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GREATER OUACHITA WATER COMPANY
MONROE, LOUISIANA

FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION
FOR THE YEAR ENDED
AUGUST 31, 2004

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 5/18/05

GREATER OUACHITA WATER COMPANY
AUGUST 31, 2004

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 - Non-Profit Organizations
- Business & Financial Planning
- Tax Preparation & Planning
 - Individual & Partnership
 - Corporate & Fiduciary
- Bookkeeping & Payroll Services

February 25, 2005

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Greater Ouachita Water Company
Monroe, Louisiana 71201

We have audited the accompanying statement of financial position of the Greater Ouachita Water Company (a nonprofit organization) as of August 31, 2004, and the related statement of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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, and *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Greater Ouachita Water Company, as of August 31, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note H to the financial statements, the Company has corrected the method of reporting tapping fees revenue and tapping fees costs from recording them as additions to net assets and fixed assets to recording them as revenues and cost of sales.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Greater Ouachita Water Company taken as a whole. The accompanying financial information listed as supplementary financial

information in the table of contents for the year ended August 31, 2004, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 25, 2005 on our consideration of Greater Ouachita Water Company's internal control structure and its compliance with laws, regulations, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Johnston, Perry, Johnson & Associates, L.L.P.

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

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February 25, 2005

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Greater Ouachita Water Company
Monroe, Louisiana

We have audited the financial statements of Greater Ouachita Water Company (a nonprofit organization) as of and for the year ended August 31, 2004, and have issued our report thereon dated February 25, 2005. We conducted our audit in accordance with accounting standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Greater Ouachita Water Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Greater Ouachita Water Company's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might

be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Johnston, Perry, Johnson & Associates, L.L.P.

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

GREATER OUACHITA WATER COMPANY
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2004

ASSETS

PLANT AND EQUIPMENT

Cost of Systems	26,353,524
Accumulated Depreciation	(8,914,187)

NET PLANT AND EQUIPMENT 17,439,337

INVESTMENTS - CURRENT

Revenue Fund	23,513
Interest Fund	301,891
Reserve Fund	260,000
Renewals, Replacements and Extensions Fund	72,647
Sinking Fund	250,000
Series 2003 Bonds Fund	<u>4,197,314</u>

TOTAL INVESTMENTS - CURRENT 5,105,365

CURRENT ASSETS

General Fund Cash	193,388
Accounts Receivable - Customers (Net)	978,028
Prepaid Expense	<u>56,426</u>

TOTAL CURRENT ASSETS 1,227,842

DEFERRED CHARGES

Unamortized Bond Issue Expense (Note B)	<u>151,392</u>
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TOTAL DEFERRED CHARGES 151,392

TOTAL ASSETS 23,923,936

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

GREATER OUACHITA WATER COMPANY
STATEMENT OF FINANCIAL POSITION (CONTINUED)
AUGUST 31, 2004

LIABILITIES

LONG-TERM DEBT (NOTE D)

Bonds Payable - Series 1994A	1,260,000
Bonds Payable - Series 97A&B Improvements	3,100,000
Bonds Payable - Series 2003	9,000,000
Less: Current Maturities of Long-Term Debt	<u>(250,000)</u>

TOTAL LONG-TERM DEBT 13,110,000

FUNDED LIABILITIES

Interest Payable	<u>301,891</u>
------------------	----------------

TOTAL FUNDED LIABILITIES 301,891

CURRENT LIABILITIES

Accounts Payable - Trade	436,521
Accounts Payable - West Ouachita Sewer	262,825
Accounts Payable - Other Sewer	53,537
Current Maturities of Long-Term Debt	250,000
Payroll Taxes Payable	680
Sales Taxes Payable	1,315
Accrued Insurance	<u>21,059</u>

TOTAL CURRENT LIABILITIES 1,025,937

DEFERRED LIABILITIES

Customer Meter Deposits	<u>563,495</u>
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TOTAL DEFERRED LIABILITIES 563,495

TOTAL LIABILITIES 15,001,323

NET ASSETS

NET ASSETS (SURPLUS) 8,922,613

TOTAL LIABILITIES AND NET ASSETS 23,923,936

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

GREATER OUACHITA WATER COMPANY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2004

