

CHENIERE-DREW WATER SYSTEM, INC.

WEST MONROE, LOUISIANA

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

SEPTEMBER 30, 2017 AND 2016

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
SEPTEMBER 30, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Cheniere-Drew Water System, Inc.
West Monroe, Louisiana

We have audited the accompanying statements of Cheniere-Drew Water System, Inc. (a non-profit organization), which comprise the statement of financial position as of September 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we

express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The Water System outsourced its billing services to a third party service provider during the fiscal year. We were unable to determine the adequacy of the internal controls over billings of water and sewerage fees since the third party provider did not provide a Report on Controls at a Service Organization under the Statement on Standards for Attestation Engagements No. 16 or other information adequate for gaining an understanding of the service providers' internal controls and it was not feasible to obtain this information by other means. As such, we were unable to determine the effect of the service organizations' internal controls on the Water System's water and sewer revenues and accounts receivable. Consequently, we were unable to determine whether any adjustments to those amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Cheniere-Drew Water System, Inc. as of September 30, 2017 and 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Qualified Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statements of income on pages 14-15 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance

with auditing standards generally accepted in the United States of America. In our opinion, except for the possible effects on the service organization's internal controls on the Water System's water and sewer revenues and receivables for the qualified opinion on the financial statements as explained in the Basis for Qualified Opinion paragraph, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Johnson Perry Roussel & Cuthbert, LLP

JOHNSON, PERRY, ROUSSEL & CUTHBERT, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
December 11, 2017

CHENIERE-DREW WATER SYSTEM, INC.
 WEST MONROE, LOUISIANA
 STATEMENTS OF FINANCIAL POSITION
 AS OF SEPTEMBER 30, 2017 AND 2016

ASSETS

	<u>9/30/2017</u>	<u>9/30/2016</u>
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	2,231,487	1,995,435
Accounts Receivable - Water Billings	282,410	199,895
Unbilled Revenues Receivable	34,996	27,119
Accounts Receivable - Other	20,302	20,302
Prepaid Insurance	9,493	9,334
	2,578,688	2,252,085
 <u>TOTAL CURRENT ASSETS</u>		
 <u>FIXED ASSETS</u>		
Water Distribution System	7,336,491	7,287,711
Equipment	1,357	1,357
Computers	9,736	9,736
Construction in Progress	51,336	-
Land	186,309	186,309
Less: Accumulated Depreciation	(3,335,251)	(3,161,006)
	4,249,978	4,324,107
 <u>NET FIXED ASSETS</u>		
 <u>OTHER ASSETS</u>		
Deposits	65	65
	65	65
 <u>TOTAL OTHER ASSETS</u>		
 <u>TOTAL ASSETS</u>		
	6,828,731	6,576,257

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

CHENIERE-DREW WATER SYSTEM, INC.
 WEST MONROE, LOUISIANA
 STATEMENTS OF FINANCIAL POSITION
 AS OF SEPTEMBER 30, 2017 AND 2016

LIABILITIES AND NET ASSETS

	<u>9/30/2017</u>	<u>9/30/2016</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	158,609	143,121
Accrued Expenses	497	315
Current Maturities of Long-Term Debt	194,303	246,923
<u>TOTAL CURRENT LIABILITIES</u>	353,409	390,359
<u>WATER DEPOSITS PAYABLE</u>	125,913	114,978
<u>LONG-TERM LIABILITIES</u>		
Long-Term Debt Net of Current Portion	-	-
<u>TOTAL LONG-TERM LIABILITIES</u>	0	0
TOTAL LIABILITIES	479,322	505,337
<u>NET ASSETS</u>		
Unrestricted Net Assets	6,349,409	6,070,920
Temporarily Restricted Net Assets	-	-
Permanently Restricted Net Assets	-	-
<u>TOTAL NET ASSETS</u>	6,349,409	6,070,920
TOTAL LIABILITIES AND NET ASSETS	6,828,731	6,576,257

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, 2017 AND 2016

	<u>9/30/2017</u>	<u>9/30/2016</u>
<u>SALES</u>		
Water Revenues	1,892,312	1,523,644
Tapping Fees	51,160	43,180
Late Charges	21,101	17,940
Service and Reconnect Charges	34,010	19,750
Membership Fees	3,435	2,115
Commission Fee	1,795	637
Other	8,315	47,291
	<u>2,012,128</u>	<u>1,654,557</u>
<u>COST OF SALES</u>		
Water Taps	48,348	39,687
Tapping Materials	8,164	8,603
Sales Tax - Materials	884	859
Handling Charges	816	860
Chlorine	29,944	30,917
Connect Fees	12,905	13,895
Carbon Refills	112,455	64,904
Contract Labor	9,000	6,750
	<u>222,516</u>	<u>166,475</u>
<u>TOTAL GROSS PROFIT</u>	<u>1,789,612</u>	<u>1,488,082</u>
<u>FUNCTIONAL EXPENSES</u>		
Program Expenses	1,460,770	1,428,543
Administrative Expenses	55,960	63,546
	<u>1,516,730</u>	<u>1,492,089</u>
<u>NET OPERATING PROFIT (LOSS)</u>	<u>272,882</u>	<u>(4,007)</u>
<u>OTHER REVENUES</u>		
Interest Earned	5,607	5,654
Non-Cash Contributions	-	43,854
	<u>5,607</u>	<u>49,508</u>
<u>NET INCREASE (DECREASE) IN NET ASSETS</u>	<u>278,489</u>	<u>45,501</u>
<u>NET ASSETS AT BEGINNING OF YEAR</u>	<u>6,070,920</u>	<u>6,025,419</u>
<u>NET ASSETS AT END OF YEAR</u>	<u>6,349,409</u>	<u>6,070,920</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, 2017 AND 2016

