

CHENIERE-DREW WATER SYSTEM, INC.

WEST MONROE, LOUISIANA

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FINANCIAL STATEMENTS

FOR THE YEARS ENDED

SEPTEMBER 30, 2011 and 2010

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CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
SEPTEMBER 30, 2011 and 2010

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"The CPA. Never Underestimate The Value."

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December 12, 2011

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Cheniere-Drew Water System, Inc. as of September 30, 2011 and 2010, and the related statements of activities, functional expenses, 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, 2011 and 2010, 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 statement of income 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  
STATEMENTS OF FINANCIAL POSITION  
AS OF SEPTEMBER 30, 2011 and 2010

ASSETS

	<u>9/30/2011</u>	<u>9/30/2010</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	1,317,151	1,014,171
Accounts Receivable - Water Billings	245,267	201,448
Unbilled Revenues Receivable	33,827	27,944
Accounts Receivable - Other	20,122	19,467
Prepaid Insurance	<u>9,605</u>	<u>10,084</u>
 <u>TOTAL CURRENT ASSETS</u>	 <u>1,625,972</u>	 <u>1,273,114</u>
 <u>FIXED ASSETS</u>		
Water Distribution System	6,196,926	5,840,189
Equipment	1,357	1,357
Computers	9,736	9,736
Construction in Progress	-	78,499
Land	145,422	145,422
Less: Accumulated Depreciation	<u>(2,314,578)</u>	<u>(2,161,534)</u>
 <u>NET FIXED ASSETS</u>	 <u>4,038,863</u>	 <u>3,913,669</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>5,665,050</u>	 <u>5,186,998</u>

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

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
STATEMENTS OF FINANCIAL POSITION (CONTINUED)  
AS OF SEPTEMBER 30, 2011 and 2010

LIABILITIES AND NET ASSETS

	<u>9/30/2011</u>	<u>9/30/2010</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	127,517	103,854
Accrued Expenses	2,753	3,063
Current Maturities of Long-Term Debt	<u>61,297</u>	<u>57,505</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>191,567</u>	<u>164,422</u>
<u>WATER DEPOSITS PAYABLE</u>	<u>106,609</u>	<u>105,819</u>
<u>LONG-TERM LIABILITIES</u>		
Long-Term Debt Net of Current Portion	<u>450,232</u>	<u>511,529</u>
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>450,232</u>	<u>511,529</u>
<u>TOTAL LIABILITIES</u>	<u>748,408</u>	<u>781,770</u>
<u>NET ASSETS</u>		
Unrestricted Net Assets	4,916,642	4,405,228
Temporarily Restricted Net Assets	-	-
Permanently Restricted Net Assets	<u>-</u>	<u>-</u>
<u>TOTAL NET ASSETS</u>	<u>4,916,642</u>	<u>4,405,228</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>5,665,050</u>	<u>5,186,998</u>

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

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 and 2010

	<u>9/30/2011</u>	<u>9/30/2010</u>
<u>SALES</u>		
Water Revenues	1,683,315	1,351,651
Tapping Fees	29,100	40,918
Late Charges	38,144	34,091
Service and Reconnect Charges	15,510	16,190
Membership Fees	2,040	1,765
Commission Fee	2,662	1,030
Other	<u>5,353</u>	<u>4,737</u>
<u>TOTAL SALES</u>	<u>1,776,124</u>	<u>1,450,382</u>
<u>COST OF SALES</u>		
Water Taps	24,809	27,916
Tapping Materials	19,791	13,573
Sales Tax - Materials	1,900	1,303
Handling Charges	1,583	1,086
Damage Claims	-	2,086
Chlorine	25,842	25,826
Connect Fees	10,910	11,210
Carbon Refills	<u>99,432</u>	<u>140,500</u>
<u>TOTAL COST OF SALES</u>	<u>184,267</u>	<u>223,500</u>
<u>TOTAL GROSS PROFIT</u>	<u>1,591,857</u>	<u>1,226,882</u>
<u>FUNCTIONAL EXPENSES</u>		
Program Expense	1,026,812	905,443
Administrative Expenses	<u>54,348</u>	<u>56,963</u>
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>1,081,160</u>	<u>962,406</u>
<u>NET OPERATING PROFIT (LOSS)</u>	<u>510,697</u>	<u>264,476</u>
<u>OTHER REVENUES</u>		
Interest Earned	<u>717</u>	<u>939</u>
<u>TOTAL OTHER REVENUES</u>	<u>717</u>	<u>939</u>
<u>NET INCREASE (DECREASE) IN NET ASSETS</u>	511,414	265,415
<u>NET ASSETS AT BEGINNING OF YEAR</u>	4,405,228	4,139,813
<u>NET ASSETS AT END OF YEAR</u>	<u>4,916,642</u>	<u>4,405,228</u>