OPERATING REVENUE

Charges for Services	4,953,592
Forfeited Discounts	90,040
Reconnect Charges	132,325
Sewer Inspection Fees	760
Tapping Fees	<u>344,965</u>

TOTAL OPERATING REVENUE 5,521,682

COST OF SALES

Water Purchased	649,603
Water and Sewer Taps	<u>344,965</u>

TOTAL COST OF SALES 994,568

GROSS PROFIT

4,527,114

FUNCTIONAL EXPENSES

Operating Expenses	4,300,579
Administrative Expenses	<u>344,734</u>

TOTAL FUNCTIONAL EXPENSES 4,645,313

NET OPERATING PROFIT (LOSS)

(118,199)

OTHER REVENUES

Interest	42,384
Miscellaneous	<u>57,849</u>

TOTAL OTHER REVENUES 100,233

NET INCREASE (DECREASE) IN NET ASSETS

(17,966)

NET ASSETS AT BEGINNING OF YEAR (RESTATED)

8,940,579

NET ASSETS AT END OF YEAR

8,922,613

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

GREATER OUACHITA WATER COMPANY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2004

	<u>ADMINISTRATIVE EXPENSES</u>	<u>OPERATING EXPENSES</u>	<u>TOTAL</u>
Operating Contract	-	1,336,184	1,336,184
Power	-	600,824	600,824
Maintenance	-	586,438	586,438
Chemicals	-	54,229	54,229
Testing	-	22,101	22,101
Water Used in Sewer Plant	-	5,234	5,234
Service and Franchise Fees	-	26,290	26,290
Right of Way	-	4,200	4,200
Accounting	22,495	-	22,495
Advertising	18	-	18
Bank Charges	471	-	471
Dues and Subscriptions	700	-	700
Engineering Fees	-	83,291	83,291
Inspection and Supervision Fee	6,020	-	6,020
Insurance	62,491	-	62,491
Interest	-	654,486	654,486
Legal and Administrative	106,832	-	106,832
Miscellaneous	14,717	-	14,717
Office Expenses	44,328	-	44,328
Postage	5,142	-	5,142
Rent	3,030	-	3,030
Salaries	53,917	-	53,917
Taxes and Licenses	4,480	8,998	13,478
Telephone	3,669	-	3,669
Travel and Entertainment	144	-	144
Trustee Fees	3,830	-	3,830
Provisions for Bad Debts	-	54,073	54,073
Pension Expense	12,450	-	12,450
Amortization	-	18,825	18,825
Depreciation	-	845,406	845,406
<u>TOTAL FUNCTIONAL EXPENSES</u>	<u>344,734</u>	<u>4,300,579</u>	<u>4,645,313</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

GREATER OUACHITA WATER COMPANY
STATEMENT OF CASH FLOWS
AUGUST 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Increase (Decrease) in Net Assets		(17,966)
Noncash Items Included in Net Income		
Amortization of Bond Issue Expense		18,825
Depreciation		845,406
Changes In:		
Accounts Receivable	(77,550)	
Prepaid Expenses	(1,026)	
Interest Payable	172,250	
Accounts Payable - Trade	139,819	
Accounts Payable - Sewers	(6,394)	
Payroll Taxes	42	
Sales Taxes	(390)	
Accrued Insurance	<u>21,059</u>	
Total Adjustments		<u>247,810</u>

NET CASH PROVIDED BY (USED BY)
OPERATING ACTIVITIES

1,094,075

CASH FLOWS FROM INVESTING ACTIVITIES

Plant and Equipment		(2,359,601)
Investments in Special Funds		<u>1,407,760</u>

NET CASH PROVIDED BY (USED BY)
INVESTING ACTIVITIES

(951,841)

CASH FLOWS FROM FINANCING ACTIVITIES

Customer Meter Deposits		45,058
Redemption of Bonds Payable		(200,000)
Bond Issue Costs		<u>(3,871)</u>

NET CASH PROVIDED BY (USED BY)
FINANCING ACTIVITIES

(158,813)

NET INCREASE (DECREASE) IN CASH

(16,579)

CASH AT BEGINNING OF YEAR

209,967

CASH AT END OF YEAR

193,388

Interest Paid During the Year Was \$654,486
Income Taxes Paid During the Year Were \$-0-

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

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2004

NOTE A - HISTORY AND ORGANIZATION

The Greater Ouachita Water Company was incorporated May 29, 1963, under the laws of the State of Louisiana, as a nonprofit organization. The Company was organized to consolidate various water companies operating in Ouachita Parish (Ouachita Parish Police Jury), a political subdivision of the State of Louisiana, into a single company in order to provide better service to the area residents.

