

ATTORNEYS AT LAW
A R M S T R O N G A L L E N
PLLC

April 5, 2006

Ms. Sharla Dillon
Docket Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

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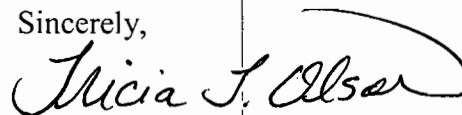
Re: Petition of Total Environmental Solutions, Inc., for Expedited Approval of
and Authority to Borrow up to \$17,000,000 to Refinance Outstanding
Indebtedness with National Cooperative Services Corporation and
Hancock Bank, to Provide Financing for Capital Expenditures and
Working Capital Over the Next Two Years and Long Term Financing
Thereafter, and to Issue Letters of Credit in Favor of Louisiana
Department of Environmental Quality or Other Agreeable Parties to
CoBank Pursuant to T.C.A. § 65-4-109

Dear Ms. Dillon:

Enclosed please find the original and thirteen copies of a Petition for filing in the above-styled matter. The Petition seeks the approval of the Tennessee Regulatory Authority for Total Environmental Solutions to borrow up to \$17,000,000 to finance long-term and short-term debt, as more fully set forth in the Petition. Attached to the Petition are four Exhibits. We would appreciate your cooperation in expediting this matter. Enclosed is our check for the \$25.00 filing fee.

If you have any questions or need any additional information, please call me at the number below or Jason Yarbrow at (901) 524-4983.

Sincerely,



Tricia T. Olson
Jason G. Yarbrow

Enclosure

cc: James F. Funderburk, Esq.
w/encls.

PAID T.R.A.	
Chk #	<u>055586</u>
Amount	<u>25.00</u>
Rcvd By	<u>JB</u>
Date	<u>4-6-06</u>

Tricia T. Olson | Direct 901-521-3742 | Direct Fax 901-522-0254 | TOlson@ArmstrongAllen.com

Brinkley Plaza | 80 Monroe Ave., Suite 700 | Memphis, TN 38103 | Office 901-523-8211 | Fax 901-524-4936

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE: PETITION OF TOTAL ENVIRONMENTAL)
SOLUTIONS, INC., FOR EXPEDITED)
APPROVAL OF AND AUTHORITY TO)
BORROW UP TO \$17,000,000 TO REFINANCE)
OUTSTANDING INDEBTEDNESS WITH)
NATIONAL COOPERATIVE SERVICES)
CORPORATION AND HANCOCK BANK, TO)
PROVIDE FINANCING FOR CAPITAL)
EXPENDITURES AND WORKING CAPITAL)
OVER THE NEXT TWO YEARS AND LONG)
TERM FINANCING THEREAFTER, AND TO)
ISSUE LETTERS OF CREDIT IN FAVOR OF)
LOUISIANA DEPARTMENT OF)
ENVIRONMENTAL QUALITY OR OTHER)
AGREEABLE PARTIES TO COBANK)
PURSUANT TO T.C.A. § 65-4-109.)

NO. _____

PETITION FOR EXPEDITED APPROVAL OF REFINANCING ARRANGEMENT BY
APRIL 14, 2006, TO MEET LENDER'S DEADLINE FOR EXECUTION OF REAL ESTATE
AND SECURITY AGREEMENT

Comes now Petitioner Total Environmental Solutions, Inc. ("TESI"), and respectfully represents and states to the Tennessee Regulatory Authority ("Authority") as follows:

1. TESI is a Louisiana nonprofit utility organized and existing pursuant to the laws of the State of Louisiana, domiciled in Terrebonne Parish, Louisiana, and a wholly-owned subsidiary of South Louisiana Electric Cooperative Association ("SLECA"). TESI is a public utility as defined in Tenn. Code Ann. § 65-4-101 and is engaged in the business of rendering water utility services in Middleton, Tennessee, and in certain areas in Louisiana, Mississippi, North Carolina, South Carolina, and Pennsylvania.

2. TESI owns, operates, manages, and controls plants, property, equipment, and facilities in Tennessee, Louisiana, Mississippi, North Carolina, South Carolina, and

Pennsylvania, which are used and useful in the collection, purification, pumping, distribution, and furnishing of potable water to the public. TESI is subject to the jurisdiction, regulation, and supervision of the Authority pursuant to Chapter 4 of Title 65 of the Tennessee Code Annotated.

3. The capitalization of TESI at December 31, 2004, amounted to \$23,553,037, and consisted of long-term debt and lease obligations outstanding in the aggregate principal amount of \$16,273,050, and total stockholder's equity of \$2,313,155. See Exhibits 1-3.

4. TESI's long-term debt at December 31, 2004, is represented by multiple loans and notes, in addition to capital leases, as follows:

<u>LONG-TERM DEBT</u>	<u>MATURITY DATE</u>	<u>AMOUNT OUTSTANDING</u>
NCSC (2)	2020 to 2022	\$9,764,292
Non-Interest Bearing Note	April 2007	75,000
Promissory Note	July 2005	3,220,486
PIIA Construction Loan	March 2023	2,856,399
Automobile Loan	August 2007	11,767
4.9% Notes (2)	June 2004 and June 2005	6,872
Notes Payable (3)	Feb 2007 to July 2007	<u>24,313</u>
		15,959,129
Less imputed interest		<u>(10,000)</u>
Obligations under Capital Leases		<u>324,217</u>
		\$16,273,050

5. As of December 31, 2004, in addition to the long-term debts referenced above, TESI had other liabilities including lines of credit (\$1,173,104), accounts payable and accrued expenses (\$1,153,988), debt owed to SLECA (\$628,122), customer deposits (\$556,431), and a note payable (\$204,187). Total current liabilities amounted to \$19,988,882. Deferred income taxes totaled \$1,251,000, so total liabilities amounted to \$21,239,882.

6. TESI seeks approval from the Authority to enter into a financing program with CoBank, ACB ("CoBank"), for use by TESI in meeting its short-term and long-term financing needs. Under this financing program, TESI will enter into a Real Estate and Security Agreement

("Agreement") with CoBank in substantially the same form attached hereto as Exhibit 4. The Agreement provides for three loans, Term Loan 1, Term Loan 2, and the Letter of Credit Facility on the following terms and conditions:

a. Term Loan 1

Borrower: TESI

Facility: A single advance 22-year term loan of up to \$14,000,000

Guarantor: South Louisiana Electric Cooperative Association

Purpose: To provide long-term takeout financing of existing debt with National Cooperative Services Corporation and Hancock Bank

Availability: Term Loan 1 will be available on a date agreeable to the parties, but in no event later than April 14, 2006.

Repayment: Interest only is due for the first twenty-four (24) months after closing then TESI must pay two hundred and forty (240) consecutive monthly installments to repay the debt.

Rate: See Paragraph 7.

Collateral: CoBank will receive a perfected first priority lien on and security interest in all real and personal, tangible and intangible, present and future assets of TESI, and title insurance policies insuring the deed of trust or mortgage as a first lien on specified property, subject only to those exceptions CoBank approves in writing.

Origination Fee: 25 basis points (or ¼ of 1%) on the amount of the term loan commitments.

Commitment Fee: None

Documents: CoBank's commitment is subject to the negotiation, execution and delivery of loan and loan related documentation satisfactory to CoBank and its counsel in all material respects.

Covenants: The Agreement will include financial covenants mutually agreed upon by TESI and CoBank.

b. Term Loan 2

Borrower: TESI

Facility: A multiple advance 22-year term loan in the amount of \$2,000,000

Guarantor: South Louisiana Electric Cooperative Association

Purpose: To provide financing for capital expenditures and working capital over the next two years and long-term financing thereafter.

Availability: Term Loan 2 will be available up to two years after closing.

Repayment: Interest only is due for the first twenty-four (24) months after closing then TESI must pay two hundred and forty (240) consecutive monthly installments to repay the debt.

Rate: See Paragraph 7.

Collateral: CoBank will receive a perfected first priority lien on and security interest in all real and personal, tangible and intangible, present and future assets of TESI, and title insurance policies insuring the deed of trust or mortgage as a first lien on specified property, subject only to those exceptions CoBank approves in writing.

Origination Fee: 25 basis points (or $\frac{1}{4}$ of 1%) on the amount of the term loan commitments.

Commitment Fee: 25 basis points (or $\frac{1}{4}$ of 1%) on the unused portion of Term Loan 2 payable monthly in arrears by the 20th day of the following month.

Documents: CoBank's commitment is subject to the negotiation, execution, and delivery of loan and loan related documentation satisfactory to CoBank and its counsel in all material respects.

Covenants: The Agreement will include financial covenants which will be mutually agreed upon by TESI and CoBank.

c. Letter of Credit Facility

Borrower. TESI

Facility: A \$1,000,000 letter of credit

Guarantor: South Louisiana Electric Cooperative Association

Purpose: Solely to issue letters of credit in favor of the Louisiana Department of Environmental Quality or other parties agreeable to CoBank in its sole discretion.

Availability: The Letters of Credit Facility will be issued within a reasonable time after receipt of a written request therefore in a form acceptable to CoBank and must expire not later than fourteen months after closing of the Facility.

Repayment: All amounts drawn on letters of credit must be payable on demand by CoBank.

Rate: See Paragraph 7.

Collateral: CoBank will receive a perfected first priority lien on and security interest in all real and personal, tangible and intangible, present and future assets of TESI, and title insurance policies insuring the deed of trust or mortgage as a first lien on specified property, subject only to those exceptions CoBank approves in writing.

Origination Fee: \$200 per letter of credit payable on or before each letter of credit is issued.

Commitment Fee: 1.5% per annum on the face amount of each letter of credit outstanding.

Documents: CoBank's commitment is subject to the negotiation, execution, and delivery of loan and loan related documentation satisfactory to CoBank and its counsel in all material respects.

Covenants: The Agreement will include financial covenants which will be mutually agreed upon by TESI and CoBank.

7. TESI has three interest rate options it may choose from, including the following:
 - a. **Weekly Quoted Variable Rate Option:** A rate will be determined by CoBank on the first business day of each week and effective until the first business day of the next week.

- b. **Quoted Fixed Rate Option:** Rates can be fixed: (1) on balances of \$100,000 or more; (2) for periods of six months to the final maturity of the Term Loans; and (3) for each facility, on no more than five separate balances at any one time. Fixed rates are provided on a daily basis and are subject to market changes.
- c. **LIBOR Option:** Available at the "LIBOR Rate" (to be determined) plus 2%. Rates can be fixed: (1) on balances or multiples of \$100,000; (2) for "Interest Periods" (to be defined) of one, two, three, six, nine, or twelve months, as selected by the Company; however, with respect to Term Loan 1 and 2, rates may not be fixed for Interest Periods expiring past the fifth anniversary of the closing date; and (3) for each facility, on no more than five separate balances at any one time.

8. The program for financing set out in this petition:

- a. has been approved by TESI's Chief Executive Officer, effective January 13, 2006;
- b. the purposes for which the funds derived therefrom will be used are in the best interests of TESI and the customers that it serves; and
- c. provides terms and conditions for the financing that are the best available at this time; and
- d. is in accordance with and within the authority of the Authority pursuant to Tenn. Code Ann. § 65-4-109 and should, therefore, be approved.

9. If the Authority approves the proposed financing, TESI will provide copies of the executed loan documents to the Authority after the closing

WHEREFORE, PREMISES CONSIDERED, PETITIONER PRAYS THAT:

1. TESI be authorized to enter into the Agreement with CoBank to borrow funds to refinance outstanding indebtedness, provide financing for capital expenditures and working capital over the next two years and long-term financing thereafter, and issue letters of credit from time to time, as described in this Petition;

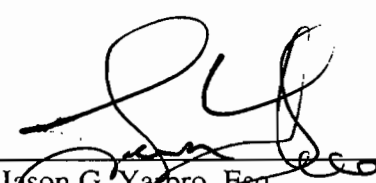
2. To the extent applicable, any penalties which may be assessed against TESI pursuant to Tenn. Code Ann. § 65-4-120 be waived;

3. TESI have such other relief as it might be entitled to in this cause.

TOTAL ENVIRONMENTAL SOLUTIONS, INC.

BY: 

PAUL E. MAEDER

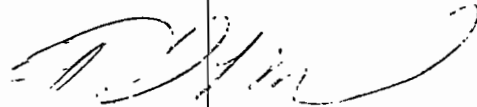


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ATTORNEY FOR PETITIONER,
TOTAL ENVIRONMENTAL SOLUTIONS, INC.

STATE OF LOUISIANA)

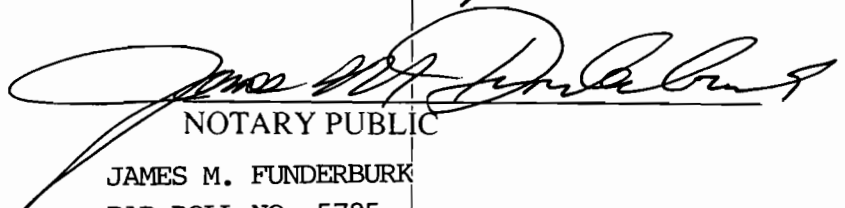
~~PARISH~~
COUNTY OF TERREBOUNE

PAUL E. MAEDER, upon oath, says that he is CFO of
Total Environmental Solutions, Inc., a Louisiana Corporation, Petitioner in the above-entitled
cause; that as such officer of said Corporation, he has executed the foregoing Petition and has
authority to do so; that he has read said Petition and knows the contents thereof; and that the
statements therein contained are true to the best of his knowledge, information, and belief.



PAUL E. MAEDER

SWORN TO AND SUBSCRIBED before me this 3rd day of April,
2006.


NOTARY PUBLIC

JAMES M. FUNDERBURK

BAR ROLL NO. 5785

MY COMMISSION EXPIRES AT DEATH.

