

CHENIERE-DREW WATER SYSTEM, INC.

WEST MONROE, LOUISIANA

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

SEPTEMBER 30, 2008 and 2007

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
SEPTEMBER 30, 2008 and 2007

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December 23, 2008

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, 2008 and 2007, 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, 2008 and 2007, 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, 2008 and 2007

ASSETS

	<u>9/30/2008</u>	<u>9/30/2007</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	1,208,478	1,097,476
Accounts Receivable - Water Billings	126,053	147,744
Unbilled Revenues Receivable	15,414	20,493
Accounts Receivable - Other	18,213	10,629
Prepaid Insurance	<u>8,697</u>	<u>8,732</u>
 <u>TOTAL CURRENT ASSETS</u>	 <u>1,376,855</u>	 <u>1,285,074</u>
 <u>FIXED ASSETS</u>		
Water Distribution System	5,148,354	5,032,267
Equipment	1,357	1,357
Computers	9,736	7,154
Construction in Progress	-	-
Land	145,422	130,727
Less: Accumulated Depreciation	<u>(1,877,270)</u>	<u>(1,747,734)</u>
 <u>NET FIXED ASSETS</u>	 <u>3,427,599</u>	 <u>3,423,771</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>4,804,669</u>	 <u>4,709,060</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, 2008 and 2007

LIABILITIES AND NET ASSETS

	<u>9/30/2008</u>	<u>9/30/2007</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	89,801	93,600
Accrued Expenses	3,741	3,364
Current Maturities of Long-Term Debt	<u>50,463</u>	<u>58,428</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>144,005</u>	<u>155,392</u>
<u>WATER DEPOSITS PAYABLE</u>	<u>101,415</u>	<u>100,145</u>
<u>LONG-TERM LIABILITIES</u>		
Long-Term Debt Net of Current Portion	<u>622,846</u>	<u>666,043</u>
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>622,846</u>	<u>666,043</u>
<u>TOTAL LIABILITIES</u>	<u>868,266</u>	<u>921,580</u>
<u>NET ASSETS</u>		
Unrestricted Net Assets	3,936,403	3,787,480
Temporarily Restricted Net Assets	-	-
Permanently Restricted Net Assets	<u>-</u>	<u>-</u>
<u>TOTAL NET ASSETS</u>	<u>3,936,403</u>	<u>3,787,480</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>4,804,669</u>	<u>4,709,060</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, 2008 and 2007

	<u>9/30/2008</u>	<u>9/30/2007</u>
<u>SALES</u>		
Water Revenues	1,001,438	996,307
Tapping Fees	33,020	37,110
Late Charges	26,764	25,399
Service and Reconnect Charges	18,863	19,400
Membership Fees	2,125	2,220
Commission Fee	1,030	1,030
Other	<u>3,970</u>	<u>7,300</u>
<u>TOTAL SALES</u>	<u>1,087,210</u>	<u>1,088,766</u>
<u>COST OF SALES</u>		
Water Taps	26,597	32,801
Tapping Materials	8,155	8,501
Sales Tax - Materials	783	810
Handling Charges	652	680
Damage Claims	676	1,926
Contract Labor	2,780	8,340
Chlorine	24,986	23,768
Connect Fees	12,965	13,360
Carbon Refills	<u>62,379</u>	<u>64,361</u>
<u>TOTAL COST OF SALES</u>	<u>139,973</u>	<u>154,547</u>
<u>TOTAL GROSS PROFIT</u>	<u>947,237</u>	<u>934,219</u>
<u>FUNCTIONAL EXPENSES</u>		
Program Expense	759,030	710,334
Administrative Expenses	<u>61,598</u>	<u>54,600</u>
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>820,628</u>	<u>764,934</u>
<u>NET OPERATING PROFIT (LOSS)</u>	<u>126,609</u>	<u>169,285</u>
<u>OTHER REVENUES</u>		
Interest Earned	<u>22,314</u>	<u>38,308</u>
<u>TOTAL OTHER REVENUES</u>	<u>22,314</u>	<u>38,308</u>
<u>NET INCREASE (DECREASE) IN NET ASSETS</u>	148,923	207,593
<u>NET ASSETS AT BEGINNING OF YEAR</u>	<u>3,787,480</u>	<u>3,579,887</u>
<u>NET ASSETS AT END OF YEAR</u>	<u>3,936,403</u>	<u>3,787,480</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 YEARS ENDED SEPTEMBER 30, 2008
(WITH MEMO TOTAL FOR SEPTEMBER 30, 2007)