By a contract dated June 12, 1963, between the Greater Ouachita Water Company and the Parish of Ouachita, the Company agreed to acquire and construct a waterworks, sewerage and natural gas system within the Parish. Under terms of the contract, the Parish recognizes the Company's title to the system until all indebtedness of the Company, together with accrued interest thereon, incurred by the Company in the financing of the purchase, extension and improvement of the Company is paid in full. When all such indebtedness of the Company is paid in full, all rights, title and interest of the Company and the system shall vest in the Parish.

An indenture of Mortgage, dated September 1, 1964, was made by and between the Greater Ouachita Water Company and the First National Bank of Commerce in New Orleans, now J.P. Morgan, a national banking association having an office in New Orleans, Louisiana, as trustee. Supplemental Indentures of Mortgage have been made covering additions to the system.

Revenue bonds were issued in five series. Proceeds of the first series (Series 1964) were received on September 23, 1964, and the first purchase of systems was made. Proceeds of the second series (Series 1965) were received on April 12, 1965, and additional properties were added to the system. Proceeds of the third series (Series 1994A) were received on March 16, 1994, and of the fourth series (Series 97A&B) were received on December 11, 1997. Proceeds of the fifth series (Series 2003) were received on August 7, 2003.

The Company began operations September 28, 1964. It has an agreement with M-N Utilities, Inc., West Monroe, Louisiana to operate the system. Johnny D. Nichols, West Monroe, Louisiana, is the president of M-N Utilities, Inc.

Officers and directors of the Company and salaries paid to them as officers during the period under review were:

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2004

NOTE A - HISTORY AND ORGANIZATION (Continued)

W. D. Carter, Chairman of the Board	18,184
Robert E. Bentz, President	14,293
Wood T. Sparks, Secretary-Treasurer	<u>16,892</u>
<u>Total</u>	<u>49,369</u>

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The Company use the accrual method of accounting.

Depreciation

Depreciation was computed using the straight-line method in amounts sufficient to amortize the cost of the depreciable assets over their estimated useful lives. The estimated useful lives used in computing depreciation are:

Cost of System	25 to 50 Years
Various Equipment	5 to 20 Years

Special Funds

The Indentures of Mortgage requires the Company twice each month to transfer from the general or operating bank accounts all monies in excess of a minimum amount that is shown by the annual budget to be necessary for operating expenses for the current fiscal year to the Trustee for credit to the Revenue Fund.

Monies received in the Revenue Fund are in turn transferred to other funds in the following order:

1. Interest Fund until at least six months' interest on all outstanding bonds is accumulated or restored. On August 31, 2004, the balance in the Interest Fund was \$301,891. Interest payable at August 31, 2004 was \$301,891.
2. Reserve Fund until an amount equal to 100% of the maximum annual interest requirements on all outstanding bonds is accumulated or restored.
3. Renewals, Replacements and Extensions Fund until \$250,000 is accumulated or restored. During the period under review, additions and expenditures made to and from this fund for improvements to the system resulted in a balance of \$72,647.

GREATER OUACHITA WATER COMPANY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Funds (Continued)

4. Sinking Fund, an amount beginning September 15, 1998, which when and multiplied by the number of such monthly deposits to be made during the next twelve month period will equal the annual requirement for that year. To date, adequate deposits have been made and the requirements of the Indenture of Mortgage have been met as shown below:

<u>Due Date</u>	<u>Amount Due</u>
August 15, 1969 - 2003	4,560,000
August 15, 2004	<u>250,000</u>
<u>Total</u>	<u>4,810,000</u>

The annual amount due on August 15, 2005 will be \$300,000.

5. Mandatory Retirement Fund, all remaining monies. On August 23 of each year, beginning August 25, 1969, all monies in the Sinking Fund will be transferred to this fund. At August 31, 2004, this transfer had not been made, and there was no balance in this fund.

Deferred Charges and Amortization

Discounts on bonds issued by the Company are being amortized over the term of the bonds. Shown below is an analysis of unamortized bond discounts.