My Commission expires:

at Death

Schedule 1

Total Environmental Solution, Inc. - Total
Statements of Income
For the Twelve Months Ended December 31

CoBank - Long-Term Debt (\$14.0 Million Existing & \$1.0 Drawn Down Line of Credit)

	Pro Forma			
	2006	2007	2008	2009
Operating Revenues				
Water Revenue	\$3,880,046	\$4,034,493	\$4,264,930	\$4,383,001
Wastewater Revenue	6,580,508	6,785,725	7,159,291	7,083,343
Connection & Tap Fees	482,057	482,057	482,057	482,057
Service & Late Charges	397,310	397,310	397,310	397,310
Pass-Through Fees	292,881	292,881	292,881	292,881
Other Miscellaneous Charges	590,160	590,160	590,160	590,160
Revenue Increase	155,000	530,000	780,000	780,000
Total Operating Revenue	\$12,377,962	\$13,112,626	\$13,966,629	\$14,808,752
Operation and Maintenance Expense				
Salaries & Wages	\$2,750,535	\$2,833,598	\$2,890,270	\$2,948,075
Employee Pensions & Benefits	404,189	416,390	424,718	433,213
Wastewater Treatment	411,656	419,889	428,287	436,852
Sludge Removal	103,012	105,072	107,174	109,317
Purchased Water	604,228	616,312	628,638	641,211
Purchased Power	920,105	938,507	957,278	976,423
Chemicals	309,268	315,453	321,763	328,198
Materials & Supplies	413,492	421,762	430,197	438,801
Miscellaneous Expenses	22,730	23,184	23,648	24,121
Contract Services				
Engineering & Testing	299,586	305,578	311,690	317,923
Legal & Accounting	396,319	404,245	412,330	420,577
Management Fees	160,699	163,913	167,191	170,535
Other Consulting Services	654,620	667,712	681,086	694,688
Depreciation Expense	887,285	900,795	911,110	922,988
Rentals - Buildings	5,716	5,830	5,947	6,066
Rentals - Equipment	39,290	40,076	40,878	41,695
Transportation Expense	614,693	626,987	639,526	652,317
Insurance	821,928	838,367	855,134	872,237
Administrative & General	628,989	641,569	654,400	667,488
Taxes - Ad Valorem	14,492	14,782	15,078	15,379
Taxes - Franchise	0	0	0	0
Taxes - Payroll	276,139	281,662	287,295	293,041
Other Taxes & Licenses	12,326	12,572	12,824	13,080
Regulatory Commission Expenses	162,682	165,935	169,254	172,539
Provision for Bad Debts - Regular	200,712	204,726	208,820	212,997
Provision for Bad Debts - Availability	279,696	285,290	290,996	296,716
Income Tax	0	0	0	0
Total Operating & Maintenance Expense	\$11,394,387	\$11,650,206	\$11,875,512	\$12,116,677
Operating Income	983,575	1,462,420	2,091,117	2,702,075
Non-Operating Income (Net of Income Tax)	0	0	0	0
Income Before Interest Expense	\$983,575	\$1,462,420	\$2,091,117	\$2,702,075
Interest Expense				
Interest Expense	1,029,900	1,024,970	1,011,345	981,176
Net Income	-\$46,325	\$437,450	\$1,079,772	\$1,720,899

Schedule 2

Total Environmental Solutions, Inc. - Total

For the Twelve Months Ended December 31,

	Pro Forma		
	2006	2007	2008
<u>Source of Funds</u>			
Net Income	\$46,325	\$437,450	\$1,079,772
Depreciation	887,285	900,795	911,110
Long-Term Debt	500,000	200,000	-
Long-Term Debt	-	-	-
Total Source of Funds	\$1,340,960	\$1,538,245	\$1,990,882
<u>Application of Funds</u>			
Construction	\$684,374	\$396,424	\$428,824
Debt Repayment (Principal) - CoBank	-	-	373,824
Debt Repayment (Principal) - NCSC Existing	-	-	-
Debt Repayment (Principal) - Hancock Refi.	-	-	-
Debt Repayment (Principal) - NCSC CapEx	-	-	-
Debt Repayment (Principal) - PennVest	144,829	146,284	146,493
Debt Repayment (Principal) - Vehicles	49,610	53,086	56,804
Debt Repayment (Principal & Int.) - NCSC LOC	-	-	-
Total Application of Funds	\$878,813	\$595,794	\$1,005,945
Net Change in Working Capital	\$462,147	\$942,451	\$984,937
			\$1,514,678

Schedule 1

Total Environmental Solution, Inc. - Total
Statements of Income
For the Twelve Months Ended December 31

Financial Model Based Upon Proposed NCSC Refinancing Parameters

	Pro Forma			
	2006	2007	2008	2009
<u>Operating Revenues</u>				
Water Revenue	\$3,874,525	\$4,156,942	\$4,301,604	\$4,328,483
Wastewater Revenue	6,571,029	6,993,276	7,222,617	7,257,861
Connection & Tap Fees	482,057	482,057	482,057	482,057
Service & Late Charges	397,310	397,310	397,310	397,310
Pass-Through Fees	292,881	292,881	292,881	292,881
Other Miscellaneous Charges	590,160	590,160	590,160	590,160
Revenue Increase	500,000	300,000	0	272,336
Total Operating Revenue	<u>\$12,707,962</u>	<u>\$13,212,626</u>	<u>\$13,286,629</u>	<u>\$13,621,090</u>
<u>Operation and Maintenance Expense</u>				
Salaries & Wages	\$2,750,535	\$2,833,598	\$2,890,270	\$2,948,075
Employee Pensions & Benefits	404,189	416,390	424,718	433,213
Wastewater Treatment	411,656	419,889	428,287	436,852
Sludge Removal	103,012	105,072	107,174	109,317
Purchased Water	604,228	616,312	628,638	641,211
Purchased Power	920,105	938,507	957,278	976,423
Chemicals	309,268	315,453	321,763	328,193
Materials & Supplies	413,492	421,762	430,197	438,801
Miscellaneous Expenses	22,730	23,184	23,648	24,121
Contract Services				
Engineering & Testing	299,586	305,578	311,690	317,923
Legal & Accounting	396,319	404,245	412,330	420,577
Management Fees	160,699	163,913	167,191	170,535
Other Consulting Services	654,620	667,712	681,066	694,688
Depreciation Expense	1,271,716	1,285,226	1,295,541	1,307,419
Rentals - Buildings	5,716	5,830	5,947	6,066
Rentals - Equipment	39,290	40,076	40,878	41,695
Transportation Expense	614,693	626,987	639,526	652,317
Insurance	821,928	838,367	855,134	872,237
Administrative & General	628,989	641,569	654,400	667,488
Taxes - Ad Valorem	14,492	14,782	15,078	15,379
Taxes - Franchise	0	0	0	0
Taxes - Payroll	276,139	281,662	287,295	293,041
Other Taxes & Licenses	12,326	12,572	12,824	13,080
Regulatory Commission Expenses	162,682	165,935	169,254	172,639
Provision for Bad Debts - Regular	200,712	204,726	208,820	212,997
Provision for Bad Debts - Availability	279,696	285,290	290,996	296,816
Disaster Expenses	0	0	0	0
Income Tax	0	0	0	0
Total Operating & Maintenance Expense	<u>\$11,778,818</u>	<u>\$12,034,637</u>	<u>\$12,259,943</u>	<u>\$12,491,108</u>
Operating Income	<u>929,144</u>	<u>1,177,989</u>	<u>1,026,686</u>	<u>1,129,982</u>
Non-Operating Income (Net of Income Tax)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Income Before Interest Expense	<u>\$929,144</u>	<u>\$1,177,989</u>	<u>\$1,026,686</u>	<u>\$1,129,982</u>
<u>Interest Expense</u>				
Interest Expense	<u>719,674</u>	<u>704,410</u>	<u>688,283</u>	<u>671,242</u>
Net Income	<u>\$209,470</u>	<u>\$473,579</u>	<u>\$338,403</u>	<u>\$458,740</u>

Schedule 2

Total Environmental Solutions, Inc. - Total

For the Twelve Months Ended December 31,

	Pro Forma		
	2006	2007	2008
			2009
<u>Source of Funds</u>			
Net Income	\$209,470	\$473,579	\$338,403
Depreciation	1,271,716	1,285,226	1,285,541
CIAC	-	-	-
Short-Term Borrowing	-	-	-
Long-Term Debt	-	-	-
Total Source of Funds	\$1,481,186	\$1,758,805	\$1,633,944
			\$1,766,159
<u>Application of Funds</u>			
Construction	\$684,374	\$396,424	\$428,824
Debt Repayment	993,318	993,318	993,318
Common Stock Dividends	-	-	-
Total Application of Funds	\$1,677,692	\$1,389,742	\$1,422,142
			\$1,514,742
Net Change in Working Capital	(\$196,506)	\$369,063	\$211,802
			\$251,417

District Office	Facility	Yr 1 Detail	Yr 1 Total	Yr 2 Detail	Yr 2 Total	Yr 3 Detail	Yr 3 Total	Yr 4 Detail	Yr 4 Total	Yr 5 Detail	Yr 5 Total
Baton Rouge	Albany Heights		823		823		823		823		823
	Audubon Village		2,483		2,483		2,483		2,483		2,483
	Beau Pro	Under Engineering Review	823	Additional PMB (Katrina)	1,655		823		823		823
	Beechwood		823		823		823		823		823
	Chenal Estates		823		823		823		823		823
	Chenwood		1,955	Additional PMB (Katrina)	3,610		823	Collection Refurb.	10,433		1,955
	Cotton Fields		823		823		823		823		823
	Cotton Acres		823		823		823		823		823
	County Place		823		823		823		823		823
	Green Bayou		823		823		823		823		823
	Highland Ridge		823		823		823		823		823
	Hillshire		823		823		823		823		823
	Hunstock Hills		823		823		823		823		823
	Island Woods		1,828		823		823		823		823
	Jones Estates		823		823		823		823		823
	La Amie	Under Engineering Review	823		823		823		823		823
	La Amie	CCC work	1,828		823		823		823		823
	Lake Martin		823		823		823		823		823
	Lakeside East	Structural repairs	2,483		823		823		823		823
	Lazy River		2,483		823		823		823		823
	Madison Place		823		823		823		823		823
	Martin		823		823		823		823		823
	Oak Hills 35		823		823		823		823		823
	Oak Hills 59		823		823		823		823		823
	Old Perkins		823		823		823		823		823
	Penn's Place		823		823		823		823		823
	Pine Landing		823		823		823		823		823
	Plantation Gardens	Operational refurb	1,328		823		823		823		823
	Plantation Park		823		823		823		823		823
	Rigoberto's Estates		4,760	Katrina repairs Initial estimate	89,040		4,760		4,760		4,760
	Rigoberto's Harbor Inn		1,128	Operational refurb LS refurb	9,628		1,128		1,128		1,128
	Riverbend	Collection refurb	5,828	Collection refurb	5,828		823		823		823
	Sandy Ridge		1,655		1,655		1,655		1,655		1,655
	St. Mary's Baptist		823		823		823		823		823
	The Meadows		823		823		823		823		823
	Abadie Oaks		823		823		823		823		823
	Acadian Acres		823		823		823		823		823
	Arrowhead		1,655		1,655		1,655		1,655		1,655
	Atchafalaya Acres	Meat	13,955		1,955		1,955		1,955		1,955
	Atwood Acres		1,655		1,655		1,655		1,655		1,655
	Avant		823		823		823		823		823
	Avies Knoll		1,655		1,655		1,655		1,655		1,655
	Beau Champs	Structural repair	1,828		823		823		823		823
	Beau Parterre	Water sampling compliance upgrades									
	Bellevue Estates	Water system refurb and upgrades	3,35	Add AVC valve to water tank	2,75		2,75		2,75		2,75
	Bois Bechet		823		823		823		823		823
	Calum Villages		823		823		823		823		823
	Calum Villages	Baffles	2,728		823		823		823		823
	Carencro North		823		823		823		823		823
	Carencro Village	Water sampling compliance upgrades	823		823		823		823		823
	Centurian		823		823		823		823		823
	Charleston Place	New pump at LS	2,328		823		823		823		823
	Chalsea Ridge		823		823		823		823		823
	Clearview Estates		823		823		823		823		823
	Coach House Manor	Water sampling compliance upgrades									
	Comeaux Estates	Structural repair, STP	2,92		823		823		823		823

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Ray Heights		1,655	1,655	1,655	1,655	1,655	1,655
Ridgeland Estates		823	823	823	823	823	823
River Road		823	823	823	823	823	823
Rivergreen		823	823	823	823	823	823
Riverview	Manhole refurb	4,655	1,655	1,655	1,655	1,655	1,655
Riverwoods		823	823	823	823	823	823
Robicheaux		823	823	823	823	823	823
Rosehill		823	823	823	823	823	823
Royalton Park		3,023	3,023	3,023	3,023	3,023	3,023
Sandesi Plaza		823	823	823	823	823	823
Sandesi Terrace							
Sara Dee	Water sampling compliance upgrades	Operational refurb	1,423	1,423	1,423	1,423	1,423
Shadowwood		823	823	823	823	823	823
Shangila		823	823	823	823	823	823
Shenandoah	Water sampling compliance upgrades	2,611	2,611	2,611	2,611	2,611	2,611
Southfield Square	Water system refurb and upgrades	2,323	2,323	2,323	2,323	2,323	2,323
Southfork		823	823	823	823	823	823
Stanford Place		823	823	823	823	823	823
Sun Village		823	823	823	823	823	823
Sundown	Water sampling compliance upgrades	Water s	1,543	1,543	1,543	1,543	1,543
Sunrise		823	823	823	823	823	823
The Glade		823	823	823	823	823	823
The Woodlands		2,483	2,483	2,483	2,483	2,483	2,483
Timberly Terrace	Structural repair	6,823	823	823	823	823	823
Townal Gardens		823	823	823	823	823	823
Township South-Sharfo	Water sampling compliance upgrades	2,023	2,023	2,023	2,023	2,023	2,023
Trewhill	Water sampling compliance upgrades	1,623	1,623	1,623	1,623	1,623	1,623
Twin Lakes		823	823	823	823	823	823
Vermilion Palms		823	823	823	823	823	823
Victoria Village		823	823	823	823	823	823
Wellington		823	823	823	823	823	823
West Side Strip		823	823	823	823	823	823
West Winds	Water sampling compliance upgrades	1,723	1,723	1,723	1,723	1,723	1,723
Westbrook		823	823	823	823	823	823
Willow Creek		823	823	823	823	823	823
Windy Acres		823	823	823	823	823	823
Windy Heights		823	823	823	823	823	823
Windy Meadows	Waiting for Engineering review	Water sampling	Bring second plant back online	Plus additional			
Woodland Estates	upgrades	Water system refurb a	Engineering				
Woodridge Estates		1,823	1,823	1,823	1,823	1,823	1,823
Young Acres		823	823	823	823	823	823
Acadian Villa	Water sampling compliance upgrades	1,623	1,623	1,623	1,623	1,623	1,623
Beau Chene		823	823	823	823	823	823
Beauplas	Duplexing	3,155	1,655	1,655	1,655	1,655	1,655
Brandywine/Grand Marier		1,655	1,655	1,655	1,655	1,655	1,655
Country Hollow		823	823	823	823	823	823
Crozier Heights		823	823	823	823	823	823
Cypress Village		823	823	823	823	823	823
Dugas		823	823	823	823	823	823
Eureka Heights		823	823	823	823	823	823
Greenbriar		1,123	1,123	1,123	1,123	1,123	1,123
Helf Oak		823	823	823	823	823	823
Highland Lakes		823	823	823	823	823	823
Magnolia/St. Maurice		4,133	4,133	4,133	4,133	4,133	4,133

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TOTAL ENVIRONMENTAL SOLUTIONS, INC. AND SUBSIDIARY

Baton Rouge, Louisiana

CONSOLIDATED FINANCIAL REPORT

December 31, 2004

TOTAL ENVIRONMENTAL SOLUTIONS, INC. AND SUBSIDIARY

Baton Rouge, Louisiana

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Total Environmental Solutions, Inc.
Baton Rouge, Louisiana

We have audited the accompanying consolidated balance sheets of **TOTAL ENVIRONMENTAL SOLUTIONS, INC. AND SUBSIDIARY** (a Louisiana corporation and wholly owned subsidiary of South Louisiana Electric Cooperative Association) as of December 31, 2004 and 2003 and the related consolidated statements of operations, changes in stockholder's equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **TOTAL ENVIRONMENTAL SOLUTIONS, INC. AND SUBSIDIARY** as of December 31, 2004 and 2003 and the results of their operations, changes in stockholder's equity and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations, has negative working capital, and has violated certain covenants in its debt agreements that caused default on its loans, and has an accumulated deficit, which raise substantial doubt about their ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Faulk & Winkler, LLC