	<u>Program-</u> <u>Water District</u>	<u>Management</u> <u>And General</u>	<u>9/30/2017</u> <u>Total</u>	<u>9/30/2016</u> <u>Total</u>
Accounting	-	15,928	15,928	15,323
Bad Debt	10,083		10,083	52,661
Bank Charges	-	1,718	1,718	2,166
Board Fees	-	29,400	29,400	29,400
Insurance	14,461	-	14,461	13,977
Interest	13,023	-	13,023	14,763
Investigative Analysis	444	-	444	933
Management Expense	956,467	-	956,467	887,438
Membership Meeting	-	671	671	119
Meter Reading	81,876	-	81,876	77,536
Miscellaneous	-	1,918	1,918	1,277
Office & Postage	-	5,021	5,021	5,651
Professional Fees	-	829	829	9,187
Repairs & Maintenance	59,835	-	59,835	49,414
Telephone	-	475	475	423
Well Monitoring Fee	6,391	-	6,391	8,214
Well Mapping Fee	2,100	-	2,100	-
Utilities	141,845	-	141,845	151,149
<u>Subtotal</u>	<u>1,286,525</u>	<u>55,960</u>	<u>1,342,485</u>	<u>1,319,631</u>
<u>Depreciation</u>	<u>174,245</u>	<u>-</u>	<u>174,245</u>	<u>172,458</u>
<u>TOTAL</u>	<u>1,460,770</u>	<u>55,960</u>	<u>1,516,730</u>	<u>1,492,089</u>

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

CHENIERE-DREW WATER SYSTEM, INC.
 WEST MONROE, LOUISIANA
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>9/30/2017</u>	<u>9/30/2016</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Increase in Net Assets	278,489	45,501
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	174,245	172,458
(Increase) Decrease in:		
Accounts Receivable – Water Billings	(82,515)	123,719
Unbilled Revenues Receivable	(7,877)	15,609
Accounts Receivable – Other	-	(95)
Prepaid Insurance	(159)	(399)
Utility Deposits	-	150
Increase (Decrease) in:		
Accounts Payable	15,488	(20,483)
Accrued Expenses	182	218
Meter Deposits	10,935	1,713
	110,299	292,890
 Total Adjustments	 110,299	 292,890
 Net Cash Provided (Used) by Operating Activities	 388,788	 338,391
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchases of Fixed Assets	(100,116)	(91,116)
 Net Cash Provided (Used) by Investing Activities	 (100,116)	 (91,116)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Payments on Long-Term Debt	(52,620)	(50,968)
 Net Cash Provided (Used) by Financing Activities	 (52,620)	 (50,968)
 <u>NET INCREASE IN CASH</u>	 236,052	 196,307
 <u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	 1,995,435	 1,799,128
 <u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	 2,231,487	 1,995,435
 Cash Paid During the Year for:		
Interest	13,023	14,763

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, 2017 AND 2016

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 \$584 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, 2017 AND 2016

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, 2017 and 2016 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, 2017 AND 2016

NOTE 2: LONG-TERM DEBT: (Continued)

The Water System has a Note Payable to Origin Bank in the original amount of \$418,110. The loan bears interest at a rate of 3.250%. Payments of \$5,000 are due on the 15th of each month. The Water System is pledged as collateral on the loan.

Five year debt maturity schedule is as follows:

<u>Year Ended</u>	
9/30/2018	194,303

Interest expense on the above note amounted to \$13,023 and \$14,763 for the years ended September 30, 2017 and 2016, 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, 2017 and 2016, the Water System's uninsured cash balances total \$1,632,899 and \$1,396,920, 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, 2017 and 2016, the Water System had completed all projects under construction.

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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 2014.

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 2014.

NOTE 6: RELATED PARTY TRANSACTIONS:

There were no material related party transactions for the years ended September 30, 2017 and 2016.

NOTE 7: CONSTRUCTION IN PROGRESS:

The Eagle Lake Treatment Facility has incurred \$51,336 in cost and is construction in progress as of September 30, 2017. There was no construction in progress as of September 30, 2016.

