

CHENIERE-DREW WATER SYSTEM, INC.

WEST MONROE, LOUISIANA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

SEPTEMBER 30, 2006 AND 2005

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

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
SEPTEMBER 30, 2006 AND 2005

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November 15, 2006

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, 2006 and 2005, 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, 2006 and 2005, 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, 2006 AND 2005

ASSETS

	<u>9/30/2006</u>	<u>9/30/2005</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	981,708	788,316
Accounts Receivable - Water Billings	139,444	159,644
Unbilled Revenues Receivable	17,922	24,940
Accounts Receivable - Other	10,629	10,569
Prepaid Insurance	<u>8,165</u>	<u>8,071</u>
 <u>TOTAL CURRENT ASSETS</u>	 <u>1,157,868</u>	 <u>991,540</u>
<u>FIXED ASSETS</u>		
Water Distribution System	4,703,898	4,628,279
Equipment	1,357	1,357
Computers	7,154	7,154
Construction in Progress	213,787	12,244
Land	130,727	130,727
Less: Accumulated Depreciation	<u>(1,622,644)</u>	<u>(1,502,285)</u>
 <u>NET FIXED ASSETS</u>	 <u>3,434,279</u>	 <u>3,277,476</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>4,592,362</u>	 <u>4,269,231</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, 2006 AND 2005

LIABILITIES AND MEMBERS' EQUITY

	<u>9/30/2006</u>	<u>9/30/2005</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	129,450	104,559
Accrued Expenses	9,436	237
Current Maturities of Long-Term Debt	<u>48,547</u>	<u>42,019</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>187,433</u>	<u>146,815</u>
<u>WATER DEPOSITS PAYABLE</u>	<u>98,830</u>	<u>95,800</u>
<u>LONG-TERM LIABILITIES</u>		
Long-Term Debt Net of Current Portion	<u>726,212</u>	<u>785,150</u>
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>726,212</u>	<u>785,150</u>
<u>TOTAL LIABILITIES</u>	<u>1,012,475</u>	<u>1,027,765</u>
<u>MEMBERS' EQUITY</u>		
Retained Earnings	<u>3,579,887</u>	<u>3,241,466</u>
<u>TOTAL MEMBERS' EQUITY</u>	<u>3,579,887</u>	<u>3,241,466</u>
<u>TOTAL LIABILITIES AND MEMBERS' EQUITY</u>	<u>4,592,362</u>	<u>4,269,231</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, 2006 AND 2005

	<u>9/30/2006</u>	<u>9/30/2005</u>
<u>SALES</u>		
Water Revenues	1,013,996	970,307
Tapping Fees	36,620	37,645
Late Charges	27,182	26,189
Service and Reconnect Charges	10,330	7,801
Membership Fees	2,430	2,355
Commission Fee	2,160	1,894
Other	61,565	13,702
	<u>1,154,283</u>	<u>1,059,893</u>
 <u>TOTAL SALES</u>		
 <u>COST OF SALES</u>		
Water Taps	28,811	33,846
Tapping Materials	11,724	7,606
Sales Tax - Materials	1,114	723
Handling Charges	938	608
Damage Claims	-	1,029
Contract Labor	8,340	6,844
Chlorine	27,525	27,501
Connect Fees	14,495	9,095
	<u>92,947</u>	<u>87,252</u>
 <u>TOTAL COST OF SALES</u>		
 <u>TOTAL GROSS PROFIT</u>	 <u>1,061,336</u>	 <u>972,641</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, 2006 AND 2005

	<u>9/30/2006</u>	<u>9/30/2005</u>
<u>OPERATING EXPENSES</u>		
Accounting	14,259	14,141
Advertising	250	461
Bad Debts	-	3,742
Bank Charges	1,605	2,448
Board Fees	29,400	29,400
Depreciation	120,359	116,637
Insurance	16,236	15,830
Interest	42,660	39,541
Internet Service	1,934	1,621
Management Expense	317,522	297,098
Membership Meetings	350	152
Miscellaneous	1,879	4,202
Office and Postage	2,613	2,406
Professional Fees	20,189	10,120
Repairs and Maintenance	15,568	54,124
Telephone	1,749	1,611
Vulnerability	-	-
Well Monitoring Fee	17,880	15,854
Well Mapping Fee	3,290	5,905
Utilities	146,216	125,584
<u>TOTAL OPERATING EXPENSES</u>	<u>753,959</u>	<u>740,877</u>
<u>OPERATING INCOME (LOSS)</u>	<u>307,377</u>	<u>231,764</u>
<u>OTHER REVENUES (EXPENSES)</u>		
Interest Earned	<u>31,044</u>	<u>12,846</u>
<u>TOTAL OTHER REVENUES (EXPENSES)</u>	<u>31,044</u>	<u>12,846</u>
<u>NET INCOME (LOSS)</u>	<u>338,421</u>	<u>244,610</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, 2006 AND 2005