Certified Public Accountants

Baton Rouge, Louisiana
June 16, 2005

TOTAL ENVIRONMENTAL SOLUTIONS, INC. AND SUBSIDIARY

Baton Rouge, Louisiana

CONSOLIDATED BALANCE SHEETS

December 31, 2004 and 2003

	2004	2003
ASSETS		
CURRENT ASSETS		
Cash	\$ 322,505	\$ 124,431
Accounts receivable, net	914,545	743,137
Amount due from sale of property	-	320,343
Deferred income taxes	595,000	529,000
Prepaid expenses	270,160	675,783
Total current assets	2,102,210	2,392,694
PROPERTY - net	21,056,724	20,531,180
DEFERRED CHARGES - net	378,421	270,738
OTHER ASSETS	15,682	7,515
Total assets	<u>\$ 23,553,037</u>	<u>\$ 23,202,127</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Debt	\$ 16,273,050	\$ 16,788,109
Lines of credit	1,173,104	-
Accounts payable and accrued expenses	1,153,988	819,340
Due to parent company (SLECA)	628,122	628,122
Customer deposits	556,431	442,690
Note payable	204,187	608,629
Outstanding checks in excess of bank balance	-	226,059
Total current liabilities	19,988,882	19,512,949
DEFERRED INCOME TAXES	1,251,000	1,279,000
Total liabilities	21,239,882	20,791,949
STOCKHOLDER'S EQUITY		
Preferred stock (no par value cumulative and non-cumulative stock 50,000 authorized, none issued and outstanding)	-	-
Capital stock (no par value common stock 50,000 shares authorized, 10,000 shares issued and outstanding)	100,000	100,000
Additional paid-in capital, as restated	4,609,859	4,419,227
Accumulated deficit, as restated	(2,396,704)	(2,109,049)
Total stockholder's equity	2,313,155	2,410,178
Total liabilities and stockholder's equity	<u>\$ 23,553,037</u>	<u>\$ 23,202,127</u>

The accompanying consolidated notes to financial
statements are an integral part of this statement.

TOTAL ENVIRONMENTAL SOLUTIONS, INC. AND SUBSIDIARY

Baton Rouge, Louisiana

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
Water	\$ 4,095,670	\$ 3,440,916
Wastewater	7,001,037	6,348,194
Contract services	100,450	97,200
Total operating revenues	<u>11,197,157</u>	<u>9,886,310</u>
OPERATING EXPENSES		
Water	3,357,825	3,226,864
Wastewater	4,765,063	4,580,262
General and administrative	2,804,322	2,355,803
Total operating expenses	<u>10,927,210</u>	<u>10,162,929</u>
Operating income (loss)	<u>269,947</u>	<u>(276,619)</u>
OTHER INCOME (EXPENSE)		
Interest expense	(695,986)	(560,273)
Interest income	424	3,066
Gain on sale of property	43,960	217,058
Total other expense, net	<u>(651,602)</u>	<u>(340,149)</u>
Net loss before income taxes	<u>(381,655)</u>	<u>(616,768)</u>
DEFERRED TAX BENEFIT	<u>94,000</u>	<u>146,000</u>
Net loss	<u>\$ (287,655)</u>	<u>\$ (470,768)</u>

The accompanying consolidated notes to financial statements are an integral part of this statement.

TOTAL ENVIRONMENTAL SOLUTIONS, INC. AND SUBSIDIARY

Baton Rouge, Louisiana

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

For the years ended December 31, 2004 and 2003

	Capital Stock		Amount	Additional Paid-in Capital		Accumulated Deficit	Total Stockholder's Equity
	Shares						
BALANCE - DECEMBER 31, 2002	10,000	\$	100,000	\$	5,791,909	\$ (1,638,281)	\$ 4,253,628
Prior period adjustment	-		-		(1,562,000)	-	(1,562,000)
BALANCE - DECEMBER 31, 2002, as restated	10,000		100,000		4,229,909	(1,638,281)	2,691,628
Contributed capital for 2003 - SLECA	-		-		189,318	-	189,318
Net loss for 2003, as restated	-		-		-	(470,768)	(470,768)
BALANCE - DECEMBER 31, 2003, as restated	10,000		100,000		4,419,227	(2,109,049)	2,410,178
Contributed capital for 2004 - SLECA	-		-		190,632	-	190,632
Net loss for 2004	-		-		-	(287,655)	(287,655)
BALANCE - DECEMBER 31, 2004	10,000	\$	100,000	\$	4,609,859	\$ (2,396,704)	\$ 2,313,155

The accompanying consolidated notes to financial statements are an integral part of this statement.

TOTAL ENVIRONMENTAL SOLUTIONS, INC. AND SUBSIDIARY

Baton Rouge, Louisiana

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (287,655)	\$ (470,768)
Adjustments to net loss:		
Depreciation expense	1,188,310	960,657
Amortization expense	79,082	69,744
Gain on sale of property	(43,960)	(217,058)
Deferred income tax benefit	(94,000)	(146,000)
Change in operating assets and liabilities:		
Current assets	(178,394)	431,295
Operating liabilities	334,648	(1,255,492)
Increase in customer deposits	113,741	37,548
Net cash provided by (used for) operating activities	1,111,772	(590,074)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of asset	383,593	-
Property acquisitions and deferred charges	(1,919,910)	(4,477,058)
Net cash used for investing activities	(1,536,317)	(4,477,058)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in outstanding checks in excess of bank balance	(226,059)	226,059
Increase in lines of credit, net	1,173,104	-
Proceeds from the issuance of debt	411,955	5,140,875
Retirement of long-term debt	(927,011)	(517,327)
Capital contributions from parent company	190,630	189,318
Net cash provided by financing activities	622,619	5,038,925
Net increase (decrease) in cash	198,074	(28,207)
Beginning of year	124,431	152,638
End of year	\$ 322,505	\$ 124,431

The accompanying consolidated notes to financial statements are an integral part of this statement.

TOTAL ENVIRONMENTAL SOLUTIONS, INC. AND SUBSIDIARY
Baton Rouge, Louisiana

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

Total Environmental Solutions, Inc. and Subsidiary, (TESI) is a wholly owned subsidiary of South Louisiana Electric Cooperative Association (SLECA). TESI was chartered in 2000 to purchase the assets of a water and wastewater utility through the Bankruptcy Court of the Middle District of Louisiana. TESI provides water and wastewater services to customers in Louisiana, Mississippi, Tennessee, North Carolina, South Carolina, and Pennsylvania. During 2003, Total Environmental Solutions Management Company, Inc. (TESM) was formed as TESI's wholly-owned subsidiary.

Basis of presentation and consolidation

The consolidated financial statements include the accounts of TESI and TESM. All intercompany transactions and balances between the two companies have been eliminated.

However, the consolidated financial statements do not include any activity of SLECA and intercompany transactions have not been eliminated. See Note 12.

Method of accounting

Assets, liabilities, revenues and expenses are recognized on the accrual method of accounting.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used primarily when accounting for the allowance for doubtful accounts, regulatory assets and deferred charges, depreciation, contingent liabilities and deferred taxes. See Note 2.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash

For purposes of the statement of cash flows, all highly liquid investments purchased with maturities of three months or less are considered to be "cash equivalents." There are no cash equivalents at December 31, 2004 and 2003. Additionally, cash is not currently segregated for customer deposits.

Accounts receivable

Revenues are recognized when services are rendered to customers. Accounts receivable is stated at the amount management expects to collect from outstanding balances. TESI uses the allowance method to account for doubtful accounts receivable. The allowance is established through a provision for bad debts charged to expense. Accounts receivable are charged against the allowance for doubtful accounts when management believes that the collectibility of an account is unlikely.

Accounts receivable includes fees for availability charges. Availability charges represent fees to property owners that are not utilizing the utility service but have system availability to their property. The fees are billed monthly, quarterly or annually based on state regulatory order. Availability accounts receivables unpaid at December 31, 2004 and 2003 have been considered uncollectible.

Allowance for funds used during construction (AFUDC) and interest capitalized

AFUDC represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new regulated facilities. While cash is not realized currently from such an allowance, it increases the revenue requirement over the service life of the plant through a higher rate base and higher depreciation expense.

However, TESI's rates do not include such a provision since capital improvements have been funded primarily from debt issuance. As a result, no such provision for equity investment has been recorded. Accordingly, interest costs are capitalized in accordance with interest capitalization requirements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Utility plant and other property

In accordance with regulatory accounting, property is stated at cost, less accumulated depreciation. Additionally, recognition has been provided for acquisition adjustments related to costs of plant-in-service incurred by the initial plant owner in Pennsylvania and confirmed by the Pennsylvania Public Utility Commission in the determination of current rates. All property recorded is included in the determination of rates.

Depreciation expense is computed on the straight-line method, as approved by regulatory authorities in the ratemaking process, over the estimated useful lives of depreciable assets for financial statement purposes, whereas accelerated methods are used for income tax purposes.

Gains and losses on asset sales are reflected in the income statement. Maintenance and repairs are charged to operations; additions, improvements and refurbishments are capitalized.

Certain automotive property (\$567,901 for 2004 and 2003, respectively) is accounted for under capital leases. Amortization of such automobiles is included in depreciation expense. Accumulated amortization for automobiles was \$315,534 and \$144,615 at December 31, 2004 and 2003, respectively.

Regulatory asset and liabilities

TESI is subject to provisions of Financial Accounting Standards Board (FASB) Statement No. 71, "Accounting for the Effects of Certain Types of Regulation." Regulatory assets represent future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process. TESI does not have any regulatory liabilities. Regulatory assets recognized in the December 31, 2004 and 2003 financial statements relate to deferred charges for professional fees incurred associated with rate change applications and proceedings. Such amounts are being amortized over five years on the straight-line method in accordance with regulatory directives. See Note 5. In the event that a portion of TESI's operations is no longer subject to the provisions of FASB Statement No. 71, TESI would be required to write off the related regulatory assets that is not specifically recoverable through regulated rates. In addition, TESI would be required to determine if any impairment to the asset exists, including the write down of the asset to their estimated fair value. All deferred charges are reflected in rates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

TESI is taxed as a corporation for income tax purposes. TESI uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income during the period that includes the enactment date.

Fair value of financial instruments

The carrying value of cash, receivables, accounts payable and accrued expenses approximates fair value due to the short-term maturity of these instruments. The carrying value of short and long-term debt approximates fair value based on the current rates offered for debt of comparable maturities and collateral requirements. None of the financial instruments are held for trading purposes.

Advertising

Advertising costs, \$4,111 and \$501 for 2004 and 2003, respectively, are charged to operations when incurred.

Supplies

Supplies purchased by TESI are expensed as incurred.

Concentrations of credit risk

TESI's primary source of income is derived from the sale of water and wastewater services in six states. The customers are primarily residential users in subdivisions.

At various times during the year, TESI's bank balances with financial institutions may exceed FDIC insurance limits. Management believes the risk is limited.

Reclassifications

Certain amounts in the December 31, 2003 financial statements have been reclassified to conform to the December 31, 2004 financial statement presentation.

NOTE 2 - GOING CONCERN

The Company's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The Company has incurred a net loss for 2004 and 2003 of \$287,655 and \$470,768, respectively. In the years prior to 2003, the Company incurred accumulated losses of \$1,638,281. The Company has incurred substantial debt to fund the acquisition of property. Furthermore, the property was subject to regulatory mandates for environmental compliance as well as recurring system improvements and replacements. The Company has been unable to fund these expenditures from operations, thereby requiring additional debt for these improvements. The Company has not been released from regulatory oversight.

The Company is required to comply with debt covenants. The Company has violated several covenants in its loan agreement, and while the lender has committed to waive certain violations through July 31, 2005, the waiver is not sufficient to prevent the Company's debt to be callable during 2005. Accordingly, at December 31, 2004, the debt has been classified as current, and a working capital deficit of \$17,886,672 has resulted.

The losses have reduced working capital and resulted in an accumulated deficit to the extent that the Company may not be able to continue as a going concern. Previously, the Company has been funded by new debt with limited guarantees on such debt by SLECA.

The Company has prepared a five year financial plan to fund its operations. The significant factors of the plan include the following:

- Fee enhancements being approved by state regulatory authorities,
- Expense control,
- Additional debt to fund system improvements and replacements, and
- Debt forbearance.

The ability of the Company to continue as a going concern is dependent upon the success of these actions.

The financial statements do not include any adjustments relating to the recoverability of recorded asset or liability amounts that might be necessary should the Company be unable to continue as a going concern.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2004 and 2003, consisted of the following:

	2004	2003
Trade accounts:		
Billed - operations	\$ 1,404,773	\$ 1,230,813
Availability	1,040,040	781,141
Billed - enhancement fee	151,853	145,904
Unbilled receivables	302,160	348,888
	2,898,826	2,506,746
Less allowances for doubtful accounts:		
Billed and unbilled receivables	(809,811)	(847,292)
Billed enhancement fees	(146,942)	(144,956)
Availability receivables	(1,027,528)	(771,361)
Net accounts receivable	\$ 914,545	\$ 743,137
Bad debt expense (recovery):		
Operating	\$ (35,353)	\$ 644,463
Availability	256,167	311,702
Enhancement fee	96,507	124,098
Total bad debt expense	\$ 317,321	\$ 1,080,263

TESI does not require collateral on its receivables; however, a deposit is collected from customers which may be used to satisfy outstanding receivables. Receivables outstanding for longer than thirty (30) days have been considered uncollectible.

NOTE 4 - PROPERTY

Property, service lives and accumulated depreciation at December 31, 2004 and 2003, consisted of:

Description	Estimated Service Life	2004	2003
Land	-	\$ 70,456	\$ 70,456
Office building	40 years	334,282	334,282
Water and waste water plants	10-40 years	26,712,993	24,979,426
Automotive	3-5 years	694,042	754,991
Office furniture and equipment	4-7 years	335,323	335,323
		28,147,096	26,474,478
Less accumulated depreciation		(7,090,372)	(5,943,298)
		\$ 21,056,724	\$ 20,531,180

NOTE 4 - PROPERTY (CONTINUED)

Depreciation expense was \$1,188,310 and \$960,657 for 2004 and 2003, respectively. Interest incurred on debt and capitalized as property was \$39,165 for 2004 and 2003, respectively. Essentially all property has been pledged to collateralize debt owed by TESI. See Notes 7 and 8. Certain assets reflected in water and wastewater plants relate to the recognition of adjustments for original costs of plant-in-service for utility plants in Pennsylvania as provided through the ratemaking process by the Pennsylvania Public Utility Commission. Accordingly, net plant in service assets of approximately \$5,150,000 has been recognized. Additionally, a related deferred tax liability has been recorded of approximately \$1,562,000; accordingly, the net amount of approximately \$3,588,000 has been reflected as paid-in-capital. See Note 14.