Costs of issuing bonds are being amortized over the term of the bonds:

Total Cost at August 31, 2003	323,245
Add Series 2003 Issue Expense	3,871
Less: Prior Year Amortization	(156,899)
Less: Current Year Amortization	<u>(18,825)</u>
Total Amortization	<u>(175,724)</u>
Balance at August 31, 2004	<u>151,392</u>

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts of \$21,630. Management believes that accounts receivable are substantially collectible and requires customers to provide meter deposits. Accounts receivable also includes unbilled revenues of \$364,895, which consist of revenues earned but not billed.

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. These 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.

Income Taxes

The Company, a nonprofit corporation, is exempt from federal and state income taxes under Internal Revenue Code 501(a). Accordingly, no provision for income taxes has been made in the financial statements.

Advertising Expenses

The Company expenses advertising costs as they are incurred. Advertising expenses for the year ended August 31, 2004 were immaterial.

NOTE C - PLANT AND EQUIPMENT

Plant and equipment is stated at the acquisition costs of the assets of the company, with the exception of the systems of Lakeview Utilities, Inc., North Louisiana Production Corporation, and B & W Utilities, Inc., which were contributed by their owners and are stated at their appraised value. Maintenance and repairs are charged to operations currently and major renewals and betterments are capitalized. Additions to the system during the year ended August 31, 2004, totaled \$2,359,601. Shown below is an analysis of the cost of the system by expenditures from various funds:

GREATER OUACHITA WATER COMPANY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 AUGUST 31, 2004

NOTE C - PLANT AND EQUIPMENT (Continued)

	Balance <u>08/31/03</u>	During <u>Year</u>	Balance <u>08/31/04</u>
Bond Proceeds Series 1964	1,922,208	-	1,922,208
Bond Proceeds Series 1965	907,211	-	907,211
General Fund	14,274,581	633,689	14,908,270
Renewals, Replacements and Extensions Fund	3,192,432	53,112	3,245,544
Improvements Fund	-	1,672,800	1,672,800
Revenue Fund	35,016	-	35,016
1994A Fund	1,670,072	-	1,670,072
97A&B Fund			
Contributions	1,911,211	-	1,911,211
Lakeview Utilities, Inc.			
Water and Sewer System	196,000	-	196,000
North Louisiana Production Corp.			
Water System	71,800	-	71,800
B & W Utilities, Inc.			
Water System	<u>44,658</u>	<u>-</u>	<u>44,658</u>
	24,225,189	2,359,601	26,584,790
Less: Retirements			
Gas System Transferred	(<u>231,266</u>)	<u>-</u>	(<u>231,266</u>)
<u>Total</u>	<u>23,993,923</u>	<u>2,359,601</u>	<u>26,353,524</u>

The details of plant and equipment are as follows:

Water Mains and Extensions	10,723,460
Water Service Lines	843,895
Water Meters	742,569
Water Wells	5,128,611
Water Chlorine Equipment	131,204
Meter Stations	170,637
Sewer	7,723,235
Other Equipment	141,608
Land	<u>748,305</u>
<u>Total</u>	<u>26,353,524</u>

NOTE D - LONG-TERM DEBT

The Company originally issued bonds known as "Waterworks and Natural Gas System Revenue Bonds" in two series. Series 1964 bonds totaled \$2,270,000 and were issued September 1, 1964. They were paid off as of September 1, 1999. Series 1965 bonds totaled \$1,050,000 and were issued March 1, 1965. They were paid off as of September 1, 1999.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2004

NOTE D - LONG-TERM DEBT (Continued)

On March 16, 1994, the Company issued bonds known as "Greater Ouachita Water Company Waterworks and Natural Gas System bonds, Series 1994A" in the amount of \$2,000,000. Interest is paid semi-annually on March 1 and September 1. The interest rate is 6.25% through December 10, 1997, and thereafter shall bear interest at the rate determined by the Trustee on March 1, 2000, by adding 400 basis points to the five-year constant maturity treasury and multiplying such amount by the remainder of one minus the corporate tax rate applicable to Central Bank, now J. P. Morgan, Monroe, Louisiana on such date. Principal shall be payable annually on September 1 in each year commencing September 1, 1995.