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

CHENIERE-DREW WATER SYSTEM, INC.  
 WEST MONROE, LOUISIANA  
 STATEMENTS OF FUNCTIONAL EXPENSES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011  
 (WITH MEMO TOTAL FOR SEPTEMBER 30, 2010)

	Program- Water District	Management And General	9/30/2011 Total	9/30/2010 Total
Accounting	-	14,497	14,497	14,873
Advertising	-	-	-	-
Bad Debt	-	-	-	-
Bank Charges	-	417	417	347
Board Fees	-	29,400	29,400	29,400
Insurance	18,247	-	18,247	16,462
Interest	35,243	-	35,243	38,957
Internet Service	821	-	821	774
Investigative Analysis	444	-	444	4,498
Management Expense	526,205	-	526,205	496,425
Membership Meetings	-	231	231	300
Miscellaneous	-	1,647	1,647	1,922
Office & Postage	-	3,616	3,616	3,842
Professional Fees	-	2,354	2,354	3,206
Repairs & Maintenance	121,448	-	121,448	49,692
Telephone	-	1,599	1,599	1,795
Well Monitoring Fee	15,150	-	15,150	14,050
Well Mapping Fee	3,937	-	3,937	6,955
Utilities	152,860	-	152,860	131,980
	<u>Subtotal</u>	874,355	53,761	928,116
	<u>Depreciation</u>	152,457	587	153,044
	<u>TOTAL</u>	<u>1,026,812</u>	<u>54,348</u>	<u>1,081,160</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, 2011 and 2010

	<u>9/30/2011</u>	<u>9/30/2010</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	511,414	265,415
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	153,044	146,928
(Increase) Decrease in:		
Accounts Receivable - Water Billings	( 43,819)	( 25,829)
Unbilled Revenues Receivable	( 5,883)	( 4,021)
Accounts Receivable - Other	( 655)	-
Prepaid Insurance	479	( 722)
Increase (Decrease) in:		
Accounts Payable	23,663	6,487
Accrued Expenses	( 310)	( 290)
Meter Deposits	790	2,985
	<u>127,309</u>	<u>125,538</u>
Total Adjustments		
Net Cash Provided (Used) by Operating Activities	<u>638,723</u>	<u>390,953</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchases of Fixed Assets	( <u>278,238</u> )	( <u>239,496</u> )
Net Cash Provided (Used) by Investing Activities	( <u>278,238</u> )	( <u>239,496</u> )
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Payments on Long-Term Debt	( 57,505)	( 53,812)
Loan Proceeds	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	( 57,505)	( <u>53,812</u> )
<u>NET INCREASE IN CASH</u>	302,980	97,465
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	<u>1,014,171</u>	<u>916,526</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>1,317,151</u>	<u>1,014,171</u>
Cash Paid During the Year for:		
Interest	35,553	38,957

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, 2011 and 2010

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, 2011 and 2010

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, 2011 and 2010 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, 2011 and 2010

NOTE 2: LONG-TERM DEBT: (Continued)

The Water System had 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%. In 2005, this line of credit was converted to permanent financing and a new line of credit of \$750,000 was obtained. As of September 30, 2010, they have not drawn from the new line of credit. The Water System is pledged as collateral on the loan.

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>
2012	61,354
2013	450,175
2014	-0-
2015	-0-
2016	<u>-0-</u>
<u>Total</u>	<u>511,529</u>

Interest expense on the above note amounted to \$35,243 and \$38,957 for the years ended September 30, 2011 and 2010, 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 \$250,000. At September 30, 2011 and 2010, the Water System's uninsured cash balances total \$968,448 and \$667,770, 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, 2011 and 2010

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, 2011, the Water System had completed all projects under construction.

