

CHENIERE-DREW WATER SYSTEM, INC.

WEST MONROE, LOUISIANA

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FINANCIAL STATEMENTS

FOR THE YEAR ENDED

SEPTEMBER 30, 2003 AND 2002

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CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
SEPTEMBER 30, 2003 AND 2002

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December 22, 2003

## 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, 2003 and 2002, 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, 2003 and 2002, 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, 2003 AND 2002

ASSETS

	<u>9/30/2003</u>	<u>9/30/2002</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	523,413	851,613
Accounts Receivable - Water Billings	105,769	112,909
Unbilled Revenues Receivable	15,198	16,575
Accounts Receivable - Other	5,629	5,629
Prepaid Insurance	<u>7,043</u>	<u>5,377</u>
 <u>TOTAL CURRENT ASSETS</u>	 <u>657,052</u>	 <u>992,103</u>
 <u>FIXED ASSETS</u>		
Water Distribution System	3,756,378	3,377,770
Equipment	1,357	1,357
Computers	3,210	2,280
Construction in Progress	655,442	232,513
Land	130,727	130,727
Less: Accumulated Depreciation	(1,275,445)	(1,186,174)
 <u>NET FIXED ASSETS</u>	 <u>3,271,669</u>	 <u>2,558,473</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>3,928,936</u>	 <u>3,550,791</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, 2003 AND 2002

LIABILITIES AND MEMBERS' EQUITY

	<u>9/30/2003</u>	<u>9/30/2002</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	90,487	85,239
Accrued Expenses	2,813	3,213
Current Maturities of Long-Term Debt	<u>40,568</u>	<u>91,889</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>133,868</u>	<u>180,341</u>
<u>WATER DEPOSITS PAYABLE</u>	<u>89,685</u>	<u>87,255</u>
<u>LONG-TERM LIABILITIES</u>		
Long-Term Debt Net of Current Portion	<u>886,190</u>	<u>641,270</u>
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>886,190</u>	<u>641,270</u>
<u>TOTAL LIABILITIES</u>	<u>1,109,743</u>	<u>908,866</u>
<u>MEMBERS' EQUITY</u>		
Retained Earnings	<u>2,819,193</u>	<u>2,641,925</u>
<u>TOTAL MEMBERS' EQUITY</u>	<u>2,819,193</u>	<u>2,641,925</u>
<u>TOTAL LIABILITIES AND MEMBERS' EQUITY</u>	<u>3,928,936</u>	<u>3,550,791</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, 2003 AND 2002

	<u>9/30/2003</u>	<u>9/30/2002</u>
<u>SALES</u>		
Water Revenues	732,364	772,348
Tapping Fees	30,710	40,630
Late Charges	22,788	20,333
Service and Reconnect Charges	9,705	10,275
Membership Fees	2,280	1,815
Commission Fee	2,522	-
Other	<u>49,100</u>	<u>27,590</u>
 <u>TOTAL SALES</u>	 <u>849,469</u>	 <u>872,991</u>
 <u>COST OF SALES</u>		
Water Taps	25,780	30,235
Tapping Materials	10,185	8,360
Sales Tax - Materials	968	794
Handling Charges	815	669
Damage Claims	84	157
Contract Labor	1,720	594
Chlorine	27,826	25,744
Connect Fees	<u>7,780</u>	<u>7,485</u>
 <u>TOTAL COST OF SALES</u>	 <u>75,158</u>	 <u>74,038</u>
 <u>TOTAL GROSS PROFIT</u>	 <u>774,311</u>	 <u>798,953</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, 2003 AND 2002

