts Receivable - Other	5,684	5,629
Prepaid Insurance	<u>7,760</u>	<u>7,043</u>
 <u>TOTAL CURRENT ASSETS</u>	 <u>820,746</u>	 <u>657,052</u>
 <u>FIXED ASSETS</u>		
Water Distribution System	4,473,476	3,756,378
Equipment	1,357	1,357
Computers	7,154	3,210
Construction in Progress	6,810	655,442
Land	130,727	130,727
Less: Accumulated Depreciation	(1,385,648)	(1,275,445)
 <u>NET FIXED ASSETS</u>	 <u>3,233,876</u>	 <u>3,271,669</u>
 <u>OTHER ASSETS</u>		
Deposits	<u>215</u>	<u>215</u>
 <u>TOTAL OTHER ASSETS</u>	 <u>215</u>	 <u>215</u>
 <u>TOTAL ASSETS</u>	 <u>4,054,837</u>	 <u>3,928,936</u>

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

CHENIERE-DREW WATER SYSTEM, INC.  
 WEST MONROE, LOUISIANA  
 BALANCE SHEET (CONTINUED)  
 AS OF SEPTEMBER 30, 2004 AND 2003

LIABILITIES AND MEMBERS' EQUITY

	<u>9/30/2004</u>	<u>9/30/2003</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	73,459	90,487
Accrued Expenses	4,592	2,813
Current Maturities of Long-Term Debt	<u>43,070</u>	<u>40,568</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>121,121</u>	<u>133,868</u>
<u>WATER DEPOSITS PAYABLE</u>	<u>93,740</u>	<u>89,685</u>
<u>LONG-TERM LIABILITIES</u>		
Long-Term Debt Net of Current Portion	<u>843,120</u>	<u>886,190</u>
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>843,120</u>	<u>886,190</u>
<u>TOTAL LIABILITIES</u>	<u>1,057,981</u>	<u>1,109,743</u>
<u>MEMBERS' EQUITY</u>		
Retained Earnings	<u>2,996,856</u>	<u>2,819,193</u>
<u>TOTAL MEMBERS' EQUITY</u>	<u>2,996,856</u>	<u>2,819,193</u>
<u>TOTAL LIABILITIES AND MEMBERS' EQUITY</u>	<u>4,054,837</u>	<u>3,928,936</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 YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	<u>9/30/2004</u>	<u>9/30/2003</u>
<u>SALES</u>		
Water Revenues	803,499	732,364
Tapping Fees	32,745	30,710
Late Charges	22,722	22,788
Service and Reconnect Charges	11,840	9,705
Membership Fees	2,205	2,280
Commission Fee	1,030	2,522
Other	<u>8,829</u>	<u>49,100</u>
<u>TOTAL SALES</u>	<u>882,870</u>	<u>849,469</u>
<u>COST OF SALES</u>		
Water Taps	26,120	25,780
Tapping Materials	9,568	10,185
Sales Tax - Materials	909	968
Handling Charges	765	815
Damage Claims	-	84
Contract Labor	2,107	1,720
Chlorine	16,147	27,826
Connect Fees	<u>8,610</u>	<u>7,780</u>
<u>TOTAL COST OF SALES</u>	<u>64,226</u>	<u>75,158</u>
<u>TOTAL GROSS PROFIT</u>	<u>818,644</u>	<u>774,311</u>
<u>OPERATING EXPENSES</u>		
Accounting	14,693	14,499
Advertising	46	384
Bank Charges	3,292	1,919
Board Fees	29,400	29,400
Depreciation	110,203	89,271
Insurance	14,803	12,420
Interest	56,259	37,213
Internet Service	1,605	1,506
Management Expense	256,331	189,385
Membership Meetings	329	3,739
Miscellaneous	2,881	4,497
Office and Postage	8,002	5,525
Professional Fees	394	3,174
Repairs and Maintenance	15,535	87,909
Telephone	1,575	1,675
Vulnerability	6,347	-
Well Monitoring Fee	15,580	14,107
Well Mapping Fee	100	700
Utilities	<u>107,469</u>	<u>106,624</u>
<u>TOTAL OPERATING EXPENSES</u>	<u>644,844</u>	<u>603,947</u>

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 YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	<u>9/30/2004</u>	<u>9/30/2003</u>
<u>OPERATING INCOME (LOSS)</u>	<u>173,800</u>	<u>170,364</u>
<u>OTHER REVENUES (EXPENSES)</u>		
Interest Earned	<u>3,863</u>	<u>6,904</u>
<u>TOTAL OTHER REVENUES (EXPENSES)</u>	<u>3,863</u>	<u>6,904</u>
<u>NET INCOME (LOSS)</u>	<u>177,663</u>	<u>177,268</u>