On December 11, 1997, the Company issued bonds known as "Waterworks and Natural Gas Revenue Bonds of the Greater Ouachita Water Company Series 1997" in the amount of \$3,500,000. Interest is paid semi-annually on March 1 and September 1. The interest rate shall begin at 5.675%.

On August 7, 2003, the Company issued bonds known as "Waterworks and Natural Gas System Revenue Bonds Series 2003" in the amount of \$9,000,000. Interest is paid semi-annually on March 1 and September 1. The interest rate shall begin at 3.950%.

During the year ended August 31, 2004, \$200,000 in bonds were redeemed, bringing the total of all bonds redeemed to \$4,460,000. The balance of bonds outstanding at August 31, 2004 was \$13,360,000.

Principal payments for the next five years are as follows:

Year Ended <u>August 31</u>	<u>Amount</u>
2005	250,000
2006	290,000
2007	305,000
2008	320,000
2009	335,000

The fair value of the bonds payable is estimated based on the current rates offered to the Company for debt of the same remaining maturities. At August 31, 2004, the fair value of the bonds payable approximates the amounts recorded in the financial statements.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2004

NOTE E - LOUISIANA DEPARTMENT OF ENVIRONMENTAL QUALITY

On or about March 16, 1990, the Louisiana Department of Environmental Quality (LaDEQ) issued Compliance Order No. WC-90-014 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of permits at the following facilities in Ouachita Parish, Louisiana: Audubon Park, Bayou Oaks, Belle Meade/Timberwood, Eastwood Estates, Garden Park, Huntington Park, Lakeview Park, Leisure Village, Lincoln Park, Pecan Bayou/Treasure Island, Royal Pines, and Shenandoah. In reponse thereto, Greater Ouachita Water Company made a request for hearing, which was granted.

On or about April 5, 1990, LaDEQ issued Proposed Penalty Notice WP-90-013 in the amount of \$6,000 to Greater Ouachita Water Company with regard to the alleged violations set forth in Compliance Order WC-90-014. In response thereto, Greater Ouachita Water Company made a timely request for a hearing, which was granted.

Greater Ouachita Water Company denied that it committed any of the violations alleged and further denied that it is liable for any fines, forfeitures, and/or penalties under Louisiana law, as alleged in Proposed Penalty Notice WP-90-013 and Compliance Order No. WC-90-014. Nonetheless, Greater Ouachita Water Company, without making any admission of liability under state or federal statute or regulation paid the total amount of the assessed penalty in the amount of \$6,000 in total settlement for the claims set forth in Compliance Order WC-90-014 and described in this Settlement Agreement and Penalty Notice WP-90-013, and those which could have been alleged subsequently with regard to Greater Ouachita Water Company's facilities, identified in Paragraph 1 of this Settlement Agreement.

On or about October 31, 2000, LaDEQ issued Consolidated Compliance Order and Notice of Potential Penalty No. WE-CN-00-0229 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Lake Park subdivision facility. Greater Ouachita Water Company did not file a request for hearing to contest the allegations of same, but did timely submit written comments concerning the alleged violations, the corrective or remedial actions taken to mitigate any damages resulting from the alleged violations, and to demonstrate why the assessment of a penalty would be inappropriate in that case.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2004

NOTE E - LOUISIANA DEPARTMENT OF ENVIRONMENTAL QUALITY (Continued)

On or about October 31, 2000, LaDEQ issued Consolidated Compliance Order and Notice of Potential Penalty No. WE-CN-00-0254 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Frenchman's Bend facility. Greater Ouachita Water Company timely filed a request for hearing, which was granted and has been docketed as number 2002-6921-EQ at the Division of Administrative Law.

On or about November 1, 2000, LaDEQ issued Compliance Order No. WE-C-00-0233 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Wagon Wheel Road subdivision facility. Greater Ouachita Water Company timely filed a request for hearing, which was granted and has been docketed as number 2002-6920-EQ at the Division of Administrative Law.

On or about December 11, 2001, LaDEQ issued Compliance Order No. WE-C-00-0236 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Northeast Regional facility. Greater Ouachita Water Company timely filed a request for hearing; the time limit for LaDEQ to grant the hearing has been extended pursuant to an Agreement to Enter into a Dispute Resolution Discussion. On June 29, 2004, LaDEQ issued Amended Compliance Order WE-C-00-0236A, deleting many of Greater Ouachita Water Company's objections to the original order. Greater Ouachita Water Company has timely filed a hearing request to address remaining issues.