	<u>9/30/2003</u>	<u>9/30/2002</u>
<u>OPERATING EXPENSES</u>		
Accounting	14,499	14,607
Advertising	384	25
Bad Debts	-	30
Bank Charges	1,919	1,315
Board Fees	29,400	29,400
Depreciation	89,271	87,388
Insurance	12,420	8,026
Interest	37,213	40,171
Internet Service	1,506	905
Management Expense	189,385	180,747
Membership Meetings	3,739	10,128
Miscellaneous	4,497	683
Office and Postage	5,525	6,027
Professional Fees	3,174	3,910
Repairs and Maintenance	87,909	90,107
Telephone	1,675	1,767
Well Monitoring Fee	14,107	12,000
Well Mapping Fee	700	-
Utilities	<u>106,624</u>	<u>98,401</u>
 <u>TOTAL OPERATING EXPENSES</u>	 <u>603,947</u>	 <u>585,637</u>
 <u>OPERATING INCOME (LOSS)</u>	 <u>170,364</u>	 <u>213,316</u>
 <u>OTHER REVENUES (EXPENSES)</u>		
Interest Earned	<u>6,904</u>	<u>11,708</u>
 <u>TOTAL OTHER REVENUES (EXPENSES)</u>	 <u>6,904</u>	 <u>11,708</u>
 <u>NET INCOME (LOSS)</u>	 <u>177,268</u>	 <u>225,024</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, 2003 AND 2002

	<u>9/30/2003</u>	<u>9/30/2002</u>
<u>MEMBERS' EQUITY AT BEGINNING OF YEAR</u>	2,641,925	2,416,901
Distributions	-	-
Net Income (Loss)	<u>177,268</u>	<u>225,024</u>
<u>MEMBERS' EQUITY AT END OF YEAR</u>	<u>2,819,193</u>	<u>2,641,925</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, 2003 AND 2002

	<u>9/30/2003</u>	<u>9/30/2002</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	177,268	225,024
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	89,271	87,388
(Increase) Decrease in:		
Accounts Receivable - Water Billings	7,140	( 25,042)
Accounts Receivable - Other	1,377	2,257
Prepaid Insurance	( 1,666)	( 5,377)
Increase (Decrease) in:		
Accounts Payable	5,248	13,635
Accrued Expenses	( 400)	( 263)
Meter Deposits	<u>2,430</u>	<u>770</u>
Total Adjustments	<u>103,400</u>	<u>73,368</u>
Net Cash Provided (Used) by Operating Activities	<u>280,668</u>	<u>298,392</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchases of Fixed Assets	(379,538)	( 708)
(Increase) Decrease in Construction in Progress	(422,929)	(232,513)
Purchase of Land	<u>-</u>	<u>(103,481)</u>
Net Cash Provided (Used) by Investing Activities	<u>(802,467)</u>	<u>(336,702)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Payments on Long-Term Debt	( 6,401)	(626,382)
Loan Proceeds	<u>200,000</u>	<u>733,159</u>
Net Cash Provided (Used) by Financing Activities	<u>193,599</u>	<u>106,777</u>
<u>NET INCREASE IN CASH</u>	(328,200)	68,467
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	<u>851,613</u>	<u>783,146</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>523,413</u>	<u>851,613</u>
Cash Paid During the Year for:		
Interest	34,539	40,171

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, 2003 AND 2002

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.

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

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 years ended September 30, 2003 and 2002 were \$384 and \$25, respectively.

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. The interest rate at September 30, 2003 is 5.25%. After the

CHENIERE-DREW WATER SYSTEM, INC.  
 WEST MONROE, LOUISIANA  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

NOTE 2: LONG-TERM DEBT (Continued)

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 December 22, 2003, 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>
2004	40,568
2005	43,070
2006	45,726
2007	48,547
2008	51,541
Thereafter	<u>697,306</u>
<u>TOTAL</u>	<u>926,758</u>

Interest expense on the above note amounted to \$37,213 and \$40,171 for the years ended September 30, 2003 and 2002, 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, 2003 and 2002, the Water System's uninsured cash balances total \$107,192 and \$48,067, 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

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

NOTE 4: COMMITMENTS AND CONTINGENCIES (Continued)

September 30, 2003, 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, 2004.

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 1999.

NOTE 6: RELATED PARTY TRANSACTIONS

There were no material related party transactions for the years ended September 30, 2003 and 2002.

NOTE 7: CONSTRUCTION IN PROGRESS

In 2002, the Water System entered into several agreements to build well sites and upgrade water systems. The majority of these projects were completed in the fiscal year ending September 30, 2002. The remaining projects are expected to be completed in the fiscal year ending September 30, 2004. The cost of construction during September 30, 2003 and September 30, 2002, mainly engineering and well testing costs in the amount of \$655,442 and \$232,513, respectively, was included in the current financial statements as construction in progress. These costs will be capitalized as assets when construction is complete.