

EXHIBIT A

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS
COMPARATIVE BALANCE SHEET
December 31, 2009

ASSETS	2009	2008
CURRENT ASSETS		
Cash in bank and invested cash:		
Revenue fund account	\$ 947,332	\$ 850,901
Membership fees	195,700	186,800
Construction	367,826	367,514
Maintenance reserve	556,600	528,100
Total cash and invested cash	2,067,458	1,933,315
Accounts receivable, net	26,614	23,874
Inventory	3,200	3,200
Other current assets	3,173	16,039
Total current assets	2,100,445	1,976,428
RESTRICTED ASSETS		
Revenue bond current debt service account	51,215	50,921
Revenue bond future debt service account	42,785	42,539
Total restricted assets	94,000	93,460
FIXED ASSETS		
Plant, property and equipment	4,334,096	4,289,348
Less: Accumulated depreciation	1,523,233	1,345,989
Total fixed assets	2,810,863	2,943,359
OTHER ASSETS		
Other	5,412	6,321
 Total assets	 \$ 5,010,720	 \$ 5,019,568
 LIABILITIES AND MEMBERSHIP EQUITY		
CURRENT LIABILITIES		
Payable from current assets:		
Accounts payable and accrued expenses	\$ 54,524	\$ 47,004
Construction related payable and retainage payable	-	-
Total current liabilities payable from current assets	54,524	47,004
Payable from restricted assets:		
Accrued interest payable	874	1,040
Current portion bonds payable	30,000	25,000
Total current liabilities payable from restricted assets	30,874	26,040
LONG-TERM LIABILITIES		
Bonds payable - net of current portion	100,000	130,000
Total liabilities	185,398	203,044
MEMBERSHIP EQUITY		
Contributed capital:		
Membership fees	195,700	186,800
Paid in capital	2,304,287	2,266,887
Total contributed capital	2,499,987	2,453,687
Retained earnings:		
Reserved per revenue bond indenture	63,126	67,420
Unreserved	2,262,209	2,295,417
Total retained earnings	2,325,335	2,362,837
Total membership equity	4,825,322	4,816,524
 Total liabilities and membership equity	 \$ 5,010,720	 \$ 5,019,568

See notes to financial statements.

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

EXHIBIT B

STATEMENT OF INCOME AND EXPENSE
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUE		
Water sales and charges	\$ 914,409	\$ 952,771
	<u>914,409</u>	<u>952,771</u>
OPERATING EXPENSES		
Water purchases	349,757	323,228
Utilities	70,566	74,334
Repairs and maintenance	129,836	102,814
Personal services	162,670	151,369
Inspection fees	14,525	17,500
Office supplies and expense	18,702	17,681
Administrative and general	29,230	32,966
Attorney fees	2,900	1,476
Engineering	6,557	-
Provision for uncollectible accounts	-	3,000
Depreciation and amortization	178,153	175,286
Total operating expense	<u>962,896</u>	<u>899,654</u>
Total operating income (loss)	<u>(48,487)</u>	<u>53,117</u>
NON-OPERATING INCOME (EXPENSE)		
Interest income	23,293	64,885
Interest expense	<u>(12,308)</u>	<u>(14,272)</u>
Net income (loss) for period	<u>\$ (37,502)</u>	<u>\$ 103,730</u>

See notes to financial statements.

EXHIBIT C

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS**STATEMENT OF CHANGES IN MEMBERSHIP EQUITY**
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Membership equity at beginning of year	<u>\$ 4,816,524</u>	<u>\$ 4,657,894</u>
Net income (loss) for year	(37,502)	103,730
Contributed capital	<u>46,300</u>	<u>54,900</u>
Increase (decrease)	<u>8,798</u>	<u>158,630</u>
Membership equity at end of year	<u>\$ 4,825,322</u>	<u>\$ 4,816,524</u>

See notes to financial statements.