On or about April 4, 2002, LaDEQ issued Compliance Order No. WE-C-01-0109 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Pecan Bayou/Treasure Island facility. Greater Ouachita Water Company timely filed a request for hearing; the time limit for LaDEQ to grant the hearing has been extended pursuant to an Agreement to Enter into a Dispute Resolution Discussion.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2004

NOTE E - LOUISIANA DEPARTMENT OF ENVIRONMENTAL QUALITY (Continued)

On or about September 20, 2002, LaDEQ issued Warning Letter, Enforcement Tracking No. WE-L-02-0945 to the Ouachita Parish Police Jury in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Northwood Estates Sewer Treatment Plant, a facility owned by Greater Ouachita Water Company, but operated by the Ouachita Parish Police Jury. Greater Ouachita Water Company took over operations of the facility in January 2004.

On or about September 20, 2002, LaDEQ issued Warning Letter, Enforcement Tracking No. WE-L-02-0987 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Thatcher Pointe Subdivision facility. On December 5, 2002, Greater Ouachita Water Company filed a response thereto, noting that the Thatcher Pointe Subdivision facility is a new plant and Greater Ouachita Water Company had been and continued to work with Delta Process Equipment, the sewer treatment plant manufacturing representative, to define the appropriate operating parameters.

On or about January 21, 2004, LaDEQ issued Warning Letter, Enforcement Tracking No. WE-L-04-0046 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Pecan Bayou/Treasure Island facility.

On or about June 15, 2004, LaDEQ issued Compliance Order No. WE-C-04-0338 to Greater Ouachita Water Company in which the agency alleged certain violations of the Louisiana Water Control Law, the regulations promulgated pursuant thereto, and/or specified provisions of the permit at the Northwood Oxidation facility. Greater Ouachita Water Company timely filed a request for hearing.

In response to the above compliance orders and/or notices of proposed penalty, Greater Ouachita Water Company constructed at a substantial cost two regional sewerage treatment facilities, commonly referred to as the Northeast Regional Facility and the Southeast Regional Facility, to treat sewage from the following facilities: Audubon Park, Bayou Oaks, Belle Meade/Timberwood, Eastwood Estates, Garden Park, Huntington Park, Lakeview Park, Lincoln Park, Shenandoah Estates, Southeast Sewer District, and

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2004

NOTE E - LOUISIANA DEPARTMENT OF ENVIRONMENTAL QUALITY (Continued)

other smaller local sewer systems. In addition, Greater Ouachita Water Company closed the Royal Pines facility and routed the sewage generated there to the West Ouachita Parish Sewer District No. 5.

Further, Greater Ouachita Water Company has agreed to construct a third regional facility, to be known as the Highway 165 Regional facility, to treat sewerage from the following facilities: Pecan Bayou, Treasure Island, Leisure Village, Frenchmen's Bend, Lake Park Subdivision, Thatcher Plantation Subdivision, and perhaps North Monroe Subdivision and Fink's Hideaway Sewerage District Oxidation Pond, after which these facilities will be closed. In addition, this regional facility will provide capacity for expected population growth and increased sewer treatment needs in Ouachita Parish, Louisiana. Greater Ouachita Water Company and LaDEQ are negotiating a construction schedule, the goal of which would be to have the new plant completed in mid-2006: the Company has purchased the site for the third facility, obtained a permit from the U.S. Corps of Engineers, and has submitted an application to LaDEQ for an LPDES permit, which should be issued shortly.

The Company has requested hearings on the orders, as indicated above, and believes that it has made good faith efforts to meet its obligations with LaDEQ within the confines of its available rate structure and has been actively contesting the orders. However, in recognition of the cost and risk of litigation, but without making any admission of liability under state or federal statute or regulation, Greater Ouachita Water Company has offered to pay a penalty in the amount of \$10,000 in settlement of all enforcement matters identified above. LaDEQ has not yet made a formal counteroffer, or taken any action of the offer.

NOTE F - APPLICATION TO THE LOUISIANA PUBLIC SERVICE COMMISSION FOR RATE INCREASE

The Company applied to the Louisiana Public Service Commission for a water and sewer rate increase to eliminate its loss for 2001 and fund additional improvements to its water and sewer systems.