	Program- Water District	Management And General	9/30/2008 Total	9/30/2007 Total
Accounting	-	14,768	14,768	14,486
Advertising	-	-	-	289
Bad Debt	-	-	-	-
Bank Charges	-	3,395	3,395	961
Board Fees	-	29,050	29,050	29,400
Insurance	14,944	-	14,944	14,878
Interest	40,087	-	40,087	40,028
Internet Service	967	-	967	2,340
Investigative Analysis	2,784	-	2,784	2,725
Management Expense	356,910	-	356,910	338,748
Membership Meetings	-	596	596	287
Miscellaneous	-	1,581	1,581	1,658
Office & Postage	-	4,939	4,939	3,761
Professional Fees	-	4,613	4,613	1,413
Repairs & Maintenance	25,786	-	25,786	27,772
Telephone	-	1,523	1,523	1,589
Well Monitoring Fee	16,850	-	16,850	16,475
Well Mapping Fee	14,752	-	14,752	6,300
Utilities	<u>157,547</u>	<u>-</u>	<u>157,547</u>	<u>136,734</u>
<u>Subtotal</u>	630,627	60,465	691,092	639,844
<u>Depreciation</u>	<u>128,403</u>	<u>1,133</u>	<u>129,536</u>	<u>125,090</u>
<u>TOTAL</u>	<u>759,030</u>	<u>61,598</u>	<u>820,628</u>	<u>764,934</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, 2008 and 2007

	<u>9/30/2008</u>	<u>9/30/2007</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	148,923	207,513
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	129,536	125,090
(Increase) Decrease in:		
Accounts Receivable - Water Billings	21,690	(8,300)
Unbilled Revenues Receivable	5,079	(2,571)
Accounts Receivable - Other	(7,584)	-
Prepaid Insurance	35	(567)
Increase (Decrease) in:		
Accounts Payable	(3,800)	(35,850)
Accrued Expenses	378	(6,072)
Meter Deposits	<u>1,271</u>	<u>1,315</u>
Total Adjustments	<u>146,605</u>	<u>73,045</u>
Net Cash Provided (Used) by Operating Activities	<u>295,528</u>	<u>280,638</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchases of Fixed Assets	(<u>133,364</u>)	(<u>114,582</u>)
Net Cash Provided (Used) by Investing Activities	(<u>133,364</u>)	(<u>114,582</u>)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Payments on Long-Term Debt	(51,162)	(50,288)
Loan Proceeds	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	(<u>51,162</u>)	(<u>50,288</u>)
<u>NET INCREASE IN CASH</u>	111,002	115,768
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	<u>1,097,476</u>	<u>981,708</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>1,208,478</u>	<u>1,097,476</u>
Cash Paid During the Year for:		
Interest	40,087	40,028

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, 2008 and 2007

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, 2008 and 2007

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, 2008 and 2007 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, 2008 and 2007

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, 2008, 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>
2009	50,463
2010	53,869
2011	57,505
2012	61,297
2013	<u>450,175</u>
<u>Total</u>	<u>673,309</u>

Interest expense on the above note amounted to \$40,087 and \$40,028 for the years ended September 30, 2008 and 2007, 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, 2008 and 2007, the Water System's uninsured cash balances total \$912,093 and \$805,765, 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, 2008 and 2007

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, 2008, 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, 2008 and 2007.

NOTE 7: CONSTRUCTION IN PROGRESS

The cost of construction during September 30, 2008 and September 30, 2007, mainly engineering and well testing costs in the amount of \$-0- and \$-0-, 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 is 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.

SUPPLEMENTARY INFORMATION

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
STATEMENTS OF INCOME
FOR THE YEARS ENDED SEPTEMBER 30, 2008 and 2007

	<u>9/30/2008</u>	<u>9/30/2007</u>
<u>SALES</u>		
Water Revenues	1,001,438	996,307
Tapping Fees	33,020	37,110
Late Charges	26,764	25,399
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Membership Fees	2,125	2,220
Commission Fee	1,030	1,030
Other	<u>3,970</u>	<u>7,300</u>
<u>TOTAL SALES</u>	<u>1,087,210</u>	<u>1,088,766</u>
 <u>COST OF SALES</u>		
Water Taps	26,597	32,801
Tapping Materials	8,155	8,501
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Chlorine	24,986	23,768
Connect Fees	12,965	13,360
Carbon Refills	<u>62,379</u>	<u>64,361</u>
<u>TOTAL COST OF SALES</u>	<u>139,973</u>	<u>154,547</u>
<u>TOTAL GROSS PROFIT</u>	<u>947,237</u>	<u>934,219</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, 2008 AND 2007

	<u>9/30/2008</u>	<u>9/30/2007</u>
<u>OPERATING EXPENSES</u>		
Accounting	14,768	14,486
Advertising	-	289
Bank Charges	3,395	961
Board Fees	29,050	29,400
Depreciation	129,536	125,090
Insurance	14,944	14,878
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Utilities	<u>157,547</u>	<u>136,734</u>
<u>TOTAL OPERATING EXPENSES</u>	<u>820,628</u>	<u>764,934</u>
<u>OPERATING INCOME (LOSS)</u>	<u>126,609</u>	<u>169,285</u>
<u>OTHER REVENUES (EXPENSES)</u>		
Interest Earned	<u>22,314</u>	<u>38,308</u>
<u>TOTAL OTHER REVENUES (EXPENSES)</u>	<u>22,314</u>	<u>38,308</u>
<u>NET INCOME (LOSS)</u>	<u>148,923</u>	<u>207,593</u>

See auditors' report.