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

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

NOTE 9: SUBSEQUENT EVENTS: (Continued)

Water System through December 11, 2017, 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.

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 2016, 2015, 2014, and 2013 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, 2017 AND 2016

	<u>9/30/2017</u>	<u>9/30/2016</u>
<u>SALES</u>		
Water Revenues	1,892,312	1,523,644
Tapping Fees	51,160	43,180
Late Charges	21,101	17,940
Service and Reconnect Charges	34,010	19,750
Membership Fees	3,435	2,115
Commission Fee	1,795	637
Other	8,315	47,291
	<hr/>	<hr/>
<u>TOTAL SALES</u>	<u>2,012,128</u>	<u>1,654,557</u>
 <u>COST OF SALES</u>		
Water Taps	48,348	39,687
Tapping Materials	8,164	8,603
Sales Tax - Materials	884	859
Handling Charges	816	860
Chlorine	29,944	30,917
Connect Fees	12,905	13,895
Carbon Refills	112,455	64,904
Contract Labor	9,000	6,750
	<hr/>	<hr/>
<u>TOTAL COST OF SALES</u>	<u>222,516</u>	<u>166,475</u>
 <u>TOTAL GROSS PROFIT</u>	 <u>1,789,612</u>	 <u>1,488,082</u>

See Independent Auditors' Report.

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JOHNSON, PERRY, ROUSSEL & CUTHBERT, L.L.P.
 CERTIFIED PUBLIC ACCOUNTANTS

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
STATEMENTS OF INCOME
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>9/30/2017</u>	<u>9/30/2016</u>
<u>OPERATING EXPENSES</u>		
Accounting	15,928	15,323
Bad Debt	10,083	52,661
Bank Charges	1,718	2,166
Board Fees	29,400	29,400
Depreciation	174,245	172,458
Insurance	14,461	13,977
Interest	13,023	14,763
Investigative Analysis	444	933
Management Expense	956,467	887,438
Membership Meetings	671	119
Meter Reading	81,876	77,536
Miscellaneous	1,918	1,277
Office and Postage	5,021	5,651
Professional Fees	829	9,187
Repairs and Maintenance	59,835	49,414
Telephone	475	423
Well Monitoring Fee	6,391	8,214
Well Mapping Fee	2,100	-
Utilities	141,845	151,149
	<hr/>	<hr/>
<u>TOTAL OPERATING EXPENSES</u>	<u>1,516,730</u>	<u>1,492,089</u>
 <u>INCREASE IN NET ASSETS FROM OPERATIONS</u>	 <u>272,882</u>	 <u>(4,007)</u>
 <u>OTHER REVENUES (EXPENSES)</u>		
Interest Earned	5,607	5,654
Non-Cash Contribution	-	43,854
	<hr/>	<hr/>
<u>TOTAL OTHER REVENUES (EXPENSES)</u>	<u>5,607</u>	<u>49,508</u>
 <u>NET INCOME IN NET ASSETS</u>	 <u>278,489</u>	 <u>45,501</u>

See Independent Auditors' Report.

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JOHNSON, PERRY, ROUSSEL & CUTHBERT, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
CURRENT YEAR SCHEDULE OF AUDIT FINDINGS AND RESPONSES
SEPTEMBER 30, 2017

2017-1 Internal Control Finding

Finding: The Water System outsources its billings of water and sewerage fees to a third party service organization.

Since the service organization did not provide a Report on Controls at a Service Organization, or other information adequate for gaining an understanding of the service provider's internal controls, we were unable to determine the adequacy of internal controls over the billings of water and sewerage fees in order to assess risks of errors in the financial statements. Consequently, mistakes could be made and not detected and corrected in a timely manner.

Recommendation: We recommend the Water System obtain a Report on Controls at a Service Organization under the Statement on Standards for Attestation Engagements No. 16 and/or other information in order to gain an adequate understanding of the internal controls at the service organization.

Management's Corrective Action Plan: Management will research the cost effectiveness of a Report on Controls at a Service Organization under the Statement on Standards for Attestation Engagements No. 16. Management will also contact the service provider and communicate the need for a Report on Controls at a Service Organization under the Statement on Standards for Attestation Engagements No. 16, or have another audit organization provide us information adequate to gain an understanding of the service provider's internal control.

See independent auditors' report.

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CHENIERE-DREW WATER SYSTEM, INC.
WEST MONROE, LOUISIANA
CORRECTIVE ACTION TAKEN ON PRIOR YEAR FINDINGS
SEPTEMBER 30, 2017

2016-1

Finding: The Water System outsources its billings of water and sewerage fees to a third party service organization.

Since the service organization did not provide a Report on Controls at a Service Organization, or other information adequate for gaining an understanding of the service provider's internal controls, we were unable to determine the adequacy of internal controls over the billings of water and sewerage fees in order to assess risks of errors in the financial statements. Consequently, mistakes could be made and not detected and corrected in a timely manner.

Status: Management has determined that it is not cost effective to cure this finding.

See independent auditors' report.

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