

CHENIERE-DREW WATER SYSTEM, INC.

WEST MONROE, LOUISIANA

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FINANCIAL STATEMENTS

FOR THE YEARS ENDED

SEPTEMBER 30, 2007 AND 2006

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

CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
SEPTEMBER 30, 2007 AND 2006

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December 28, 2007

## 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, 2007 and 2006, 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, 2007 and 2006, 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.*

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CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
BALANCE SHEET  
AS OF SEPTEMBER 30, 2007 AND 2006

ASSETS

	<u>9/30/2007</u>	<u>9/30/2006</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	1,097,476	981,708
Accounts Receivable - Water Billings	147,744	139,444
Unbilled Revenues Receivable	20,493	17,922
Accounts Receivable - Other	10,629	10,629
Prepaid Insurance	<u>8,732</u>	<u>8,165</u>
 <u>TOTAL CURRENT ASSETS</u>	 <u>1,285,074</u>	 <u>1,157,868</u>
 <u>FIXED ASSETS</u>		
Water Distribution System	5,032,267	4,703,898
Equipment	1,357	1,357
Computers	7,154	7,154
Construction in Progress	-	213,787
Land	130,727	130,727
Less: Accumulated Depreciation	<u>(1,747,734)</u>	<u>(1,622,644)</u>
 <u>NET FIXED ASSETS</u>	 <u>3,423,771</u>	 <u>3,434,279</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>4,709,060</u>	 <u>4,592,362</u>

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

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CHENIERE-DREW WATER SYSTEM, INC.  
 WEST MONROE, LOUISIANA  
 BALANCE SHEET (CONTINUED)  
 AS OF SEPTEMBER 30, 2007 AND 2006

LIABILITIES AND MEMBERS' EQUITY

	<u>9/30/2007</u>	<u>9/30/2006</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	93,600	129,450
Accrued Expenses	3,364	9,436
Current Maturities of Long-Term Debt	<u>58,428</u>	<u>48,547</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>155,392</u>	<u>187,433</u>
<u>WATER DEPOSITS PAYABLE</u>	<u>100,145</u>	<u>98,830</u>
<u>LONG-TERM LIABILITIES</u>		
Long-Term Debt Net of Current Portion	<u>666,043</u>	<u>726,212</u>
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>666,043</u>	<u>726,212</u>
<u>TOTAL LIABILITIES</u>	<u>921,580</u>	<u>1,012,475</u>
<u>MEMBERS' EQUITY</u>		
Retained Earnings	<u>3,787,480</u>	<u>3,579,887</u>
<u>TOTAL MEMBERS' EQUITY</u>	<u>3,787,480</u>	<u>3,579,887</u>
<u>TOTAL LIABILITIES AND MEMBERS' EQUITY</u>	<u>4,709,060</u>	<u>4,592,362</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, 2007 AND 2006

	<u>9/30/2007</u>	<u>9/30/2006</u>
<u>SALES</u>		
Water Revenues	996,307	1,013,996
Tapping Fees	37,110	36,620
Late Charges	25,399	27,182
Service and Reconnect Charges	19,400	10,330
Membership Fees	2,220	2,430
Commission Fee	1,030	2,160
Other	<u>7,300</u>	<u>61,565</u>
<u>TOTAL SALES</u>	<u>1,088,766</u>	<u>1,154,283</u>
<u>COST OF SALES</u>		
Water Taps	32,801	28,811
Tapping Materials	8,501	11,724
Sales Tax - Materials	810	1,114
Handling Charges	680	938
Damage Claims	1,926	-
Contract Labor	8,340	8,340
Chlorine	23,768	27,525
Connect Fees	13,360	14,495
Carbon Refills	<u>64,361</u>	<u>-</u>
<u>TOTAL COST OF SALES</u>	<u>154,547</u>	<u>92,947</u>
<u>TOTAL GROSS PROFIT</u>	<u>934,219</u>	<u>1,061,336</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, 2007 AND 2006

	<u>9/30/2007</u>	<u>9/30/2006</u>
<u>OPERATING EXPENSES</u>		
Accounting	14,486	14,259
Advertising	289	250
Bank Charges	961	1,605
Board Fees	29,400	29,400
Depreciation	125,090	120,359
Insurance	14,878	16,236
Interest	40,028	42,660
Internet Service	2,340	1,934
Investigative Analysis	2,725	-
Management Expense	338,748	317,522
Membership Meetings	287	350
Miscellaneous	1,658	1,879
Office and Postage	3,761	2,613
Professional Fees	1,413	20,189
Repairs and Maintenance	27,772	15,568
Telephone	1,589	1,749
Well Monitoring Fee	16,475	17,880
Well Mapping Fee	6,300	3,290
Utilities	<u>136,734</u>	<u>146,216</u>
 <u>TOTAL OPERATING EXPENSES</u>	 <u>764,934</u>	 <u>753,959</u>
 <u>OPERATING INCOME (LOSS)</u>	 <u>169,285</u>	 <u>307,377</u>
 <u>OTHER REVENUES (EXPENSES)</u>		
Interest Earned	<u>38,308</u>	<u>31,044</u>
 <u>TOTAL OTHER REVENUES (EXPENSES)</u>	 <u>38,308</u>	 <u>31,044</u>
 <u>NET INCOME (LOSS)</u>	 <u>207,593</u>	 <u>338,421</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, 2007 AND 2006