The Commission granted the rate increase in part and in phases on February 22, 2002. The first phase went into effect in March 2002. The second phase will go into effect in 2005. The Commission also approved the Company's request to issue up to

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2004

NOTE F - APPLICATION TO THE LOUISIANA PUBLIC SERVICE COMMISSION FOR RATE INCREASE (Continued)

\$16,000,000 in new bonds to fund improvements to its water and sewer systems and construct additional sewer facilities to comply with DEQ permit requirements.

The Company issued its Series 2003 bonds on August 7, 2003 in the amount of \$9,000,000. The proceeds were used to payoff the Company's existing line of credit at Bank One, now J. P. Morgan, in the amount of \$3,147,901. The remaining proceeds were used to pay costs of issuance and will fund capital improvements to the Company's water and sewer systems. The rate increase granted in March 2002 allowed the Company to eliminate its loss and will provide sufficient revenues to amortize the new bond issue with adequate bond coverage ratios. The Company plans to issue additional bonds in 2005 or 2006 not to exceed \$7,000,000 to fund additional capital improvements to its water and sewer systems. The second phase rate increase and the final phase should produce sufficient revenues to amortize these additional bonds with adequate bond coverage ratios.

NOTE G - PENSION PLAN

A money purchase pension plan was put into effect on September 1, 1995. All employees of the Company are eligible. The Company will contribute on the behalf of each participant 25% of the participant's compensation. The amount contributed during the year ended August 31, 2004 was \$12,450.

NOTE H - CORRECTION OF AN ERROR IN ACCOUNTING PRINCIPLE

The Company has corrected the method it uses of reporting tapping fees revenue and tapping fees costs from recording them as additions to net assets and additions to fixed assets to recording them as revenues and costs of sales as required by FASB 116. The net effect of this correction was to decrease net plant and equipment by \$2,535,379 and to decrease net assets by \$2,535,379.

NOTE I - LAWSUITS

The Company is involved in various lawsuits incurred by operating in the normal course of business. The outcomes of these lawsuits are not expected to be material.

GREATER OUACHITA WATER COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
AUGUST 31, 2004

NOTE J - CONCENTRATION OF RISK

The Company maintains its cash balances at institutions which are insured by the Federal Deposit Insurance Corporation up to \$100,000. At August 31, 2004, Company's uninsured cash balance was \$84,915.

Concentration of credit risk with respect to water and sewer billing receivables are limited due to the large number of customers and small balances. The risk is minimized further by customer meter deposits.

NOTE K - RELATED PARTY TRANSACTIONS

The following related party transactions were incurred in the normal course of business:

R. E. Bentz, Inc., partially owned by Robert E. Bentz, director, earned \$10,135 for maintenance on the water and sewer system. At August 31, 2004, \$1,146 was accrued and payable for maintenance services.

Dean Morris, LLP, (of which Wood T. Sparks is Of Counsel), earned \$93,280 for legal services performed for the Company.

W. D. Carter, director, earned \$8,325 for various consulting services performed for the Company.

NOTE L - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among programs and supporting services benefitted. The Company has determined that fund-raising costs are not material.

ADDITIONAL INFORMATION

GREATER OUACHITA WATER COMPANY
STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2004