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 3-year contract with M-N Utilities, Inc. in February 2009.

NOTE 6: RELATED PARTY TRANSACTIONS:

There were no material related party transactions for the years ended September 30, 2011 and 2010.

NOTE 7: CONSTRUCTION IN PROGRESS:

The cost of construction in progress of engineering and well testing equipment of \$78,499 was capitalized as fixed assets during the year ended September 30, 2011, as these projects were completed.

NOTE 8: FUNCTIONAL ALLOCATION OF EXPENSES:

The costs of providing programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting services. The organization has no fund-raising costs.

NOTE 9: SUBSEQUENT EVENTS:

Events that occur after the balance sheet date but before the financial statements were issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed after the balance sheet date require disclosure in the

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2011 and 2010

NOTE 9: SUBSEQUENT EVENTS: (Continued)

accompanying notes. Management evaluated the activity of the Water System through December 12, 2011, the date the report was available for issue, and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosures in the notes to the financial statements.

NOTE 10: UNCERTAIN TAX POSITIONS:

The Water System is subject to examination by various taxing authorities. Management has reviewed the Water System's activities and believes that no additional amounts or disclosures are needed, as the effect of any uncertain tax positions is not material to the financial statements. The tax returns for the years 2010, 2009, 2008, and 2007 are open for examination by various taxing authorities.

SUPPLEMENTARY INFORMATION

CHENIERE-DREW WATER SYSTEM, INC.  
 WEST MONROE, LOUISIANA  
 STATEMENTS OF INCOME  
 FOR THE YEARS ENDED SEPTEMBER 30, 2011 and 2010

	<u>9/30/2011</u>	<u>9/30/2010</u>
<u>SALES</u>		
Water Revenues	1,683,315	1,351,651
Tapping Fees	29,100	40,918
Late Charges	38,144	34,091
Service and Reconnect Charges	15,510	16,190
Membership Fees	2,040	1,765
Commission Fee	2,662	1,030
Other	<u>5,353</u>	<u>4,737</u>
 <u>TOTAL SALES</u>	 <u>1,776,124</u>	 <u>1,450,382</u>
 <u>COST OF SALES</u>		
Water Taps	24,809	27,916
Tapping Materials	19,791	13,573
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Chlorine	25,842	25,826
Connect Fees	10,910	11,210
Carbon Refills	<u>99,432</u>	<u>140,500</u>
 <u>TOTAL COST OF SALES</u>	 <u>184,267</u>	 <u>223,500</u>
 <u>TOTAL GROSS PROFIT</u>	 <u>1,591,857</u>	 <u>1,226,882</u>

See auditors' report.

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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, 2011 and 2010

	<u>9/30/2011</u>	<u>9/30/2010</u>
<u>OPERATING EXPENSES</u>		
Accounting	14,497	14,873
Advertising	-	-
Bank Charges	417	347
Board Fees	29,400	29,400
Depreciation	153,044	146,928
Insurance	18,247	16,462
Interest	35,243	38,957
Internet Service	821	774
Investigative Analysis	444	4,498
Management Expense	526,205	496,425
Membership Meetings	231	300
Miscellaneous	1,647	1,922
Office and Postage	3,616	3,842
Professional Fees	2,354	3,206
Repairs and Maintenance	121,448	49,692
Telephone	1,599	1,795
Well Monitoring Fee	15,150	14,050
Well Mapping Fee	3,937	6,955
Utilities	<u>152,860</u>	<u>131,980</u>
 <u>TOTAL OPERATING EXPENSES</u>	 <u>1,081,160</u>	 <u>962,406</u>
 <u>OPERATING INCOME (LOSS)</u>	 <u>510,697</u>	 <u>264,476</u>
 <u>OTHER REVENUES (EXPENSES)</u>		
Interest Earned	<u>717</u>	<u>939</u>
 <u>TOTAL OTHER REVENUES (EXPENSES)</u>	 <u>717</u>	 <u>939</u>
 <u>NET INCOME (LOSS)</u>	 <u>511,414</u>	 <u>265,415</u>

See auditors' report.

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