

CHENIERE-DREW WATER SYSTEM, INC.

WEST MONROE, LOUISIANA

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

SEPTEMBER 30, 2012 AND 2011

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
SEPTEMBER 30, 2012 AND 2011

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"The CPA. Never Underestimate The Value."

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November 27, 2012

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, 2012 and 2011, 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, 2012 and 2011, 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 statements of income on pages 12-13 are 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, 2012 AND 2011

ASSETS

	<u>9/30/2012</u>	<u>9/30/2011</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	1,578,950	1,317,151
Accounts Receivable - Water Billings	239,978	245,267
Unbilled Revenues Receivable	27,951	33,827
Accounts Receivable - Other	20,207	20,122
Prepaid Insurance	<u>10,036</u>	<u>9,605</u>
 <u>TOTAL CURRENT ASSETS</u>	 <u>1,877,122</u>	 <u>1,625,972</u>
 <u>FIXED ASSETS</u>		
Water Distribution System	6,502,150	6,196,926
Equipment	1,357	1,357
Computers	9,736	9,736
Construction in Progress	-	-
Land	145,422	145,422
Less: Accumulated Depreciation	<u>(2,473,653)</u>	<u>(2,314,578)</u>
 <u>NET FIXED ASSETS</u>	 <u>4,185,012</u>	 <u>4,038,863</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>6,062,349</u>	 <u>5,665,050</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, 2012 AND 2011

LIABILITIES AND NET ASSETS

	<u>9/30/2012</u>	<u>9/30/2011</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	138,187	127,517
Accrued Expenses	1,857	2,753
Current Maturities of Long-Term Debt	<u>450,065</u>	<u>61,297</u>
<u>TOTAL CURRENT LIABILITIES</u>	<u>590,109</u>	<u>191,567</u>
<u>WATER DEPOSITS PAYABLE</u>	<u>109,269</u>	<u>106,609</u>
<u>LONG-TERM LIABILITIES</u>		
Long-Term Debt Net of Current Portion	<u>-</u>	<u>450,232</u>
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>-0-</u>	<u>450,232</u>
<u>TOTAL LIABILITIES</u>	<u>699,378</u>	<u>748,408</u>
<u>NET ASSETS</u>		
Unrestricted Net Assets	5,362,971	4,916,642
Temporarily Restricted Net Assets	-	-
Permanently Restricted Net Assets	<u>-</u>	<u>-</u>
<u>TOTAL NET ASSETS</u>	<u>5,362,971</u>	<u>4,916,642</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>6,062,349</u>	<u>5,665,050</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, 2012 AND 2011

	<u>9/30/2012</u>	<u>9/30/2011</u>
<u>SALES</u>		
Water Revenues	1,663,714	1,683,315
Tapping Fees	49,120	29,100
Late Charges	19,228	38,144
Service and Reconnect Charges	15,770	15,510
Membership Fees	1,965	2,040
Commission Fee	1,030	2,662
Other	<u>5,441</u>	<u>5,353</u>
<u>TOTAL SALES</u>	<u>1,756,268</u>	<u>1,776,124</u>
<u>COST OF SALES</u>		
Water Taps	35,837	24,809
Tapping Materials	6,880	19,791
Sales Tax - Materials	660	1,900
Handling Charges	645	1,583
Chlorine	27,558	25,842
Connect Fees	10,960	10,910
Carbon Refills	<u>114,582</u>	<u>99,432</u>
<u>TOTAL COST OF SALES</u>	<u>197,122</u>	<u>184,267</u>
<u>TOTAL GROSS PROFIT</u>	<u>1,559,146</u>	<u>1,591,857</u>
<u>FUNCTIONAL EXPENSES</u>		
Program Expense	1,057,606	1,026,812
Administrative Expenses	<u>55,778</u>	<u>54,348</u>
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>1,113,384</u>	<u>1,081,160</u>
<u>NET OPERATING PROFIT (LOSS)</u>	<u>445,762</u>	<u>510,697</u>
<u>OTHER REVENUES</u>		
Interest Earned	<u>567</u>	<u>717</u>
<u>TOTAL OTHER REVENUES</u>	<u>567</u>	<u>717</u>
<u>NET INCREASE (DECREASE) IN NET ASSETS</u>	446,329	511,414
<u>NET ASSETS AT BEGINNING OF YEAR</u>	<u>4,916,642</u>	<u>4,405,228</u>
<u>NET ASSETS AT END OF YEAR</u>	<u>5,362,971</u>	<u>4,916,642</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, 2012
(WITH MEMO TOTAL FOR SEPTEMBER 30, 2011)

	Program- Water District	Management And General	9/30/2012 Total	9/30/2011 Total
Accounting	-	15,358	15,358	14,497
Advertising	-	-	-	-
Bad Debt	-	-	-	-
Bank Charges	-	756	756	417
Board Fees	-	29,400	29,400	29,400
Insurance	15,627	-	15,627	18,247
Interest	35,794	-	35,794	35,243
Internet Service	702	-	702	821
Investigative Analysis	20	-	20	444
Management Expense	608,597	-	608,597	526,205
Membership Meetings	-	945	945	231
Meter Reading	44,509	-	44,509	-
Miscellaneous	-	1,420	1,420	1,647
Office & Postage	-	2,038	2,038	3,616
Professional Fees	-	865	865	2,354
Repairs & Maintenance	36,541	-	36,541	121,448
Telephone	-	1,717	1,717	1,599
Web Hosting	-	2,750	2,750	-
Well Monitoring Fee	18,780	-	18,780	15,150
Well Mapping Fee	-	-	-	3,937
Utilities	138,490	-	138,490	152,860
<u>Subtotal</u>	899,060	55,249	954,309	928,116
<u>Depreciation</u>	158,546	529	159,075	153,044
<u>TOTAL</u>	<u>1,057,606</u>	<u>55,778</u>	<u>1,113,384</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, 2012 AND 2011