NOTE 5 - DEFERRED CHARGES

TESI's regulated operations are subject to FASB 71. Accordingly, TESI records assets that result from the regulated ratemaking process that would not be recorded under generally accepted accounting principles for non-regulated entities (See Note 1). TESI has recorded deferred charges for amortizable professional fees incurred related to rate increase proceedings to establish increased rates for water and wastewater services. At December 31, 2004 and 2003, deferred charges were \$535,485 and \$348,720, respectively, with related accumulated amortization of \$157,064 and \$77,982, respectively. Amortization expense for 2004 and 2003 was \$79,082 and \$69,744, respectively.

NOTE 6 - NOTE PAYABLE

TESI financed insurance premiums with short-term financing arrangements. The note was payable with one payment of \$105,400 and eleven installments of approximately \$23,200, including interest at 4.25% per annum. At December 31, 2004, TESI owed \$204,187.

NOTE 7 - LINES OF CREDIT

At December 31, 2004, TESI had lines of credit as follows:

	<u>2004</u>
\$750,000 line of credit with National Cooperative Service Corporation, variable interest only payments (4.85% at December 31, 2004), due October 2005 and secured by property of TESI and guaranteed by SLECA	\$ 725,000
\$450,000 line of credit with Hancock Bank, variable interest only payments (5.25% at December 31, 2004), due July 2005, secured by property of TESI and guaranteed by SLECA	<u>448,104</u>
	<u>\$ 1,173,104</u>

NOTE 8 - DEBT

Debt, at December 31, 2004 and 2003, is comprised of the following:

	2004	2003
National Cooperative Service Corporation (NCSC) (2) variable interest rate (4.85% and 3.2% at December 31, 2004 and 2003, respectively), due in quarterly principal and interest installments of approximately \$188,725, payable through 2020 to 2022, secured by property.	\$ 9,764,292	\$ 9,962,950
Non-interest bearing note, due in annual payments of \$25,000 through April 2007 (less imputed interest of \$10,296 and \$16,759 in 2004 and 2003, respectively) effective interest rate of 7.5%	75,000	100,000
\$3,519,939 promissory note, interest payable monthly for one year at 4.75% through July 2005 and ending with a balloon payment and secured by property. At December 31, 2004, \$299,500 was available on the line of credit.	3,220,486	3,386,938
Pennsylvania Infrastructure Investment Authority construction loan, secured by property. (See detailed explanation below.)	2,856,399	2,846,916
Automobile loan, non-interest bearing note, due in 60 monthly principal installments of approximately \$357, through August 2007.	11,767	16,046
4.9% notes payable (2) in 12 to 24 monthly principal and interest of \$997 and \$1,692, maturing June 2004 and June 2005.	6,872	28,253
Capital leases payable (47) in 36 to 60 monthly payments of \$234 to \$661 each, maturing from December 2005 to October 2008, bearing interest from 5.5% to 11.9%, collateralized by vehicles.	324,217	463,765
Note payable (3) in 36 monthly installments of \$151 to \$533 each, maturing from February 2007 to July 2007, bearing interest from 6% to 8.125% and secured by vehicles	24,313	-
Total debt	16,283,346	16,804,868
Less imputed interest	(10,296)	(16,759)
Net debt, current due to default	\$ 16,273,050	\$ 16,788,109

NOTE 8 - DEBT (CONTINUED)

Under these agreements, TESI is required to maintain certain operating financial ratios as well as other restrictive covenants and customary conditions to prevent default. Certain covenant violations occurred related to maintaining a minimum debt service coverage ratio and various required reporting to the lenders. TESI did not secure waivers from the lenders for these violations; therefore, all debt has been classified as current.

TESI has a multiple advance loan with NCSC of \$10,500,000 scheduled to mature from 2020 to 2022. Loan advances are restricted to finance the acquisition and upgrade of TESI's water and sewer facilities. SLECA has guaranteed \$1,600,000 of TESI's loan with NCSC.

TESI has a multiple advance construction loan of \$3,108,000 with the Pennsylvania Infrastructure Investment Authority (PennVest) dated September 2002, bearing interest at a varying rate (1% at December 31, 2004) and scheduled to mature in March 2023. Loan advances are restricted to finance the construction of a sewer treatment facility in Pennsylvania. The loan is payable in equal monthly installments of principal and interest of \$14,439 and matures on March 1, 2023. SLECA has guaranteed this loan.

The debt, as disclosed above, is secured by property described in Note 4.

NOTE 9 - EMPLOYEE BENEFIT PLANS

TESI maintains a 401(k) profit sharing plan, which covers substantially all full-time employees. Contributions to the profit-sharing plan are discretionary as determined by management. The profit sharing plan also includes a provision under which eligible employees may defer to a maximum of \$13,000 of their annual compensation, pursuant to Section 401(k) of the Internal Revenue Code. TESI matches an electing participant's deferral of 3% of compensation. TESI made profit sharing contributions of \$27,653 and \$23,467 during 2004 and 2003, respectively.

NOTE 10 - PROVISION FOR INCOME TAXES

The provision for income taxes consisted of the following for the years ended December 31, 2004 and 2003:

	2004	2003
Current tax provision:		
Current income taxes (refund)	\$ -	\$ -
Deferred income tax benefit	(94,000)	(146,000)
Income tax benefit	<u>\$ (94,000)</u>	<u>\$ (146,000)</u>

NOTE 10 - PROVISION FOR INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to significant portions of the deferred tax asset at December 31, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Current deferred tax asset		
Allowance for doubtful accounts	\$ 595,000	\$ 529,000
Noncurrent net deferred tax credit		
Depreciation	\$ (2,041,000)	\$ (1,969,000)
Net operating loss carryforward	790,000	690,000
Deferred tax credit, net	\$ (1,251,000)	\$ (1,279,000)

At December 31, 2004, TESI had a net operating loss carryforward of approximately \$2.6 million that will expire from 2021 through 2024. TESI's effective tax rate differs from the federal statutory rate, primarily due to lower rates on the first \$100,000 of taxable income, certain nondeductible expenses, state income taxes/(benefits) and changes in the valuation allowance for doubtful accounts.

NOTE 11 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash payments for interest and income taxes for 2004 and 2003 were as follows:

	<u>2004</u>	<u>2003</u>
Interest	\$ 682,229	\$ 574,212
Income taxes	\$ -	\$ -

At December 31, 2004 and 2003, TESI financed prepaid insurance with the issuance of \$204,187 and \$608,629 in notes payable, respectively.

NOTE 12 - RELATED PARTY

During 2004 and 2003, the Company incurred management fees from SLECA of \$190,632 and \$189,318, respectively, which were recorded as contributed capital. Additionally, TESI owed SLECA approximately \$628,100 at December 31, 2004 and 2003 for previously charged management fees, which includes personnel and benefits, computer support and transportation. There are no repayment terms associated with the obligation.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Litigation

Several suits and claims arising in the ordinary course of operations are pending against TESI. The majority of these claims are covered by insurance or other defenses.

Consent decrees

TESI, when purchasing the water and wastewater assets through the bankruptcy court, simultaneously concluded three consent decrees with various state and federal environmental regulatory agencies. The decrees state that TESI will make necessary refurbishments to bring existing systems into compliance with state and federal operating and environmental standards. It is the opinion of management that the refurbishments to meet the terms of the consent decrees can be completed within specified time limits. Costs associated with the refurbishments are expected to be capital in nature and are capitalized as incurred.

Environmental contingencies

Management of TESI is not aware of any unrecorded material environmental commitments or contingent environmental liabilities. Environmental contingencies have been mitigated by testing the water and sewer systems on a regular basis and providing the test results to the proper environmental authorities. However, penalties of approximately \$30,000 and \$47,000 were incurred during 2004 and 2003, respectively, for assessments made by environmental authorities.

NOTE 14 - PRIOR PERIOD ADJUSTMENTS

During 2004, a correction of an error was recorded to restate previously reported amounts. The correction resulted in a change to the previously reported additional paid-in-capital and the accumulated deficit as of December 31, 2003. The prior period adjustment related to an unrecorded deferred income tax credit associated with a plant asset located in Pennsylvania and recognized in the ratemaking process by the Pennsylvania Public Utility Commission. See Note 10. The following depicts the changes in equity:

	Additional Paid-in Capital	Accumulated Deficit
As previously reported, December 31, 2003	\$ 5,981,227	\$ (2,187,049)
Recording of deferred income tax credit related to Pennsylvania plant in service	(1,562,000)	78,000
As adjusted, December 31, 2003	<u>\$ 4,419,227</u>	<u>\$ (2,109,049)</u>



**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

Board of Directors
Total Environmental Solutions, Inc.
Baton Rouge, Louisiana

Our report on our audit of the basic financial statements of **TOTAL ENVIRONMENTAL SOLUTIONS, INC. AND SUBSIDIARY** for 2004 and 2003 appears on page 1. Our audits were conducted in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1, 2, 3 and statistical information are presented for the purpose of additional analysis and are 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.

Faulk & Winkler, LLC

Certified Public Accountants

Baton Rouge, Louisiana
June 16, 2005

TOTAL ENVIRONMENTAL SOLUTIONS, INC. AND SUBSIDIARY

Baton Rouge, Louisiana

COMBINING SCHEDULE OF OPERATIONS

For the year ended December 31, 2004
(with comparative amounts for 2003)

	Regulated Operations	Nonregulated Operations	2004 Total Operations	2003 Total Operations
Revenues				
Water	\$ 4,095,670	\$ -	\$ 4,095,670	\$ 3,440,916
Wastewater	6,809,037	192,000	7,001,037	6,348,194
Contract services	-	100,450	100,450	97,200
Total revenues	10,904,707	292,450	11,197,157	9,886,310
Operating expenses				
Water operating expenses.				
Employee salaries and benefits	834,602	-	834,602	723,642
Water plant operations	958,264	-	958,264	950,189
Contract services	166,188	-	166,188	325,804
Transportation	162,343	-	162,343	72,653
Occupancy	123,491	-	123,491	125,918
Depreciation and amortization	561,991	-	561,991	427,491
Bad debts	145,023	-	145,023	356,173
Taxes	131,256	-	131,256	115,162
Other	274,667	-	274,667	129,832
Total water expenses	3,357,825	-	3,357,825	3,226,864
Wastewater operating expenses.				
Employee salaries and benefits	1,236,714	-	1,236,714	864,673
Wastewater plant operations	1,809,099	-	1,809,099	1,550,776
Contract services	434,373	25,140	459,513	455,714
Transportation	103,323	-	103,323	51,453
Occupancy	48,488	-	48,488	94,972
Depreciation and amortization	663,806	-	663,806	568,092
Bad debts	75,791	96,507	172,298	724,090
Taxes	127,243	-	127,243	146,388
Other	144,579	-	144,579	86,048
Total wastewater expenses	4,643,416	121,647	4,765,063	4,580,262
General and administrative expenses:				
Affiliated service charges:				
Employee salaries and benefits	832,015	-	832,015	605,573
Management fees (SLECA)	190,632	-	190,632	189,318
Contract services	465,676	-	465,676	290,506
Insurance	615,958	-	615,958	624,366
Occupancy	85,681	-	85,681	92,964
Depreciation	41,595	-	41,595	34,818
Other	572,634	131	572,765	518,258
Total general and administrative expenses	2,804,191	131	2,804,322	2,355,803
Total operating expenses	10,805,432	121,778	10,927,210	10,162,929
Operating income (loss)	99,275	170,672	269,947	(276,619)
Other income (expenses)				
Interest expense	(695,986)	-	(695,986)	(560,273)
Interest income	424	-	424	3,066
Gain on sale of property	43,960	-	43,960	217,058
Total other expense, net	(651,602)	-	(651,602)	(340,149)
Income (loss) before income tax	\$ (552,327)	\$ 170,672	\$ (381,655)	\$ (616,768)

TOTAL ENVIRONMENTAL SOLUTIONS, INC. AND SUBSIDIARY

Baton Rouge, Louisiana

COMBINING SCHEDULE OF REGULATED OPERATIONS

For the year ended December 31, 2004
(with comparative amounts for 2003)

	Louisiana	Mississippi	North Carolina	Pennsylvania	South Carolina	Tennessee	2004 Total	2003 Total
Revenues								
Water	\$ 1,171,354	\$ 1,286,214	\$ 649,889	\$ 814,211	\$ 120,316	\$ 53,686	\$ 4,095,670	\$ 3,440,916
Wastewater	4,083,094	1,137,830	-	1,412,934	171,649	3,530	6,809,037	6,181,155
Total revenues	5,254,448	2,424,044	649,889	2,227,145	291,965	57,216	10,904,707	9,622,071
Operating expenses								
Water operating expenses								
Employee salaries and benefits	204,166	316,324	66,667	191,809	49,243	6,393	834,602	723,642
Water plant operations	232,396	152,662	392,300	118,716	57,543	4,647	958,264	950,189
Contract services	18,562	81,901	13,397	12,662	36,141	3,525	166,188	325,804
Transportation	56,028	84,553	8,460	7,416	5,489	397	162,343	72,653
Occupancy	54,972	32,170	3,574	29,190	3,585	-	123,491	125,918
Depreciation and amortization	140,206	233,889	15,782	131,054	36,702	4,358	561,991	427,491
Bad debts (recovery)	3,976	25,255	23,051	62,712	(4,966)	34,995	145,023	356,173
Taxes	10,463	62,239	15,218	25,750	11,327	6,259	131,256	115,162
Other	176,065	23,767	13,373	45,097	15,710	655	274,667	129,832
Total water expenses	896,834	1,012,760	551,822	624,406	210,774	61,229	3,357,825	3,226,864
Wastewater operating expenses:								
Employee salaries and benefits	813,648	264,278	23,071	113,335	22,382	-	1,236,714	864,673
Wastewater plant operations	815,666	290,939	10,813	639,002	52,679	-	1,809,099	1,550,776
Contract services	164,353	66,151	7,933	65,032	130,904	-	434,373	364,838
Transportation	8,282	42,996	537	49,141	2,367	-	103,323	51,453
Occupancy	14,192	18,331	-	14,482	1,483	-	48,488	94,972
Depreciation and amortization	352,838	92,266	3,275	198,450	16,977	-	663,806	568,092
Bad debts (recovery)	16,835	3,389	-	57,396	(1,829)	-	75,791	599,992
Taxes	108,313	10,946	-	7,984	-	-	127,243	146,388
Other operating expenses	61,858	17,330	775	61,542	3,074	-	144,579	124,104
Total wastewater expenses	2,355,985	806,626	46,404	1,206,364	228,037	-	4,643,416	4,365,288
General and administrative expenses								
Affiliated service charges								
Employee salaries and benefits	407,779	200,305	78,832	113,116	10,989	20,994	832,015	605,583
Management fees (SLECA)	68,132	32,560	21,179	58,543	4,575	5,643	190,632	189,318
Contract services	109,768	94,958	61,661	169,540	13,321	16,428	465,676	290,506
Insurance	301,009	136,774	39,078	114,139	15,275	9,683	615,958	624,366
Occupancy	34,006	14,021	8,953	24,382	1,934	2,385	85,681	92,964
Depreciation	23,144	6,755	3,315	6,782	716	883	41,595	34,818
Other	248,495	89,664	54,911	145,474	19,462	14,628	572,634	517,954
Total general and administrative expenses	1,192,333	575,037	267,929	631,976	66,272	70,644	2,804,191	2,355,509
Total operating expenses	4,445,152	2,394,423	866,155	2,462,746	505,083	131,873	10,805,432	9,947,661
Operating income (loss)	809,296	29,621	(216,266)	(235,601)	(213,118)	(74,657)	99,275	(325,590)
Other income (expenses)								
Interest expense	(292,830)	(142,874)	(59,834)	(169,808)	(15,092)	(15,548)	(695,986)	(560,273)
Interest income	424	-	-	-	-	-	424	3,066
Gain (loss) on sale of property	(76)	44,036	-	-	-	-	43,960	217,058
Total other expense, net	(292,482)	(98,838)	(59,834)	(169,808)	(15,092)	(15,548)	(651,602)	(340,149)
Income (loss) before income tax	\$ 516,814	\$ (69,217)	\$ (276,100)	\$ (405,409)	\$ (228,210)	\$ (90,205)	\$ (552,327)	\$ (665,739)