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 YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	<u>9/30/2004</u>	<u>9/30/2003</u>
<u>MEMBERS' EQUITY AT BEGINNING OF YEAR</u>	2,819,193	2,641,925
Distributions	-	-
Net Income (Loss)	<u>177,663</u>	<u>177,268</u>
<u>MEMBERS' EQUITY AT END OF YEAR</u>	<u>2,996,856</u>	<u>2,819,193</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 YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	<u>9/30/2004</u>	<u>9/30/2003</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	177,663	177,268
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	110,203	89,271
(Increase) Decrease in:		
Accounts Receivable - Water Billings	( 20,437)	7,140
Accounts Receivable - Other	( 3,940)	1,377
Prepaid Insurance	( 717)	( 1,666)
Increase (Decrease) in:		
Accounts Payable	( 17,028)	5,248
Accrued Expenses	1,779	( 400)
Meter Deposits	<u>4,055</u>	<u>2,430</u>
Total Adjustments	<u>73,915</u>	<u>103,400</u>
Net Cash Provided (Used) by Operating Activities	<u>251,578</u>	<u>280,668</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchases of Fixed Assets	( <u>72,410</u> )	( <u>802,467</u> )
Net Cash Provided (Used) by Investing Activities	( <u>72,410</u> )	( <u>802,467</u> )
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Payments on Long-Term Debt	( 40,568)	( 6,401)
Loan Proceeds	<u>          -</u>	<u>200,000</u>
Net Cash Provided (Used) by Financing Activities	( <u>40,568</u> )	<u>193,599</u>
<u>NET INCREASE IN CASH</u>	138,600	(328,200)
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	<u>523,413</u>	<u>851,613</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>662,013</u>	<u>523,413</u>
Cash Paid During the Year for:		
Interest	54,502	34,539

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 YEARS ENDED SEPTEMBER 30, 2004 AND 2003

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.

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.

UNBILLED REVENUES

Unbilled revenues consist of water revenues earned but not billed.

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
NOTES TO FINANCIAL STATEMENTS(CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FIXED ASSETS AND DEPRECIATION

Fixed assets with a value greater than \$1,000 are capitalized and 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, with office equipment depreciated over a 5-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 years ended September 30, 2004 and 2003 were immaterial.

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.

Currently, the Water System has a \$1,000,000 revolving line of credit with Community Trust Bank. The Water System drew \$972,000 of the revolving line of credit and will make monthly payments of \$7,922.48 with a fixed interest rate of 5.25%. After the fiscal year end, this line of credit was converted to permanent financing and a new line of credit of \$750,000 was obtained. As of September 30, 2004, they have not drawn from the new line of credit.

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

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

NOTE 2: LONG-TERM DEBT (Continued)

<u>FOR YEAR ENDED</u> <u>SEPTEMBER 30,</u>	<u>PRINCIPAL</u> <u>MATURITIES</u>
2005	43,070
2006	45,726
2007	48,547
2008	51,541
2009	54,720
Thereafter	<u>642,586</u>
<u>TOTAL</u>	<u>886,190</u>

Interest expense on the above note amounted to \$56,259 and \$37,213 for the years ended September 30, 2004 and 2003, respectively.

NOTE 3: 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, 2004 and 2003, the Water System's uninsured cash balances total \$475,795 and \$107,192, respectively.

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 4: 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, 2004, the Water System was committed to several projects for constructing new wells and water lines. These projects are expected to be completed during the fiscal year ending September 30, 2005.

NOTE 5: 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 negotiated a 5-year contract with M-N Utilities, Inc. in December 2003.

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

NOTE 6: RELATED PARTY TRANSACTIONS

There were no material related party transactions for the years ended September 30, 2004 and 2003.

NOTE 7: CONSTRUCTION IN PROGRESS

The cost of construction during September 30, 2004 and September 30, 2003, mainly engineering and well testing costs in the amount of \$6,810 and \$655,442, respectively, was included in the current financial statements as construction in progress. These costs will be capitalized as assets when construction is complete. Construction of the current project is expected to be complete within the next fiscal year ending September 30, 2005.

NOTE 8: FUNCTIONAL EXPENSES

The costs of providing programs and activities have been summarized on a functional basis included as supplemental information. Accordingly, certain costs have been allocated among program and supporting services. The organization has no fund-raising costs. The functional expenses are summarized as follows:

	<u>2004</u>	<u>2003</u>
Program Services	582,313	538,955
Management and General	<u>62,531</u>	<u>64,992</u>
<u>Total</u>	<u>644,844</u>	<u>603,947</u>

SUPPLEMENTARY INFORMATION

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2004  
(WITH MEMO TOTAL FOR SEPTEMBER 30, 2003)

	Program - Water <u>District</u>	Management and General	9/30/2004 <u>Total</u>	9/30/2003 <u>Total</u>
Accounting	-	14,693	14,693	14,499
Advertising	46	-	46	384
Bank Charges	-	3,292	3,292	1,919
Board Fees	-	29,400	29,400	29,400
Insurance	14,803	-	14,803	12,420
Interest	56,259	-	56,259	37,213
Internet Service	1,605	-	1,605	1,506
Management Expense	256,331	-	256,331	189,385
Membership Meetings	-	329	329	3,739
Miscellaneous	-	2,881	2,881	4,497
Office & Postage	-	8,002	8,002	5,525
Professional Fees	-	394	394	3,174
Repairs & Maintenance	15,535	-	15,535	87,909
Telephone	-	1,575	1,575	1,675
Vulnerability Assessment	6,347	-	6,347	-
Well Monitoring Fee	15,580	-	15,580	14,107
Well Mapping Fee	100	-	100	700
Utilities	<u>107,469</u>	<u>-</u>	<u>107,469</u>	<u>106,624</u>
 <u>Subtotal</u>	 474,075	 60,566	 534,641	 514,676
 <u>Depreciation</u>	 <u>108,238</u>	 <u>1,965</u>	 <u>110,203</u>	 <u>89,271</u>
 <u>TOTAL</u>	 <u>582,313</u>	 <u>62,531</u>	 <u>644,844</u>	 <u>603,947</u>

See auditors' report.