	<u>9/30/2006</u>	<u>9/30/2005</u>
<u>MEMBERS' EQUITY AT BEGINNING OF YEAR</u>	3,241,466	2,996,856
Distributions	-	-
Net Income (Loss)	<u>338,421</u>	<u>244,610</u>
<u>MEMBERS' EQUITY AT END OF YEAR</u>	<u>3,579,887</u>	<u>3,241,466</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, 2006 AND 2005

	<u>9/30/2006</u>	<u>9/30/2005</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	338,421	244,610
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	120,359	116,637
(Increase) Decrease in:		
Accounts Receivable - Water Billings	27,218	(33,438)
Accounts Receivable - Other	(60)	(10,742)
Prepaid Insurance	(94)	(311)
Increase (Decrease) in:		
Accounts Payable	24,891	31,100
Accrued Expenses	9,199	(4,355)
Meter Deposits	<u>3,030</u>	<u>2,060</u>
Total Adjustments	<u>184,543</u>	<u>100,951</u>
Net Cash Provided (Used) by Operating Activities	<u>522,964</u>	<u>345,561</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchases of Fixed Assets	(277,162)	(160,238)
Net Cash Provided (Used) by Investing Activities	(277,162)	(160,238)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Payments on Long-Term Debt	(52,410)	(59,020)
Loan Proceeds	<u> -</u>	<u> -</u>
Net Cash Provided (Used) by Financing Activities	(52,410)	(59,020)
<u>NET INCREASE IN CASH</u>	193,392	126,303
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	<u>788,316</u>	<u>662,013</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>981,708</u>	<u>788,316</u>
Cash Paid During the Year for:		
Interest	42,660	52,000

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, 2006 AND 2005

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, 2006 AND 2005

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, 2006 and 2005 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, 2006 AND 2005

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, 2006, 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>
2007	48,547
2008	51,541
2009	54,720
2010	58,095
2011	61,678
Thereafter	<u>500,178</u>
<u>Total</u>	<u>774,759</u>

Interest expense on the above note amounted to \$42,660 and \$39,541 for the years ended September 30, 2006 and 2005, 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, 2006 and 2005, the Water System's uninsured cash balances total \$793,061 and \$500,279, 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, 2006 AND 2005

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, 2006, 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, 2007.

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, 2006 and 2005.

NOTE 7: CONSTRUCTION IN PROGRESS

The cost of construction during September 30, 2006 and September 30, 2005, mainly engineering and well testing costs in the amount of \$213,787 and \$12,244, 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, 2007.

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, 2006 AND 2005

NOTE 8: FUNCTIONAL EXPENSES (Continued)

	<u>2006</u>	<u>2005</u>
Program Services	680,603	671,225
Management and General	<u>73,356</u>	<u>69,652</u>
<u>Total</u>	<u>753,959</u>	<u>740,877</u>

Fund-raising costs were not material.

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, 2006
 (WITH MEMO TOTAL FOR SEPTEMBER 30, 2005)

	Program- Water District	Management And General	9/30/2006 Total	9/30/2005 Total
Accounting	-	14,259	14,259	14,141
Advertising	250	-	250	461
Bad Debt	-	-	-	3,742
Bank Charges	-	1,605	1,605	2,448
Board Fees	-	29,400	29,400	29,400
Insurance	16,236	-	16,236	15,830
Interest	42,660	-	42,660	39,541
Internet Service	1,934	-	1,934	1,621
Management Expense	317,522	-	317,522	297,098
Membership Meetings	-	350	350	152
Miscellaneous	-	1,879	1,879	4,202
Office & Postage	-	2,613	2,613	2,406
Professional Fees	-	20,189	20,189	10,120
Repairs & Maintenance	15,568	-	15,568	54,124
Telephone	-	1,749	1,749	1,611
Vulnerability Assessment	-	-	-0-	-0-
Well Monitoring Fee	17,880	-	17,880	15,854
Well Mapping Fee	3,290	-	3,290	5,905
Utilities	<u>146,216</u>	-	<u>146,216</u>	<u>125,584</u>
<u>Subtotal</u>	561,556	72,044	633,600	624,240
<u>Depreciation</u>	<u>119,047</u>	<u>1,312</u>	<u>120,359</u>	<u>116,637</u>
<u>TOTAL</u>	<u>680,603</u>	<u>73,356</u>	<u>753,959</u>	<u>740,877</u>

See auditors' report.

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