TOTAL ENVIRONMENTAL SOLUTIONS, INC. AND SUBSIDIARY
Baton Rouge, Louisiana

COMBINING SCHEDULE OF NONREGULATED OPERATIONS

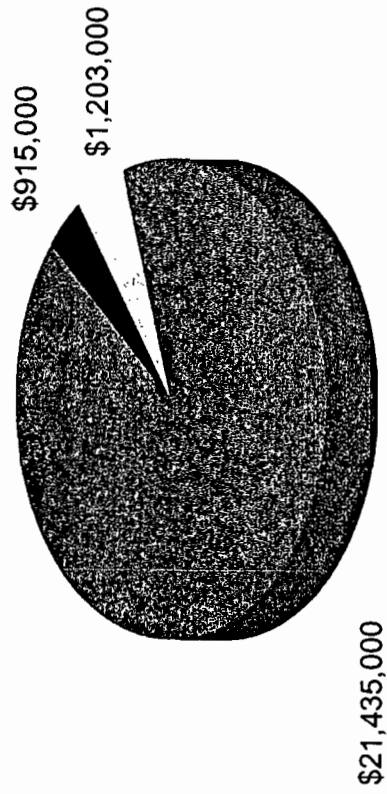
For the year ended December 31, 2004
(with comparative amounts for 2003)

	<u>Lockhart</u>	<u>TES Management</u>	<u>2004 Total</u>	<u>2003 Total</u>
Revenues				
Wastewater	\$ -	\$ 192,000	\$ 192,000	\$ 167,039
Contract services	100,450	-	100,450	97,200
Total revenues	100,450	192,000	292,450	264,239
Operating expenses				
Wastewater operating expenses:				
Contract services	25,140	-	25,140	90,876
Bad debts	405	96,102	96,507	124,098
Total wastewater expenses	25,545	96,102	121,647	214,974
General and administrative expense	-	131	131	294
Total operating expenses	25,545	96,233	121,778	215,268
Net income (loss) before income tax	\$ 74,905	\$ 95,767	\$ 170,672	\$ 48,971

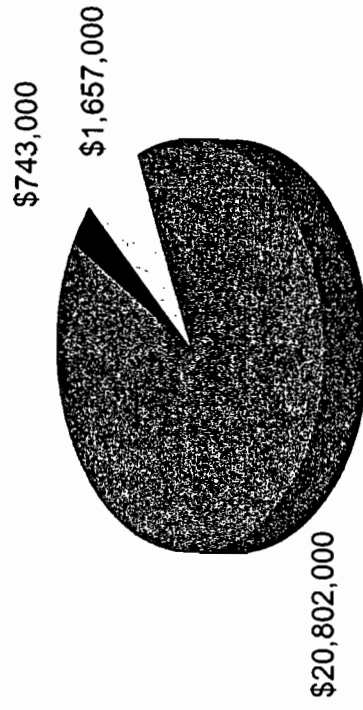
STATISTICAL INFORMATION

ASSETS

TOTAL ENVIRONMENTAL SOLUTIONS, INC.



DECEMBER 31, 2004



DECEMBER 31, 2004

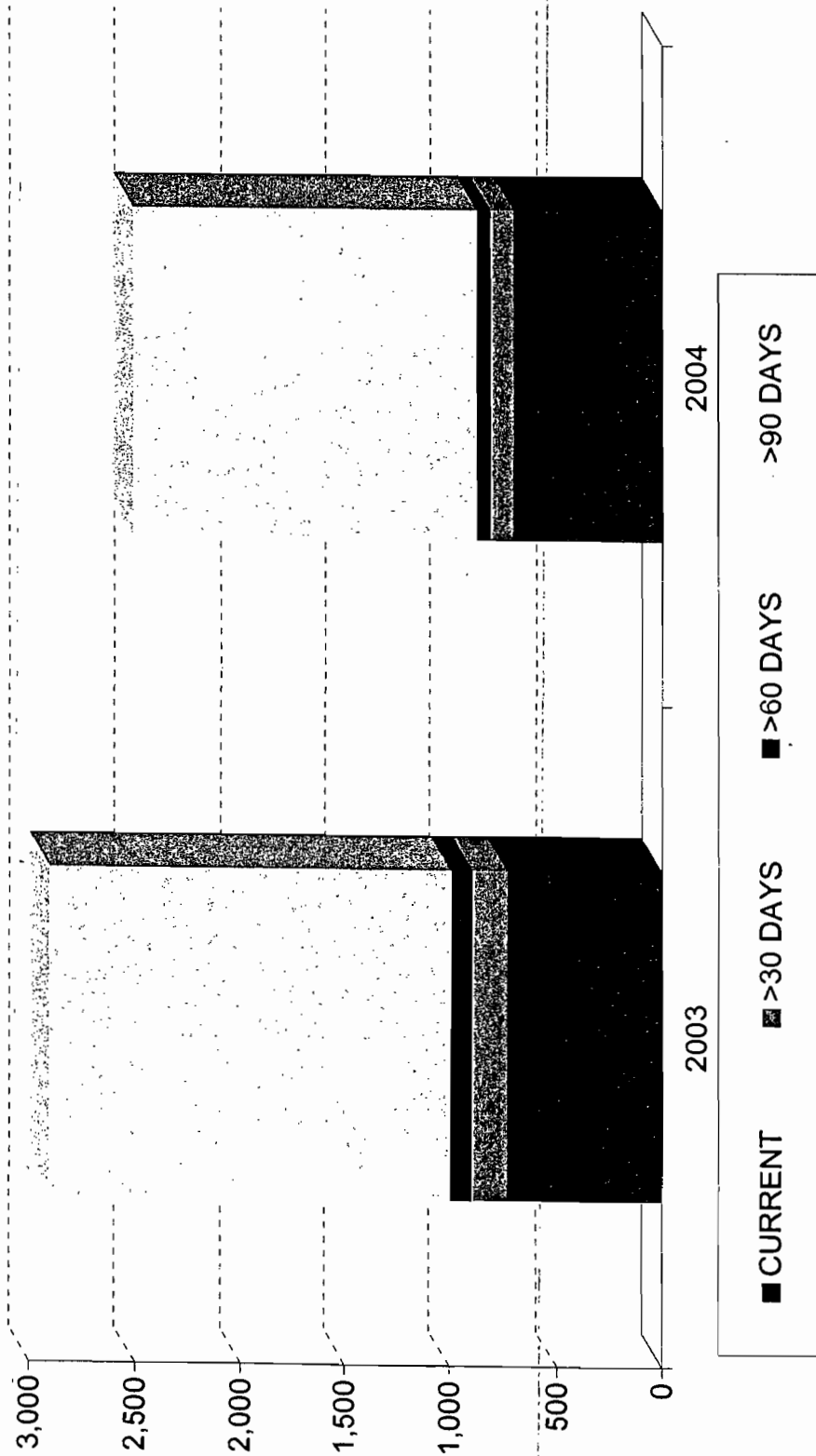
■ ACCOUNTS RECEIVABLE - net ■ CASH AND OTHER ■ FIXED ASSETS - net

TOTAL ASSETS = \$ 23,553,000

TOTAL ASSETS = \$ 23,202,000

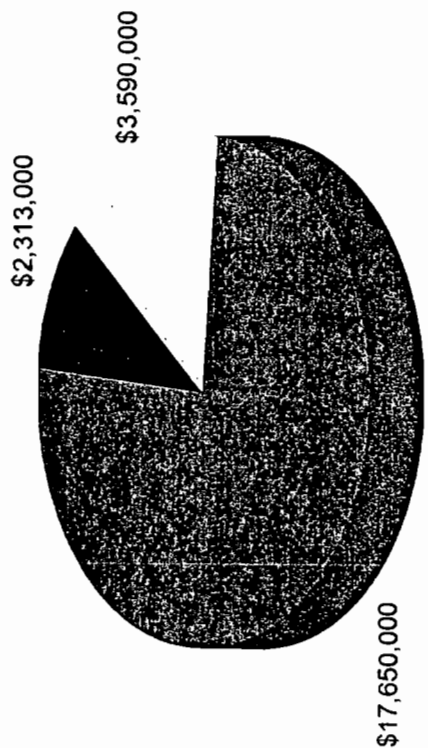
AGED ACCOUNTS RECEIVABLE - GROSS AMOUNT

TOTAL ENVIRONMENTAL SOLUTIONS, INC.

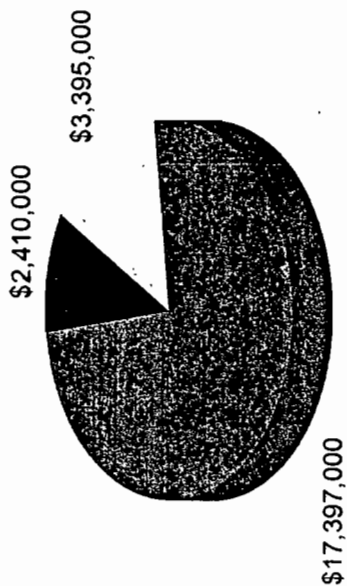


LIABILITIES & EQUITY

TOTAL ENVIRONMENTAL SOLUTIONS, INC.



DECEMBER 31, 2004



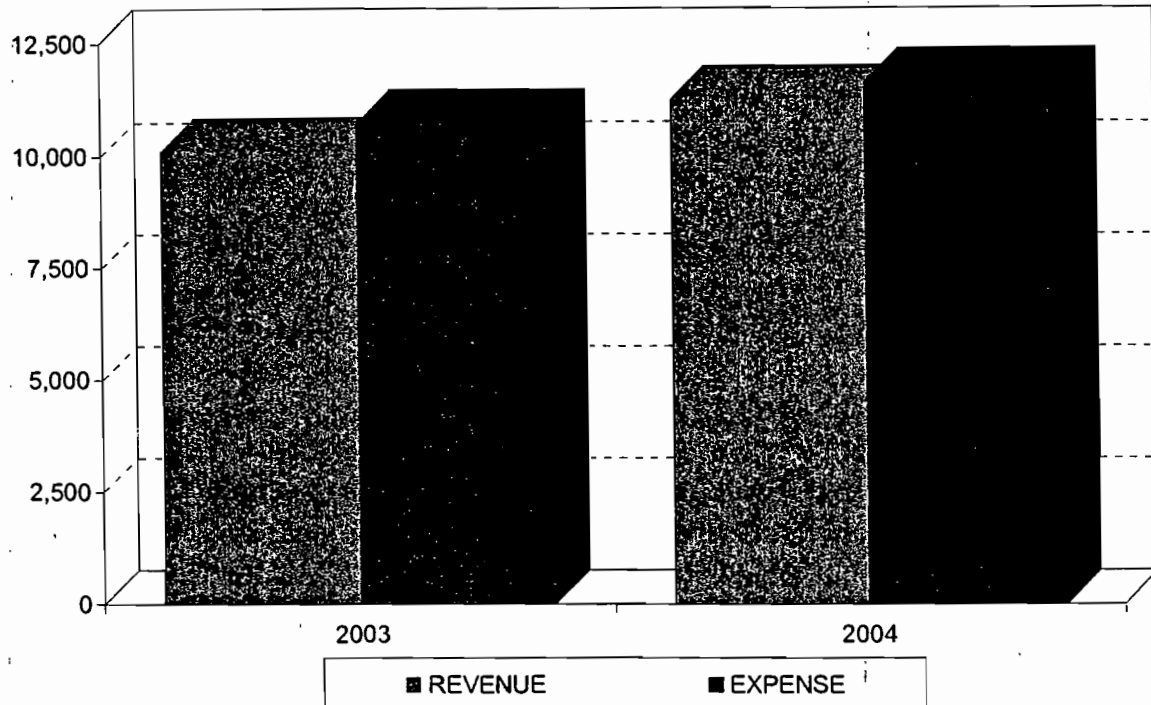
DECEMBER 31, 2003

OPERATIONAL LIABILITIES		DEBT	EQUITY
TOTAL LIABILITIES = \$ 21,240,000		TOTAL LIABILITIES = \$ 20,792,000	
TOTAL EQUITY = \$ 2,313,000		TOTAL EQUITY = \$ 2,410,000	

REVENUE & EXPENSE

(IN THOUSANDS)

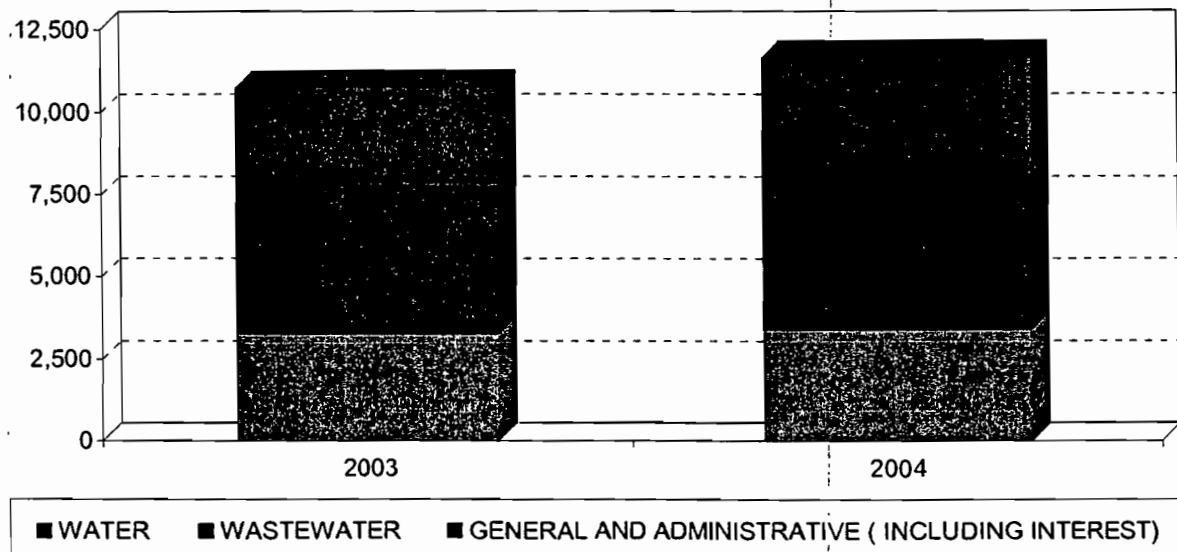
TOTAL ENVIRONMENTAL SOLUTIONS, INC.