	<u>9/30/2012</u>	<u>9/30/2011</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Increase in Net Assets	446,329	511,414
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	159,075	153,044
(Increase) Decrease in:		
Accounts Receivable - Water Billings	5,289	(43,819)
Unbilled Revenues Receivable	5,876	(5,883)
Accounts Receivable - Other	(85)	(655)
Prepaid Insurance	(431)	479
Increase (Decrease) in:		
Accounts Payable	10,670	23,663
Accrued Expenses	(896)	(310)
Meter Deposits	<u>2,660</u>	<u>790</u>
Total Adjustments	<u>182,158</u>	<u>127,309</u>
Net Cash Provided (Used) by Operating Activities	<u>628,487</u>	<u>638,723</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchases of Fixed Assets	(305,224)	(278,238)
Net Cash Provided (Used) by Investing Activities	(305,224)	(278,238)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Payments on Long-Term Debt	(61,464)	(57,505)
Loan Proceeds	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	(61,464)	(57,505)
<u>NET INCREASE IN CASH</u>	261,799	302,980
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	<u>1,317,151</u>	<u>1,014,171</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>1,578,950</u>	<u>1,317,151</u>
Cash Paid During the Year for:		
Interest	36,690	35,553

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, 2012 AND 2011

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, 2012 AND 2011

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, 2012 and 2011 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, 2012 AND 2011

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 6.46%. 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, 2012, they have not drawn from the new line of credit. The Water System is pledged as collateral on the loan.

Interest expense on the above note amounted to \$30,766 and \$35,243 for the years ended September 30, 2012 and 2011, 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, 2012 and 2011, the Water System's uninsured cash balances total \$1,226,758 and \$968,448, 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 September 30, 2012, 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 December 2011.

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 5: CONTRACT FOR OPERATION AND MAINTENANCE OF THE UTILITY SYSTEM: (Continued)

The Water System contracts with Ouachita Meter Reading Service, LLC to provide meter reading services on a monthly basis. The Board negotiated a 3-year contract with Ouachita Meter Reading Service, LLC in December of 2011.

NOTE 6: RELATED PARTY TRANSACTIONS:

There were no material related party transactions for the years ended September 30, 2012 and 2011.

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 accompanying notes. Management evaluated the activity of the Water System through November 27, 2012, 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.

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2012 and 2011

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 2011, 2010, 2009, and 2008 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, 2012 AND 2011

	<u>9/30/2012</u>	<u>9/30/2011</u>
<u>SALES</u>		
Water Revenues	1,663,714	1,683,315
Tapping Fees	49,120	29,100
Late Charges	19,228	38,144
Service and Reconnect Charges	15,770	15,510
Membership Fees	1,965	2,040
Commission Fee	1,030	2,662
Other	<u>5,441</u>	<u>5,353</u>
<u>TOTAL SALES</u>	<u>1,756,268</u>	<u>1,776,124</u>
 <u>COST OF SALES</u>		
Water Taps	35,837	24,809
Tapping Materials	6,880	19,791
Sales Tax - Materials	660	1,900
Handling Charges	645	1,583
Damage Claims	-	-
Chlorine	27,558	25,842
Connect Fees	10,960	10,910
Carbon Refills	<u>114,582</u>	<u>99,432</u>
<u>TOTAL COST OF SALES</u>	<u>197,122</u>	<u>184,267</u>
 <u>TOTAL GROSS PROFIT</u>	 <u>1,559,146</u>	 <u>1,591,857</u>

See independent auditors' report.

CHENIERE-DREW WATER SYSTEM, INC.
 WEST MONROE, LOUISIANA
 STATEMENTS OF INCOME (CONTINUED)
 FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	<u>9/30/2012</u>	<u>9/30/2011</u>
<u>OPERATING EXPENSES</u>		
Accounting	15,358	14,497
Advertising	-	-
Bank Charges	756	417
Board Fees	29,400	29,400
Depreciation	159,075	153,044
Insurance	15,627	18,247
Interest	35,794	35,243
Internet Service	702	821
Investigative Analysis	20	444
Management Expense	608,597	526,205
Membership Meetings	945	231
Meter Reading	44,509	-
Miscellaneous	1,420	1,647
Office and Postage	2,038	3,616
Professional Fees	865	2,354
Repairs and Maintenance	36,541	121,448
Telephone	1,717	1,599
Web Hosting	2,750	-
Well Monitoring Fee	18,780	15,150
Well Mapping Fee	-	3,937
Utilities	<u>138,490</u>	<u>152,860</u>
 <u>TOTAL OPERATING EXPENSES</u>	 <u>1,113,384</u>	 <u>1,081,160</u>
 <u>INCREASE IN NET ASSETS FROM OPERATIONS</u>	 <u>445,762</u>	 <u>510,697</u>
 <u>OTHER REVENUES (EXPENSES)</u>		
Interest Earned	<u>567</u>	<u>717</u>
 <u>TOTAL OTHER REVENUES (EXPENSES)</u>	 <u>567</u>	 <u>717</u>
 <u>NET INCOME IN NET ASSETS</u>	 <u>446,329</u>	 <u>511,414</u>

See independent auditors' report.