

CHENIERE-DREW WATER SYSTEM, INC.

WEST MONROE, LOUISIANA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

SEPTEMBER 30, 2005 AND 2004

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

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
SEPTEMBER 30, 2004 AND 2005

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



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November 30, 2005

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Cheniere-Drew Water System, Inc. as of September 30, 2005 and 2004, 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, 2005 and 2004, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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
 AS OF SEPTEMBER 30, 2005 AND 2004

ASSETS

	<u>9/30/2005</u>	<u>9/30/2004</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	788,316	662,013
Accounts Receivable - Water Billings	159,644	126,206
Unbilled Revenues Receivable	24,940	19,083
Accounts Receivable - Other	10,569	5,684
Prepaid Insurance	<u>8,071</u>	<u>7,760</u>
 <u>TOTAL CURRENT ASSETS</u>	 <u>991,540</u>	 <u>820,746</u>
 <u>FIXED ASSETS</u>		
Water Distribution System	4,628,279	4,473,476
Equipment	1,357	1,357
Computers	7,154	7,154
Construction in Progress	12,244	6,810
Land	130,727	130,727
Less: Accumulated Depreciation	<u>-1,502,285</u>	<u>-1,385,648</u>
 <u>NET FIXED ASSETS</u>	 <u>3,277,476</u>	 <u>3,233,876</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>4,269,231</u>	 <u>4,054,837</u>

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

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

CHENIERE-DREW WATER SYSTEM, INC.
 WEST MONROE, LOUISIANA
 BALANCE SHEET (CONTINUED)
 AS OF SEPTEMBER 30, 2005 AND 2004

LIABILITIES AND MEMBERS' EQUITY

	<u>9/30/2005</u>	<u>9/30/2004</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	104,559	73,459
Accrued Expenses	237	4,592
Current Maturities of Long-Term Debt	<u>42,019</u>	<u>43,070</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>146,815</u>	<u>121,121</u>
<u>WATER DEPOSITS PAYABLE</u>	<u>95,800</u>	<u>93,740</u>
<u>LONG-TERM LIABILITIES</u>		
Long-Term Debt Net of Current Portion	<u>785,150</u>	<u>843,120</u>
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>785,150</u>	<u>843,120</u>
<u>TOTAL LIABILITIES</u>	<u>1,027,765</u>	<u>1,057,981</u>
<u>MEMBERS' EQUITY</u>		
Retained Earnings	<u>3,241,466</u>	<u>2,996,856</u>
<u>TOTAL MEMBERS' EQUITY</u>	<u>3,241,466</u>	<u>2,996,856</u>
<u>TOTAL LIABILITIES AND MEMBERS' EQUITY</u>	<u>4,269,231</u>	<u>4,054,837</u>

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

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

CHENIERE-DREW WATER SYSTEM, INC.
 WEST MONROE, LOUISIANA
 STATEMENT OF INCOME
 FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	<u>9/30/2005</u>	<u>9/30/2004</u>
<u>SALES</u>		
Water Revenues	970,307	803,499
Tapping Fees	37,645	32,745
Late Charges	26,189	22,722
Service and Reconnect Charges	7,801	11,840
Membership Fees	2,355	2,205
Commission Fee	1,894	1,030
Other	<u>13,702</u>	<u>8,829</u>
<u>TOTAL SALES</u>	<u>1,059,893</u>	<u>882,870</u>
<u>COST OF SALES</u>		
Water Taps	33,846	26,120
Tapping Materials	7,606	9,568
Sales Tax - Materials	723	909
Handling Charges	608	765
Damage Claims	1,029	-
Contract Labor	6,844	2,107
Chlorine	27,501	16,147
Connect Fees	<u>9,095</u>	<u>8,610</u>
<u>TOTAL COST OF SALES</u>	<u>87,252</u>	<u>64,226</u>
<u>TOTAL GROSS PROFIT</u>	<u>972,641</u>	<u>818,644</u>

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

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

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
STATEMENT OF INCOME (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	<u>9/30/2005</u>	<u>9/30/2004</u>
<u>OPERATING EXPENSES</u>		
Accounting	14,141	14,693
Advertising	461	46
Bad Debts	3,742	-
Bank Charges	2,448	3,292
Board Fees	29,400	29,400
Depreciation	116,637	110,203
Insurance	15,830	14,803
Interest	39,541	56,259
Internet Service	1,621	1,605
Management Expense	297,098	256,331
Membership Meetings	152	329
Miscellaneous	4,202	2,881
Office and Postage	2,406	8,002
Professional Fees	10,120	394
Repairs and Maintenance	54,124	15,535
Telephone	1,611	1,575
Vulnerability	-	6,347
Well Monitoring Fee	15,854	15,580
Well Mapping Fee	5,905	100
Utilities	<u>125,584</u>	<u>107,469</u>
 <u>TOTAL OPERATING EXPENSES</u>	 <u>740,877</u>	 <u>644,844</u>
 <u>OPERATING INCOME (LOSS)</u>	 <u>231,764</u>	 <u>173,800</u>
 <u>OTHER REVENUES (EXPENSES)</u>		
Interest Earned	<u>12,846</u>	<u>3,863</u>
 <u>TOTAL OTHER REVENUES (EXPENSES)</u>	 <u>12,846</u>	 <u>3,863</u>
 <u>NET INCOME (LOSS)</u>	 <u>244,610</u>	 <u>177,663</u>