EXPENSES

(IN THOUSANDS)

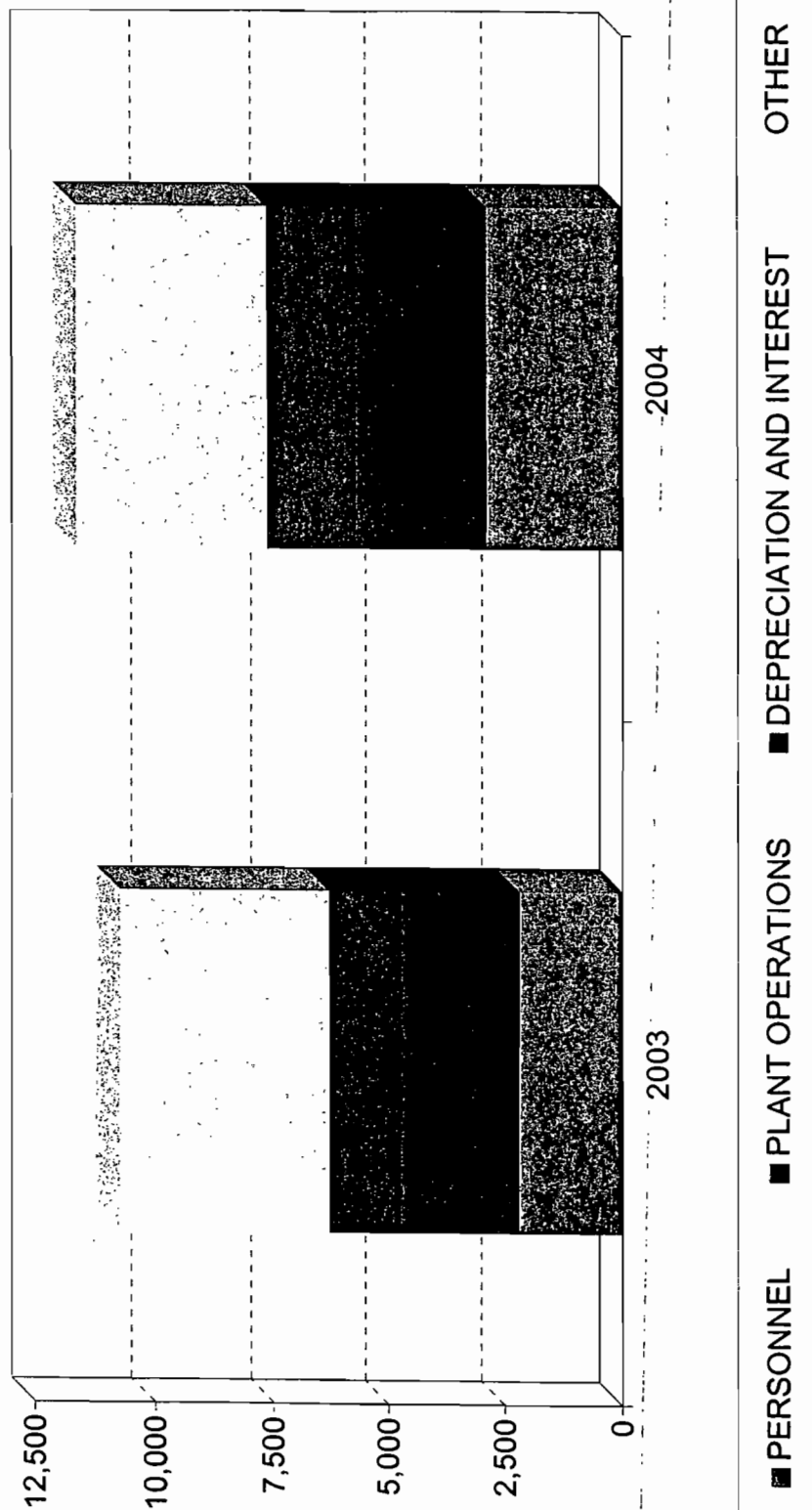
TOTAL ENVIRONMENTAL SOLUTIONS, INC.



EXPENSES

(IN THOUSANDS)

TOTAL ENVIRONMENTAL SOLUTIONS, INC.



REAL ESTATE MORTGAGE

AND

SECURITY AGREEMENT

Made By and Among

TOTAL ENVIRONMENTAL SOLUTIONS, INC.

as Mortgagor

and

CoBank, ACB

as Mortgagee

Dated as of

2006

THIS INSTRUMENT CONSTITUTES A MORTGAGE AND SECURITY AGREEMENT COVERING BOTH REAL AND PERSONAL PROPERTY OF A TRANSMITTING UTILITY AND IS TO BE CROSS INDEXED, PURSUANT TO SECTION 6.06, IN ALL INDICES IN WHICH ARE RECORDED LIENS, MORTGAGES, OR OTHER ENCUMBRANCES AGAINST REAL AND PERSONAL PROPERTY.

THIS INSTRUMENT CONSTITUTES A LIEN ON ALL AFTER ACQUIRED PROPERTY OF THE MORTGAGOR.

THIS INSTRUMENT SECURES FUTURE ADVANCES.

THE MORTGAGOR'S ORGANIZATION IDENTIFICATION NUMBER IS

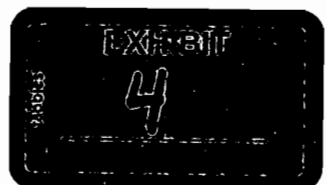


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REAL ESTATE MORTGAGE AND SECURITY AGREEMENT

**MULTIPLE INDEBTEDNESS MORTGAGE
SECURITY AGREEMENT AND COLLATERAL
ASSIGNMENT OF LEASES AND RENTS**

**UNITED STATES OF AMERICA
STATE OF LOUISIANA**

BY: TOTAL ENVIRONMENTAL SOLUTIONS, INC. PARISH OF <

IN FAVOR OF: COBANK, ACB

BE IT KNOWN, that on the ____ day of _____, 2006.

BEFORE ME, the undersigned Notary Public, and in the presence of the undersigned competent witnesses;

PERSONALLY CAME AND APPEARED:

TOTAL ENVIRONMENTAL SOLUTIONS, INC., Tax Identification Number <, a Louisiana corporation having its principal place of business at <, <, Louisiana <, represented herein by _____, duly authorized by Resolutions of the Board of Directors attached hereto, herein referred to the "Mortgagor".

WHO DECLARED THAT:

**ARTICLE I.
GRANTING CLAUSE**

Section 1.01. Granting Clauses. In order to secure the "Obligations" (as hereinafter defined), whether such Obligations are made pursuant to a commitment, made at the option of the Mortgagee, made after a reduction to zero or other balance, or made otherwise, up to the "Maximum Debt Limit" (as hereinafter defined), if any, and to declare the terms and conditions upon which the Obligations are to be secured, the Mortgagor, in consideration of the premises, does hereby grant, bargain, sell, alienate, convey, assign, transfer, mortgage, hypothecate, pledge, set over and confirm unto the Mortgagee, and its respective assigns, all property, rights, privileges and franchises of the Mortgagor of every kind and description, real, personal or mixed, tangible or intangible, whether now owned or hereafter acquired by the Mortgagor, wherever located, EXCEPT ANY EXCEPTED PROPERTY, including all and singular the following described property other than Excepted Property (all of which is hereinafter called the "Mortgaged Property"):

All right, title and interest in the Mortgagor in and to the real estate and interests in real estate described in Exhibit "A" attached hereto and made a part hereof situated in the Parish of <>, in the State of Louisiana;

II

All right, title and interest of the Mortgagor in and to all other real estate or interests in real estate (including, without limitation, all fee and leasehold interests in real estate, easements, permits, licenses, fixtures, rights of way and other interests comprising real estate): (i) now owned, held or enjoyed by the Grantor and located in the Parish of <>; or (ii) hereafter acquired, held or enjoyed wherever located;

III

All buildings and other improvements (collectively, the "Improvements") now or hereafter attached to or placed, erected, constructed or developed on, in, above, or under the real estate and interests in real estate referred in paragraphs I and II above (collectively, the "Land"), including, without limitation, all right, title and interest of the Grantor in and to all: (i) water, wastewater, and sewage treatment plants, (ii) water and other wells; (iii) water, wastewater and sewer mains, lines and collection systems; (iv) reservoirs, water tanks, wastewater tanks, and other storage facilities; and (v) pumps, hydrants, lift stations, meters, fixtures, and all other property of every kind, nature and description relating to the water, wastewater and sewer operations of the Mortgagor;

IV

All right, title and interest of the Grantor in, to and under any and all licenses, ordinances, privileges, franchises, permits, certificates, and other authorizations and rights heretofore granted, issued or executed, or which may hereafter be granted, issued or executed, by any governmental authority, residential or other development, or any other person or entity: (i) authorizing the construction, acquisition, ownership, use or operation of the Water Utility Facilities or any portion thereof, including, without limitation, all permits and other authorizations issued by the Public Service Commission; or (ii) otherwise relating to the Land or the Improvements;

V

All of Grantor's right, title and interest (but not its obligations) in, to and under any and all contracts, whether now existing or hereafter arising and as same may be amended or restated from time to time, relating to the construction, acquisition, ownership, use, operation, or output of the Water Utility Facilities, including, without limitation, all interconnection agreements, capacity agreements, joint operating agreements, output and throughput agreements, and all agreements relating to the purchase, sale or treatment of water and/or wastewater.

VI

All of Grantor's right, title and interest in water and water rights of every type and description, whether now existing or hereafter arising and whether tributary, non-tributary, not-tributary or designated, decreed or undecreed, including without limitation, all: (1) water rights arising from or allocated to the Land, arising under or as a result of any law, rule, regulation, ordinance or the like, or arising from any contract, deed or other instrument or document; and (2) all ditches and ditch rights, including without limitation all interests in mutual or other ditch companies and all shares and certificates of stock evidencing ownership therein.

VII

All of Grantor's right, title and interest in oil, gas, other hydrocarbons, minerals, timber, and crops now or hereafter produced from or allocated to the Land, and all products processed or obtained therefrom;

VIII

All of Grantor's right, title and interest in the following property, wherever located and whether now existing or hereafter acquired, together with all accessions and additions thereto, and all products and proceeds thereof: accounts; inventory (including, without limitation, returned or repossessed goods); chattel paper (including, without limitation, electronic chattel paper); instruments; investment property (including, without limitation, certificated and uncertificated securities, security entitlements, securities accounts, commodity contracts, and commodity accounts); letters of credit and rights thereunder; contract rights; documents; fixtures; equipment; general intangibles (including, without limitation, payment intangibles, choses or things in action, litigation rights and resulting judgments, goodwill, patents, trademarks, tradenames, software, other intellectual property, tax refunds, miscellaneous rights to payment, investments and other interests in entities not included in the definition of investment property, margin accounts, computer programs, invoices, books, records and other information relating to or arising out of the Grantor's business, and all licenses, franchises, and permits of every type); and, to the extent not covered by the above, all other personal property of the Grantor of every type and description, including without limitation, all: (i) interests or claims in or under any policy of insurance; (ii) tort claims (including, without limitation, commercial tort claims); (iii) supporting obligations; (iv) deposit accounts and accounts maintained at CoBank; (iv) security deposits and advance rentals under any lease agreements; (v) plans, specifications, maps, surveys, reports, architectural, engineering and construction contracts, and other documents of whatever kind or character; (vi) monetary or other deposits which Grantor has given to any public or private utility or other person or entity; (vii) money; and (viii) judgments (collectively, the "Personal Property").

IX

Also, any Excepted Property that may, from time to time hereafter, by delivery or by writing of any kind, be subjected to the Lien hereof by the Mortgagor or by anyone in its behalf; and the Mortgagee is hereby authorized to receive the same at any time as additional security

hereunder for the benefit of the Mortgagee.

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders, and all rents, income, revenues, profits, royalties, bonuses, cash, proceeds, products, and benefits at any time derived, received or had from any and all of the above-described property (including, without limitation: (i) all proceeds from the taking of the Land, Improvements, or other property described above, whether in whole or part, by eminent domain or by purchase in lieu thereof; and (ii) all proceeds (including premium refunds) of each policy of insurance relating to the Land, Improvements or other property described above), and all deposit and other accounts into which the same may be deposited). If the estate of Grantor in any of the above-described property is a leasehold estate ("Leasehold Estate"), this conveyance shall include, and the lien and security interest created hereby shall encumber, all additional title, estate, interest and other rights that may hereafter be acquired by Grantor in the property demised under the Leasehold Estate.

TO HAVE AND TO HOLD all and singular the Mortgaged Property unto the Mortgagee and its respective assigns forever, to secure the payment and performance of the Obligations, including, without limitation, the due performance of the covenants, agreements and provisions herein contained, and for the uses and purposes and upon the terms, conditions, provisos and agreements hereinafter expressed and declared.

ARTICLE II. DEFINITIONS

Section 2.01. Definitions. In addition to the terms defined elsewhere in this Mortgage, the following terms shall have the meanings specified in this Section 2.01, unless the context clearly requires otherwise. The terms defined herein include the plural as well as the singular. Accounting terms used in this Mortgage but not otherwise defined herein shall have the meanings they have under GAAP.

CoBank Base Rate shall mean the rate of interest announced by CoBank from time to time as the "CoBank Base Rate", which rate is intended to be a reference rate and not CoBank's lowest rate. The CoBank Base Rate shall change on the date announced by CoBank from time to time as the effective date of any change in the CoBank Base Rate.

Credit Agreements shall mean all agreements, instruments and documents between the Mortgagor and the Mortgagee or executed by the Mortgagor in favor of the Mortgagee which evidence or relate to the Obligations, whether now existing or hereafter entered into, and all amendments, supplements and restatements thereof. Without limiting the foregoing, Credit Agreements shall include all agreements identified on Appendix "A" hereto.

Environmental Law shall have the meaning specified in Section 3.13.

Event of Default shall have the meaning specified in Section 4.01.

Excepted Property shall mean the property, if any, identified in Appendix "C" hereto.

GAAP shall mean generally accepted accounting principles as established by the American Institute of Certified Public Accountants.

Hazardous Materials shall have the meaning specified in Section 3.13.

Lien shall mean any statutory or common law consensual or non-consensual mortgage, pledge, grant, security title or interest, lien, encumbrance or charge of any kind against property, including, without limitation, any conditional sale or other title retention transaction, any lease transaction in the nature of a security interest and any security interest under the Uniform Commercial Code.

Maximum Debt Limit, if any, shall mean the amount more particularly described in Appendix "A" hereto.

Mortgage shall mean this Real Estate Mortgage and Security Agreement, as it may be amended or supplemented from time to time.

Mortgaged Property shall have the meaning specified in Section 1.01.

Mortgagee shall mean CoBank, ACB and its successors and assigns.

Mortgagor Location shall have the meaning given thereto in the Uniform Commercial Code, as modified by Revised Article 9. For a corporation, it is the state of incorporation; for a limited liability company, it is the state of formation; and for a limited partnership, it is the state of registration.