	WATER SYSTEM	SEWER SYSTEM	TOTAL
<u>OPERATING REVENUE</u>			
Charges for Services	3,973,057	980,535	4,953,592
Forfeited Discounts	72,032	18,008	90,040
Reconnect Charges	132,325	-	132,325
Sewer Inspection Fees	-	760	760
Tapping Fees	<u>316,486</u>	<u>28,479</u>	<u>344,965</u>
<u>TOTAL OPERATING REVENUE</u>	<u>4,493,900</u>	<u>1,027,782</u>	<u>5,521,682</u>
<u>DIRECT OPERATING EXPENSES</u>			
Operating Contract	1,096,118	240,066	1,336,184
Power	404,591	196,233	600,824
Maintenance	418,229	168,209	586,438
Chemicals - Sewer	-	54,229	54,229
Testing - Sewer	-	22,101	22,101
Engineering Services	80,256	3,035	83,291
Water Purchased	649,603	-	649,603
Water Used in Sewer Plant	-	5,234	5,234
Service and Franchise Fees	1,796	24,494	26,290
Right of Way	4,200	-	4,200
Water and Sewer Taps	<u>316,486</u>	<u>28,479</u>	<u>344,965</u>
<u>TOTAL DIRECT OPERATING EXPENSES</u>	<u>2,971,279</u>	<u>742,080</u>	<u>3,713,359</u>
<u>NET OPERATING INCOME</u>	1,522,621	285,702	1,808,323
<u>ADMINISTRATIVE EXPENSES</u>	<u>275,787</u>	<u>68,947</u>	<u>344,734</u>
<u>NET OPERATING PROFIT</u>	1,246,834	216,755	1,463,589
<u>OTHER INCOME</u>	<u>80,186</u>	<u>20,047</u>	<u>100,233</u>
	1,327,020	236,802	1,563,822
<u>OTHER EXPENSES</u>	<u>573,045</u>	<u>144,512</u>	<u>717,557</u>
<u>NET INCOME BEFORE AMORTIZATION AND DEPRECIATION</u>	<u>753,975</u>	<u>92,290</u>	<u>846,265</u>
<u>AMORTIZATION AND DEPRECIATION</u>			
Amortization of Bond Issue Exp. - 1994A	2,686	672	3,358
Amortization of Bond Issue Exp. - 97A&B	9,592	2,348	11,990
Amortization of Bond Issue Exp. - 2003	2,785	695	3,477
Depreciation Expense	<u>579,451</u>	<u>265,955</u>	<u>845,406</u>
<u>TOTAL AMORTIZATION AND DEPRECIATION</u>	<u>594,511</u>	<u>269,720</u>	<u>864,231</u>
<u>NET INCOME FOR THE YEAR</u>	<u>159,464</u>	<u>(177,430)</u>	<u>(17,966)</u>

See Auditors' Report.

GREATER OUACHITA WATER COMPANY
 STATEMENT OF FUNCTIONAL EXPENSES - BY PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2004

	ADMINI- STRATIVE EXPENSES	WATER SYSTEM	SEWER SYSTEM	TOTAL
Operating Contract	-	1,096,118	240,066	1,336,184
Power	-	404,591	196,233	600,824
Maintenance	-	418,229	168,209	586,438
Chemicals	-	-	54,229	54,229
Testing	-	-	22,101	22,101
Water Used in Sewer Plants	-	-	5,234	5,234
Service & Franchise Fees	-	1,796	24,494	26,290
Right of Way	-	4,200	-	4,200
Accounting	22,495	-	-	22,495
Advertising	18	-	-	18
Bank Charges	471	-	-	471
Dues & Subscriptions	700	-	-	700
Engineering Fees	-	80,256	3,035	83,291
Inspection & Supervision Fees	6,020	-	-	6,020
Insurance	62,491	-	-	62,491
Interest	-	523,589	130,897	654,486
Legal & Administrative	106,832	-	-	106,832
Miscellaneous	14,717	-	-	14,717
Office Expenses	44,328	-	-	44,328
Postage	5,142	-	-	5,142
Rent	3,030	-	-	3,030
Salaries	53,917	-	-	53,917
Taxes & Licenses	4,480	7,198	1,800	13,478
Telephone	3,669	-	-	3,669
Travel & Entertainment	144	-	-	144
Trustee Fees	3,830	-	-	3,830
Provision for Bad Debts	-	42,258	11,815	54,073
Pension Expense	12,450	-	-	12,450
Amortization	-	15,060	3,765	18,825
Depreciation	-	579,451	265,955	845,406
<u>TOTAL</u>	<u>344,734</u>	<u>3,172,746</u>	<u>1,127,833</u>	<u>4,645,313</u>

See Auditors' Report.

GREATER OUACHITA WATER COMPANY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
AUGUST 31, 2004

INTERNAL CONTROLS

None

COMPLIANCE

None

See Auditors' Report.

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GREATER OUACHITA WATER COMPANY
FINDINGS, RECOMMENDATIONS, AND CORRECTIVE ACTIONS - PRIOR YEAR
AUGUST 31, 2004

INTERNAL CONTROLS

There were no findings nor recommendations in the prior year.

COMPLIANCE

There were no findings nor recommendations in the prior year.

See Auditors' Report.

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