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

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

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
STATEMENT OF MEMBERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	<u>9/30/2005</u>	<u>9/30/2004</u>
<u>MEMBERS' EQUITY AT BEGINNING OF YEAR</u>	2,996,856	2,819,193
Distributions	-	-
Net Income (Loss)	<u>244,610</u>	<u>177,663</u>
<u>MEMBERS' EQUITY AT END OF YEAR</u>	<u>3,241,466</u>	<u>2,996,856</u>

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

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

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	<u>9/30/2005</u>	<u>9/30/2004</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	244,610	177,663
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	116,637	110,203
(Increase) Decrease in:		
Accounts Receivable - Water Billings	-33,438	-20,437
Accounts Receivable - Other	-10,742	-3,940
Prepaid Insurance	-311	-717
Increase (Decrease) in:		
Accounts Payable	31,100	-17,028
Accrued Expenses	-4,355	1,779
Meter Deposits	2,060	4,055
Total Adjustments	<u>100,951</u>	<u>73,915</u>
Net Cash Provided (Used) by Operating Activities	<u>345,561</u>	<u>251,578</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchases of Fixed Assets	<u>-160,238</u>	<u>-72,410</u>
Net Cash Provided (Used) by Investing Activities	<u>-160,238</u>	<u>-72,410</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Payments on Long-Term Debt	-59,020	-40,568
Loan Proceeds	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	<u>-59,020</u>	<u>-40,568</u>
<u>NET INCREASE IN CASH</u>	126,303	138,600
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	662,013	523,413
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>788,316</u>	<u>662,013</u>
Cash Paid During the Year for:		
Interest	52,000	54,502

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

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

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

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 basis 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.

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

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 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 the 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, 2005 and 2004 were immaterial.

NOTE 2: LONG-TERM DEBT

On March 28, 1973, the 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.

CHENIERE-DREW WATER SYSTEM, INC.
 WEST MONROE, LOUISIANA
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

NOTE 2: LONG-TERM DEBT (Continued)

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, 2005, 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:

<u>For Year Ended</u> <u>September 30,</u>	<u>Principal</u> <u>Maturities</u>
2006	45,726
2007	48,547
2008	51,541
2009	54,720
2010	58,095
Thereafter	<u>568,541</u>
<u>Total</u>	<u>827,170</u>

Interest expense on the above note amounted to \$39,541 and \$56,259 for the years ended September 30, 2005 and 2004, 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, 2005 and 2004, the Water System's uninsured cash balances total \$500,279 and \$475,795, 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.

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

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, 2005, 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, 2006.

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.

NOTE 6: RELATED PARTY TRANSACTIONS

There were no material related party transactions for the years ended September 30, 2005 and 2004.

NOTE 7: CONSTRUCTION IN PROGRESS

The cost of construction during September 30, 2005 and September 30, 2004, mainly engineering and well testing costs in the amount of \$12,244 and \$6,810, 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, 2006.

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:

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

NOTE 8: FUNCTIONAL EXPENSES (Continued)

	<u>2005</u>	<u>2004</u>
Program Services	671,225	582,313
Management and General	<u>69,652</u>	<u>62,531</u>
<u>Total</u>	<u>740,877</u>	<u>644,844</u>

SUPPLEMENTARY INFORMATION

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

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2005
(WITH MEMO TOTAL FOR SEPTEMBER 30, 2004)

	Program- Water <u>District</u>	Management And General	9/30/2005 <u>Total</u>	9/30/2004 <u>Total</u>
Accounting	-	14,141	14,141	14,693
Advertising	461	-	461	46
Bad Debt	-	3,742	3,742	-
Bank Charges	-	2,448	2,448	3,292
Board Fees	-	29,400	29,400	29,400
Insurance	15,830	-	15,830	14,803
Interest	39,541	-	39,541	56,259
Internet Service	1,621	-	1,621	1,605
Management Expense	297,098	-	297,098	256,331
Membership Meetings	-	152	152	329
Miscellaneous	-	4,202	4,202	2,881
Office & Postage	-	2,406	2,406	8,002
Professional Fees	-	10,120	10,120	394
Repairs & Maintenance	54,124	-	54,124	15,535
Telephone	-	1,611	1,611	1,575
Vulnerability Assessment	-	-	-0-	6,347
Well Monitoring Fee	15,854	-	15,854	15,580
Well Mapping Fee	5,905	-	5,905	100
Utilities	<u>125,584</u>	<u>-</u>	<u>125,584</u>	<u>107,469</u>
 <u>Subtotal</u>	 556,018	 68,222	 624,240	 534,641
 <u>Depreciation</u>	 <u>115,207</u>	 <u>1,430</u>	 <u>116,637</u>	 <u>110,203</u>
 <u>TOTAL</u>	 <u>671,225</u>	 <u>69,652</u>	 <u>740,877</u>	 <u>644,844</u>

See auditors' report.

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