Obligations shall mean the payment of all indebtedness and the performance of all obligations of the Mortgagor to the Mortgagee of every type and description, whether now existing or hereafter arising, fixed or contingent, as primary obligor or as guarantor or surety, acquired directly or by assignment or otherwise, liquidated or unliquidated, regardless of how they arise or by what agreement or instrument they may be evidenced, including, without limitation, all loans, advances and other extensions of credit made to or for the account of the Mortgagor and all covenants, agreements and provisions contained in this Mortgage and in all Credit Agreements. Without limiting the foregoing, "Obligations" shall include those obligations evidenced by the Credit Agreements described in Appendix "A" hereto.

Permitted Encumbrances shall mean:

(i) as to the property specifically described in Granting Clause I, the restrictions, exceptions, reservations, conditions, limitations, interests and other matters which are set forth or referred to in such descriptions; and

(ii) as to all Mortgaged Property, any Lien permitted under the Credit Agreements.

Potential Default shall mean the occurrence of any event which with the giving of notice and/or the passage of time and/or the occurrence of any other condition would ripen into an Event of Default.

Public Service Commission shall mean the public service commission, public utility commission, or like body of any state in which the Mortgagor does business (or, in the event the Mortgagor does business in more than one state, in all such states), including the Louisiana Public Service Commission and the .

Uniform Commercial Code shall mean the Uniform Commercial Code of the state of the Mortgagor's Location and any state in which any of the Mortgaged Property is located.

Water Utility Facilities shall mean all property, real or personal, tangible or intangible, of every kind, nature and description, and wheresoever situated, now existing or hereafter acquired by the Mortgagor and used in whole or in part in connection with its water utility operations, wastewater utility operations or sewer operations, including, without limitation, the Land, the Improvements, and all equipment, machinery, computers, computer programs, software, parts, tools, and implements.

ARTICLE III.

PARTICULAR REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE MORTGAGOR

The Mortgagor represents, warrants and, except as otherwise permitted by the Mortgagee, covenants with the Mortgagee as follows:

Section 3.01. Authority to Execute and Deliver this Mortgage; All Action Taken; Enforceable Obligations. The Mortgagor is authorized under its articles of incorporation, bylaws, and/or other organizational documents and under all applicable laws and by all corporate action to execute and deliver this Mortgage; and this Mortgage is, and any amendment, supplement or restatement of this Mortgage, when executed and delivered will be, the legal, valid and binding obligations of the Mortgagor which are enforceable in accordance with their respective terms, subject only to limitations on enforceability imposed by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and

general equitable principles.

Section 3.02. Authority to Mortgage Property; No Liens; Exception for Permitted Encumbrances; Mortgagor to Defend Title and Remove Liens. The Mortgagor has good and marketable title to all fee and leasehold estates in real property, good and marketable title to all personal property, and good, right and lawful authority to mortgage the Mortgaged Property for the purposes herein expressed. The Mortgaged Property is free and clear of any Lien affecting the title thereto, except Permitted Encumbrances. The Mortgagor will, so long as any of the Obligations shall remain unpaid, maintain and preserve the Lien of this Mortgage superior to all other Liens, other than Permitted Encumbrances, and will forever warrant and defend the title to the Mortgaged Property against any and all claims and demands.

Section 3.03. No Encumbrances on Mortgaged Property. The Mortgagor will not create, incur, suffer or permit to exist any Lien on any of the Mortgaged Property, except for Permitted Encumbrances. Except for claims giving rise to Permitted Encumbrances, the Mortgagor will promptly pay or discharge any and all obligations for or on account of which any such Lien might exist.

Section 3.04. Sale or Transfer of Mortgaged Property. The Mortgagor shall not sell, lease or transfer any Mortgaged Property to any person or entity except as permitted in the Credit Agreements.

Section 3.05. Payment of Obligations. The Mortgagor will duly and punctually pay all amounts due under the Obligations, at the dates and places and in the manner provided in all Credit Agreements, and all other sums becoming due hereunder.

Section 3.06. Preservation of Franchises and Compliance with Laws. The Mortgagor will take or cause to be taken all such action as may from time to time be necessary to obtain, preserve and renew all franchises, rights of way, easements, permits, and licenses now or hereafter granted or upon it conferred necessary to the operations of the Mortgagor, and will comply in all material respects with all laws, ordinances, regulations, and requirements applicable to it or the Mortgaged Property.

Section 3.07. Maintenance of Mortgaged Property. The Mortgagor will at all times maintain and preserve the Mortgaged Property and each and every material part and parcel thereof in good repair, working order and condition, ordinary wear and tear excepted, and in material compliance with all applicable laws, ordinances, regulations, and requirements, and will from time to time make all needed and proper repairs, renewals, and replacements, and useful and proper alterations, additions, betterments and improvements, and will, subject to contingencies beyond its reasonable control, at all times keep its plant and properties in continuous operating condition and use all reasonable diligence to furnish the consumers served by it through the Mortgaged Property, or any part thereof, with adequate services furnished by the Mortgagor.

Section 3.08. Insurance; Restoration of Damaged Mortgaged Property. The Mortgagor will maintain insurance as required by the Credit Agreements. In the event of damage to or the destruction or loss of any portion of the Mortgaged Property, unless the Mortgagee shall otherwise agree, the Mortgagor shall replace or restore such damaged, destroyed or lost portion so that the Mortgaged Property shall be in substantially the same condition as it was in prior to such damage, destruction or loss. Provided no Potential Default or Event of Default then exists, the Mortgagee shall provide to the Mortgagor any insurance proceeds received by the Mortgagee upon such reasonable terms and conditions as the Mortgagee may require to ensure that such proceeds are used for the foregoing purpose and that such required replacement or restoration will be completed. The Mortgagor shall replace the lost portion of the Mortgaged Property or shall commence such restoration promptly after such damage, destruction or loss shall have occurred and shall complete such replacement or restoration as expeditiously as practicable, and shall pay all costs and expenses in connection therewith so that such replacement or restoration shall be so completed that the portion of the Mortgaged Property so replaced or restored shall be free and clear of all Liens, except for Permitted Encumbrances. At the request of the Mortgagee, the Mortgagor shall exercise such rights and remedies which it may have under any insurance policy or fidelity bond and which may be designated by the Mortgagee, and the Mortgagor hereby irrevocably appoints the Mortgagee as its agent to exercise such rights and remedies under any insurance policy or bond as the Mortgagee may choose, and the Mortgagor shall pay all reasonable costs and expenses incurred by the Mortgagee in connection with such exercise; provided, however, that unless an Event of Default shall have occurred and be continuing, the Mortgagee may not exercise such rights and remedies unless Mortgagor is not diligently pursuing such rights and remedies.

Section 3.09. Mortgagee Right to Expend Money to Protect Mortgaged Property. From time to time, the Mortgagee may, in its sole discretion, but shall not be obligated to, advance funds on behalf of the Mortgagor, in order to ensure compliance with any covenant or agreement of the Mortgagor made in or pursuant to this Mortgage or any of the Credit Agreements, to preserve or protect any right or interest of the Mortgagee in the Mortgaged Property or under or pursuant to this Mortgage or any of the Credit Agreements, including, without limitation, the payment of any insurance premiums or taxes and the satisfaction or discharge of any judgment or any Lien upon the Mortgaged Property or other property or assets of the Mortgagor (other than Permitted Encumbrances); provided, however, that the making of any such advance by the Mortgagee shall not constitute a waiver by the Mortgagee of any Event of Default with respect to which such advance is made nor excuse the Mortgagor from any performance required hereunder. The Mortgagor shall pay to the Mortgagee upon demand all such advances made by the Mortgagee with interest thereon at a rate equal at all times to 4% per annum above the CoBank Base Rate. All such advances and accrued interest shall be secured by this Mortgage.

Section 3.10. Further Assurances. Upon the request of the Mortgagee, the Mortgagor shall promptly do all acts and things, including the execution, acknowledgment and delivery of such financing statements, amendments thereto and other instruments and documents as the Mortgagee may request, to enable the Mortgagee to perfect and maintain the Lien of this

Mortgage and/or the Mortgagee's rights and remedies hereunder. The Mortgagor shall notify the Mortgagee promptly upon the acquisition of any fee or leasehold estate in real property and shall execute and record such amendments or supplements to this Mortgage or other documents or instruments as are necessary or appropriate to subject such real property to the Lien of this Mortgage and shall deliver such executed and recorded amendments or supplements or other documents or instruments to the Mortgagee. In addition, the Mortgagor shall promptly notify the Mortgagee of (i) its acquisition or ownership of any Mortgaged Property located in any county in which this Mortgage is not then recorded, (ii) any change in its name, (iii) any change in its principal place of business or its chief executive office, and (iv) any change in the Mortgagor's Location or its organizational identification number. In the event the Mortgagor fails to take any action required under this Section 3.10, the Mortgagee may take any such action and make, execute and record any such financing statements, instruments and documents for and in the name of the Mortgagor, and the Mortgagor hereby irrevocably appoints the Mortgagee as its attorney-in-fact to take such actions, which appointment is coupled with an interest and irrevocable.

Section 3.11. Condemnation, Etc. In the event that the Mortgaged Property or any part thereof shall be taken under the power of eminent domain or like power, then, unless the Mortgagee otherwise consents, all proceeds and avails thereof shall be applied by the Mortgagor to the prepayment of the Obligations (such prepayments to be applied in such order and manner as the Mortgagee may, in its sole discretion, elect).

Section 3.12. Conflict with Mortgage Terms. The provisions of this Mortgage and the Credit Agreements shall be cumulative and not mutually exclusive, notwithstanding any inconsistencies.

Section 3.13. Environmental Representations, Warranties and Covenants. The Mortgagor makes the following representations, warranties and covenants, which, to the extent that they deal with representations of fact, are based on the Mortgagor's present knowledge, arrived at after reasonable inquiry.

(A) Use of the Mortgaged Property.

(1) The Mortgagor shall not: (a) conduct or allow to be conducted, in violation of any Environmental Law, any business, operations or activity on the Mortgaged Property; or (b) employ or use the Mortgaged Property to generate, use, handle, manufacture, treat, store, process, transport or dispose of any Hazardous Materials, or any other substance which is prohibited, controlled or regulated under applicable law, or which poses a threat or nuisance to public safety, health or the environment, or cause or allow to be caused a known or suspected release of Hazardous Materials, on, under, or from the Mortgaged Property.

(2) The Mortgagor shall not do or permit any act or thing, business or operation that poses an unreasonable risk of harm, or impairs or may impair the value of the Mortgaged Property or any part thereof.

(B) Condition of the Mortgaged Property.

(1) The Mortgagor's properties and all of its operations have been and are being conducted in material compliance with all Environmental Laws. Without limiting the foregoing, all underground tanks, wells, septic tanks, ponds, pits, or all other storage tanks (whether currently in use or abandoned) on the Mortgaged Property, if any, have been and are, as of the date hereof, maintained in compliance with all applicable Environmental Laws.

(2) The Mortgagor shall take all appropriate response actions, including any removal and remedial actions, in the event of a release, emission, discharge or disposal of Hazardous Materials in, on, under, or about the Mortgaged Property, so as to remain in compliance with all Environmental Laws.

(C) Notice of Environmental Problems or Litigation. Neither the Mortgagor nor any of its tenants have given, nor were they required to give, nor have they received, any notice, letter, citation, order, warning, complaint, inquiry, claim or demand that: (1) the Mortgagor and/or any tenants have violated, or are about to violate, any Environmental Law, judgment or order; (2) there has been a release, or there is a threat of release, of Hazardous Materials from the Mortgaged Property; (3) the Mortgagor and/or its tenants may be or are liable, in whole or in part, for the costs of cleaning up, remediating, removing or responding to a release or a threatened release of Hazardous Materials; or (4) the Mortgaged Property is subject to a lien in favor of any governmental entity for any liability, costs or damages, under any Environmental Law arising from, or costs incurred by such governmental entity in response to, a release or a threatened release of a Hazardous Material. The Mortgagor further represents and warrants that no conditions currently exist or are currently reasonably foreseeable that would subject the Mortgagor to any such investigation, litigation, administrative enforcement or to any damages, penalties, injunctive relief, or cleanup costs under any Environmental Law. Upon receipt of any such notice, the Mortgagor and its tenants shall immediately provide a copy to the Mortgagee.

(D) Right of Inspection. The Mortgagor hereby grants, and will cause any tenants to grant, to the Mortgagee, its agents, attorneys, employees, consultants, contractors, successors and assigns, an irrevocable license and authorization, upon reasonable notice, to enter upon and inspect the Mortgaged Property and facilities thereon, and perform such tests, including without limitation, subsurface testing, soils and groundwater testing, and other tests which may physically invade the Mortgaged Property, as the Mortgagee, in its sole discretion, determines are necessary to protect its security interest; provided, however, that under no circumstances shall the Mortgagee be obligated to perform such inspections or tests.

(E) Indemnity. The Mortgagor agrees to indemnify and hold the Mortgagee, its directors, employees, agents, and its successors and assigns, harmless from and against any and all claims, losses, damages, liabilities, fines, penalties, charges, judgments, administrative orders, remedial action requirements, enforcement actions of any kind, and all costs and expenses incurred in connection therewith (including without limitation attorney's fees and expenses)

arising directly or indirectly, in whole or in part, out of any failure of the Mortgagor to comply with the environmental representations, warranties, and covenants contained herein.

(F) Continuation of Representations, Warranties, Covenants and Indemnities. The Mortgagor's representations, warranties, covenants, and indemnities contained herein shall survive the occurrence of any event whatsoever, including, without limitation, the satisfaction of the Obligations secured hereby, the reconveyance or foreclosure of this Mortgage, the acceptance by the Mortgagee of a deed in lieu of foreclosure, or any transfer or abandonment of the Mortgaged Property.

(G) Corrective Action. In the event the Mortgagor is in breach of any of its representations, warranties or agreements as set forth above, then, without limiting the Mortgagee's other rights hereunder, the Mortgagor, at its sole expense, shall take all actions required, including, without limitation, environmental cleanup of the Mortgaged Property, to comply with the representations, warranties, and covenants contained herein and with all applicable legal requirements and, in any event, shall take all actions deemed necessary under all applicable Environmental Laws.

(H) Hazardous Materials Defined. The term "Hazardous Materials" shall mean dangerous, toxic, or hazardous pollutants, contaminants, chemicals, wastes, materials or substances, as defined in or governed by the provisions of any Environmental Law.

(I) Environmental Law Defined. The term "Environmental Law" shall mean any federal, state or local laws, statute, ordinance, rule, regulation, administration order, or permit now in effect or hereinafter enacted, pertaining to the public health, safety, industrial hygiene, or the environmental conditions on, under or about the Mortgaged Property.

ARTICLE IV.

EVENTS OF DEFAULT AND REMEDIES OF THE MORTGAGEE

Section 4.01. Events of Default. Each of the following shall be an "Event of Default":

(A) default shall be made in the payment of any amount due under any Obligation;

(B) default shall be made in the observance or performance of any of the covenants, conditions or agreements on the part of the Mortgagor contained herein;

(C) any representation or warranty made by the Mortgagor herein, or in any certificate, instrument or document delivered hereunder, shall prove to be false or misleading in any material respect on or as of the date made;

(D) an "Event of Default" shall have occurred under any Credit Agreement or, in the event any Credit Agreement does not contain specified "Events of Default," the Mortgagor shall breach or be in default of any Credit Agreement; and

(E) an event of damage, destruction or loss or a taking under the power of eminent domain or like power (or transfer in lieu of such taking) shall have had, in the judgment of the Mortgagee, a material adverse effect on the ability of the Mortgagor to pay or perform the Obligations.