	<u>9/30/2007</u>	<u>9/30/2006</u>
<u>MEMBERS' EQUITY AT BEGINNING OF YEAR</u>	3,579,887	3,241,466
Distributions	-	-
Net Income (Loss)	<u>207,593</u>	<u>338,421</u>
<u>MEMBERS' EQUITY AT END OF YEAR</u>	<u>3,787,480</u>	<u>3,579,887</u>

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

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CHENIERE-DREW WATER SYSTEM, INC.  
WEST MONROE, LOUISIANA  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	<u>9/30/2007</u>	<u>9/30/2006</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	207,513	338,421
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	125,090	120,359
(Increase) Decrease in:		
Accounts Receivable - Water Billings	( 8,300)	27,218
Unbilled Revenues Receivable	( 2,571)	-
Accounts Receivable - Other	-	( 60)
Prepaid Insurance	( 567)	( 94)
Increase (Decrease) in:		
Accounts Payable	( 35,850)	24,891
Accrued Expenses	( 6,072)	9,199
Meter Deposits	<u>1,315</u>	<u>3,030</u>
Total Adjustments	<u>73,045</u>	<u>184,543</u>
Net Cash Provided (Used) by Operating Activities	<u>280,638</u>	<u>522,964</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchases of Fixed Assets	( <u>114,582</u> )	( <u>277,162</u> )
Net Cash Provided (Used) by Investing Activities	( <u>114,582</u> )	( <u>277,162</u> )
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Payments on Long-Term Debt	( 50,288)	( 52,410)
Loan Proceeds	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	( <u>50,288</u> )	( 52,410)
<u>NET INCREASE IN CASH</u>	115,768	193,392
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	<u>981,708</u>	<u>788,316</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>1,097,476</u>	<u>981,708</u>
Cash Paid During the Year for:		
Interest	40,028	42,660

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, 2007 AND 2006

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, 2007 AND 2006

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, 2007 and 2006 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, 2007 AND 2006

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, 2007, 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>
2008	58,428
2009	61,570
2010	64,881
2011	68,371
2012	72,048
Thereafter	<u>399,173</u>
<u>Total</u>	<u>724,471</u>

Interest expense on the above note amounted to \$40,028 and \$42,660 for the years ended September 30, 2007 and 2006, 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, 2007 and 2006, the Water System's uninsured cash balances total \$805,765 and \$793,061, 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, 2007 AND 2006

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, 2007, 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 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, 2007 and 2006.

NOTE 7: CONSTRUCTION IN PROGRESS

The cost of construction during September 30, 2007 and September 30, 2006, mainly engineering and well testing costs in the amount of \$-0- and \$213,787, 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 projects are completed.

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, 2007 AND 2006

NOTE 8: FUNCTIONAL EXPENSES (Continued)

	<u>2007</u>	<u>2006</u>
Program Services	710,334	680,603
Management and General	<u>54,600</u>	<u>73,356</u>
<u>Total</u>	<u>764,934</u>	<u>753,959</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 YEARS ENDED SEPTEMBER 30, 2007  
(WITH MEMO TOTAL FOR SEPTEMBER 30, 2006)

	Program- Water District	Management And General	9/30/2007 Total	9/30/2006 Total
Accounting	-	14,486	14,486	14,259
Advertising	289	-	289	250
Bad Debt	-	-	-	-
Bank Charges	-	961	961	1,605
Board Fees	-	29,400	29,400	29,400
Insurance	14,878	-	14,878	16,236
Interest	40,028	-	40,028	42,660
Internet Service	2,340	-	2,340	1,934
Investigative Analysis	2,725	-	2,725	-
Management Expense	338,748	-	338,748	317,522
Membership Meetings	-	287	287	350
Miscellaneous	-	1,658	1,658	1,879
Office & Postage	-	3,761	3,761	2,613
Professional Fees	-	1,413	1,413	20,189
Repairs & Maintenance	27,772	-	27,772	15,568
Telephone	-	1,589	1,589	1,749
Well Monitoring Fee	16,475	-	16,475	17,880
Well Mapping Fee	6,300	-	6,300	3,290
Utilities	<u>136,734</u>	<u>-</u>	<u>136,734</u>	<u>146,216</u>
<u>Subtotal</u>	586,289	53,555	639,844	633,600
<u>Depreciation</u>	<u>124,045</u>	<u>1,045</u>	<u>125,090</u>	<u>120,359</u>
<u>TOTAL</u>	<u>710,334</u>	<u>54,600</u>	<u>764,934</u>	<u>753,959</u>

See auditors' report.

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