Section 4.02. Acceleration of Maturity. If an Event of Default shall have occurred and be continuing, the Mortgagee may declare the Obligations to be due and payable immediately by a notice in writing to the Mortgagor, and upon such declaration, all Obligations shall become due and payable immediately, anything contained herein or in the Credit Agreements to the contrary notwithstanding.

Section 4.03. Remedies of the Mortgagee. If one or more Events of Default shall occur and be continuing, the Mortgagee (personally or by attorney), in its discretion, may:

(A) take immediate possession of the Mortgaged Property, collect and receive all credits, outstanding accounts and bills receivable of the Mortgagor and all rents, income, revenues, profits and proceeds pertaining to or arising from the Mortgaged Property, or any part thereof, whether then past due or accruing thereafter, and issue binding receipts therefor; and manage, control and operate the Mortgaged Property as fully as the Mortgagor might do if in possession thereof, including, without limitation, the making of all repairs or replacements deemed necessary or advisable;

(B) proceed to protect and enforce the rights of the Mortgagor and the rights of the Mortgagee by suits or actions in equity or at law in any court or courts of competent jurisdiction, whether for specific performance of any covenant or any agreement contained herein or in any Credit Agreement or in aid of the execution of any power herein granted or for the foreclosure hereof or hereunder or for the sale of the Mortgaged Property, or any part thereof, or to collect the debts hereby secured or for the enforcement of such other or additional appropriate legal or equitable remedies as may be deemed necessary or advisable to protect and enforce the rights and remedies herein granted or conferred, and in the event of the institution of any such action or suit, the Mortgagee shall have the right to have appointed a receiver of the Mortgaged Property and of all rents, income, revenues, profits and proceeds pertaining thereto or arising therefrom, whether then past due or accruing after the appointment of such receiver, derived, received or had from the time of the commencement of such suit or action, and such receiver shall have all the usual powers and duties of receivers in like and similar cases, to the fullest extent permitted by law, and if application shall be made for the appointment of a receiver, the Mortgagor hereby expressly consents that the court to which such application shall be made may make said appointment ex parte;

(C) sell or cause to be sold all and singular the Mortgaged Property or any part thereof, and all right, title, interest, claim and demand of the Mortgagor therein or thereto, at public auction at such place in any county in which the property to be sold, or any part thereof, is located, at such time, upon such notice, and upon such terms as may be specified provided by law. The costs and expenses incurred by the Mortgagee (including, but not limited to, receiver's fees, counsel fees, cost of advertisement and agents' compensation) in the exercise of any of the remedies provided in this Mortgage shall be secured by this Mortgage;

(D) in any event any proceedings are taken hereunder by way of executory or other process, any and all declarations of facts made by authentic act before a notary public and in the presence of two witnesses by a person or persons declaring that such facts lie within his, her or their knowledge shall constitute authentic evidence of such facts for the purposes of executory process and also for purposes of La.R.S. 9:3509.1, La.R.S. 9:3504(D)(6) and La.R.S. 10:9-508, where applicable; and

(E) for purposes of foreclosure under Louisiana executory procedures, Mortgagor hereby acknowledges the Obligations secured hereby and hereby confesses judgment unto and in favor of Lender for the full amount of the Obligations, in principal and interest, together with all attorney's fees and costs due thereunder and hereunder, and any and all other monies due by Borrower to Lender under the terms hereof or otherwise.

Section 4.04. Application of Proceeds from Remedial Actions. Any proceeds or funds arising from the exercise of any rights or the enforcement of any remedies herein provided after the payment or provision for the payment of any and all costs and expenses in connection with the exercise of such rights or the enforcement of such remedies shall be applied to the Obligations in such order and manner as the Mortgagee shall elect in its sole discretion, and the balance, if any, shall be paid to whomsoever shall be entitled thereto.

Section 4.05. Remedies Cumulative; No Election. Every right or remedy herein conferred upon or reserved to the Mortgagee shall be cumulative and shall be in addition to every other right and remedy given hereunder or under any Credit Agreement or now or hereafter existing at law, or in equity, or by statute. The pursuit of any right or remedy shall not be construed as an election.

Section 4.06 Waiver of Appraisement Rights. The Mortgagor, for itself and all who may claim through or under it, covenants that it will not at any time insist upon or plead, or in any manner whatever claim, or take the benefit or advantage of, any appraisement, valuation, stay, extension or redemption laws now or hereafter in force in any locality where any of the Mortgaged Property may be situated, in order to prevent, delay or hinder the enforcement or foreclosure of this Mortgage, or the absolute sale of the Mortgaged Property, or any part thereof, or the final and absolute putting into possession thereof, immediately after such sale, of the purchaser or purchasers thereat, and the Mortgagor, for itself and all who may claim through or under it, hereby waives the benefit of all such laws unless such waiver shall be forbidden by law.

ARTICLE V.

POSSESSION UNTIL DEFAULT; SATISFACTION

Section 5.01. Possession Until Default. Until one or more Events of Default shall have occurred, the Mortgagor shall be suffered and permitted to retain actual possession of the Mortgaged Property, and to manage, operate and use the same and any part thereof, with the rights and franchises appertaining thereto, including, without limitation, to collect, receive, take, use and enjoy the rents, revenues, issues, earnings, income, products, profits and proceeds thereof or therefrom, subject to the provisions of this Mortgage.

Section 5.02. Satisfaction. If the Mortgagor shall well and truly pay or cause to be paid the Obligations at the times and in the manner provided in the Credit Agreements, and shall also pay or cause to be paid all other sums payable by the Mortgagor hereunder, and shall keep and perform all covenants herein and in all Credit Agreements required to be kept and performed by it, and there are no further obligations to make advances to the Mortgagor under any of the Credit Agreements, then and in that case, all property, rights and interest hereby conveyed or assigned or pledged shall, upon the written request of the Mortgagor, revert to the Mortgagor and the estate, right, title and interest of the Mortgagee shall thereupon cease, determine and become void, and the Mortgagee, in such case, at the Mortgagor's cost and expense, shall enter satisfaction of this Mortgage upon the record.

ARTICLE VI.

MISCELLANEOUS

Section 6.01. Property Deemed Real Property. It is hereby declared to be the intention of the Mortgagor that all Water Utility Facilities embraced in the Mortgaged Property, including, without limitation, all rights of way and easements granted or given to the Mortgagor or obtained by it to use real property in connection with the construction, acquisition, ownership, use or operation of the Water Utility Facilities, and all other property physically attached to any of the foregoing, shall, to the extent permitted by law, be deemed to be real property.

Section 6.02. Mortgage to Bind and Benefit Successors and Assigns. All of the covenants, stipulations, promises, undertakings and agreements herein contained by or on behalf of the Mortgagor shall bind its successors and assigns, whether so specified or not, and all titles, rights and remedies hereby granted to or conferred upon the Mortgagee shall pass to and inure to the benefit of the successors and assigns of the Mortgagee. The Mortgagor hereby agrees to execute such consents, acknowledgments and other instruments as may be requested by the Mortgagee in connection with the assignment, transfer, mortgage, hypothecation or pledge of the rights or interests of the Mortgagee hereunder or under the Credit Agreements or in and to any of the Mortgaged Property.

Section 6.03. Headings. The descriptive headings of the various articles and sections of this Mortgage were formulated and inserted for convenience only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

Section 6.04. Notices. All demands, notices, reports, approvals, designations or directions required or permitted to be given hereunder shall be in writing and shall be deemed to be properly given if sent by registered or certified mail, postage prepaid, or delivered by hand, or sent by facsimile transmission, receipt confirmed, addressed to the proper party or parties at the following address:

As to the Mortgagor:

Total Environmental Solutions, Inc.



As to the Mortgagee:

CoBank, ACB

5500 South Quebec Street

Greenwood Village, Colorado 80111

Attention: Rural Utility Banking Group

Fax No: (303) 740-4002

Either such party may from time to time designate to each other a new address to which demands, notices, reports, approvals, designations or directions may be addressed, and from and after any such designation, the address designated shall be deemed to be the address of such party in lieu of the address given above. However, regardless of how delivered, actual notice given in writing shall always be deemed effective.


Section 6.05. Severability. The invalidity of any one or more phrases, clauses, sentences, paragraphs or provisions of this Mortgage shall not affect the remaining portions hereof.

Section 6.06. Mortgage Deemed Security Agreement. To the extent that any of the property described or referred to in this Mortgage is governed by the provisions of the Uniform Commercial Code, this Mortgage is hereby deemed a "security agreement" and a "financing statement" for said security agreement under the Uniform Commercial Code. The Mortgagor hereby grants to the Mortgagee a security interest in the personal and other property included in the Mortgaged Property, and all replacements of, substitutions for, and additions to, such property, and the products and proceeds thereof. The Mortgagor agrees that this Mortgage or any reproduction hereof may be filed as a financing statement in the appropriate offices to perfect the security interests granted herein. The Mortgagor shall, at the Mortgagor's own expense, execute,

deliver, file and refile any financing or continuation statements or other security agreements the Mortgagee may require from time to time to perfect, confirm or maintain the lien of this Mortgage with respect to such property. Without limiting the foregoing, the Mortgagor hereby irrevocably appoints the Mortgagee as attorney-in-fact for the Mortgagor and authorizes the Mortgagee to execute, deliver and file such instruments (including electronic filings) for or on behalf of the Mortgagor at the Mortgagor's expense, which appointment, being for security, is coupled with an interest and shall be irrevocable. The mailing addresses of the Mortgagor as debtor, and the Mortgagee as secured party are as set forth in Section 6.04. In addition, the Mortgagor hereby authorizes the Mortgagee to file UCC-1 financing statements wherever deemed advisable by the Mortgagee naming the Mortgagor as debtor and covering all assets of the Mortgagor and, where permitted by law, to file same without the signature of the Debtor and electronically.

Section 6.07. Governing Law. The effect and meaning of this Mortgage, and the rights of all parties hereunder, shall be governed by, and construed according to, the laws of the State of Louisiana, except to the extent governed by federal law or the Uniform Commercial Code of the state of the Mortgagor's Location.

Section 6.08. Indemnification by the Mortgagor of the Mortgagee. The Mortgagor agrees to indemnify and save harmless the Mortgagee against any liability or damages which the Mortgagee may incur or sustain in the exercise and performance of its rightful powers and duties hereunder, including any liability or damages arising from the Mortgagor's failure to comply with any Environmental Law or the like applicable to the Mortgaged Property. For such indemnity, the Mortgagee shall be secured under this Mortgage in the same manner as the Obligations and all amounts payable under this Section shall be paid to the Mortgagee with interest at the rate specified in Section 3.09. The Mortgagor's obligations under this Section shall survive the exercise by the Mortgagee of its rights and remedies hereunder, any foreclosure on all or any part of the Mortgaged Property and the cancellation or satisfaction of this Mortgage.

Section 6.09. Future Advances. This Mortgage is intended to apply to future advances pursuant to 2.01 of . This Mortgage secures not only existing indebtedness or advances made contemporaneously with the execution hereof, if any, but also future principal advances, with all interest, fees and any prepayment premiums accrued thereon, to or for the benefit of the Mortgagor up to a maximum principal amount equal to the Maximum Debt Limit, if any, made pursuant to the terms of the Credit Agreements (as the same may be modified, amended or supplemented from time to time), the terms of all of which are incorporated herein by reference. All such future advances, whether such advances are obligatory, optional or both and whether made before or after default or maturity or other similar event, shall be secured by this Mortgage to the same extent as if such future advances were made contemporaneously with the execution of this Mortgage, even though no advance may have been made at the time of execution of this Mortgage and even though no indebtedness is outstanding at the time any advance is made. Any lien attaching to the Mortgaged Property after the date hereof shall be under, subject and subordinate to all indebtedness, including, without limitation, future advances (regardless of when made) secured hereby. This Mortgage shall also secure, in addition to the Maximum Debt

Limit specified herein, disbursements and other advances made for the payment of taxes, assessments, maintenance, care, protection or insurance on the Mortgaged Property, for the discharge of liens having priority over the lien of this Mortgage, for the curing of waste of the Mortgaged Property, for indemnification obligations regarding environmental liabilities of the Mortgaged Property, and for service charges and expenses incurred by reason of a default hereunder, including, without limitation, late charges, attorney's fees and court costs, together with interest on all such disbursements at a rate equal to 4% per annum above the CoBank Base Rate, and all other charges, disbursements, advances, costs and expenses now or hereafter permitted by law. The preference and priority of the lien of this Mortgage shall extend to any and all modifications of this Mortgage or of the obligations secured by this Mortgage, except to the extent expressly limited by applicable law. Notwithstanding the foregoing, the Mortgagee shall have no obligation to make any disbursements or advance any sums as a result of this section.

Section 6.10. Acceptance. In accordance with Louisiana Civil Code article 3289, the Lender's acceptance of this Mortgage is presumed and its signature is not required.

IN WITNESS WHEREOF, TOTAL ENVIRONMENTAL SOLUTIONS, INC, as Mortgagor, has caused this Mortgage to be signed in its name and in front of the two undersigned competent witnesses, all as of the day and year first above written.

TOTAL ENVIRONMENTAL SOLUTIONS, INC, Mortgagor

WITNESSES:

By: _____
Printed Name: _____
Title: _____

Printed Name

Printed Name

Notary Public
Printed Name: _____

My commission expires: _____


APPENDIX A -- CERTAIN OBLIGATIONS; ETC.

1. The "Credit Agreements" referred to in Section 1.01 are as follows:
 - (A) Master Loan Agreement dated as of , 2006 and numbered RX0372;
 - (B) Promissory Note and Supplement dated as of , 2006 and numbered RX0372T1 in the principal amount of \$14,000,000;
 - (C) Promissory Note and Supplement dated as of , 2006 and numbered RX0372T2 in the principal amount of \$2,000,000.00;
 - (D) Promissory Note and Supplement dated as of , 2006 and numbered RX0372S1 in the principal amount of \$1,000,000.00;
 - (E) All amendments to and restatements of any of the foregoing.

2. The "Maximum Debt Limit" is : \$17,000,000 plus all accrued interest, fees, and other charges. [NOTE TO COUNSEL: Is this required in Louisiana or the other states?]

APPENDIX B – MORTGAGED PROPERTY

APPEARANCE

TOTAL ENVIRONMENTAL SOLUTIONS, INC., a Louisiana corporation domiciled in the Parish of  State of Louisiana, herein represented by _____, its duly authorized _____, pursuant to Certificate of Authority filed for record with the Clerk of Court for the Parish of _____ as Instrument No. _____ and the Resolutions of the Board of Directors attached hereto and made a part hereof. The mailing address of said company is declared to be _____.

LEGAL DESCRIPTIONS

1.

APPENDIX C -- EXCEPTED PROPERTY

None.