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

EXHIBIT D

STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Net income (loss) for period	\$ (37,502)	\$ 103,730
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	178,153	175,286
(Increase) Decrease in accounts receivable	(2,740)	15,501
(Increase) Decrease in other current assets	12,868	2,765
Increase (Decrease) in payables & accrued expenses	7,520	2,423
Net cash provided by operating activities	<u>158,297</u>	<u>299,705</u>
INVESTING ACTIVITIES		
(Increase) decrease in investment in time deposits	600,833	91,980
Purchases of plant, property and equipment	<u>(44,748)</u>	<u>(123,012)</u>
Net cash provided (used) by investing activities	<u>556,085</u>	<u>(31,032)</u>
FINANCING ACTIVITIES		
Principal payments of long-term debt	(25,000)	(25,000)
Proceeds from paid in capital	46,300	54,900
(Increase) decrease in net restricted assets	<u>(706)</u>	<u>(2,755)</u>
Net cash provided (used) by financing activities	<u>20,594</u>	<u>27,145</u>
Increase (Decrease) in cash	734,976	295,818
Cash and cash equivalents at beginning of year	<u>984,513</u>	<u>688,695</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,719,489</u></u>	<u><u>\$ 984,513</u></u>
<u>Reconciliation of Cash and Cash Equivalents to Balance Sheet</u>		
Cash and cash equivalents per cash flow statement	1,719,489	984,513
Cash investments with original maturities over three months when purchased, not considered to be cash and cash equivalents for cash flow statement	347,969	948,802
Total cash and invested cash per Balance Sheet	<u><u>2,067,458</u></u>	<u><u>1,933,315</u></u>

See notes to financial statements.

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

NOTES TO FINANCIAL STATEMENTS
December 31, 2009

Note 1. SUMMARY OF ACCOUNTING POLICIES

Basis of accounting - The accounting policies of the Forney Lake Water Supply Corporation (Corporation) conform to generally accepted accounting principles. The operations are maintained on an accrual basis.

Cash equivalents - Cash equivalents of \$1,719,489 and \$984,513 at December 31, 2009 and 2008, respectively, consist of funds due from banks. For purposes of the statement of cash flows the Corporation considers all highly liquid debt instruments with original maturities when purchased of three months or less to be cash equivalents.

Inventory - Inventory of parts and supplies is valued at cost.

Property, plant and equipment - Property, plant and equipment are carried at cost. Depreciation is computed using the straight-line method over estimated useful lives ranging from 3 to 50 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred, whereas significant renewals or betterment's are capitalized and a deduction is made for retirements resulting from the renewals or betterment's.

Income taxes - The Corporation is an organization that is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code and will remain exempt as long as it meets the requirements of Section 501(c)(12) each year.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events - Management has considered subsequent events through July 2, 2010, which is the date the financial statements have been available to be issued.

Note 2. PLANT, PROPERTY AND EQUIPMENT

A summary of fixed assets follows:

	12-31-09	12-31-08
Land	\$ 3,710	\$ 3,710
Distribution system	4,314,704	4,269,956
Construction in progress	-	-
Equipment	15,682	15,682
Total	4,334,096	4,289,348
Less accumulated depreciation	1,523,233	1,345,989
Net	\$ 2,810,863	\$ 2,943,359

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

NOTES TO FINANCIAL STATEMENTS
December 31, 2009

Note 3. COMMITMENTS

The Corporation has entered into a contract with North Texas Municipal Water District for the purchase of water which requires a minimum purchase according to number of gallons per year on a take or pay basis. Each ensuing year the Corporation must purchase minimum quantities according to the contract amounts or the highest total amount withdrawn by the Corporation during any previous year, whichever is greater. The total price paid for the water will be determined annually and will be five cents (\$.05) per thousand gallons above the rate established for the Member Cities of the North Texas Municipal Water District, but in no event less than fifty cents (\$.50) per thousand gallons. The table listed below reflects the minimum annual purchase requirements in gallons per the contract. The minimum annual demand has exceeded the contract and is currently 295,577,000 gallons.

<u>Annual Fiscal Period</u>	<u>Number of gallons</u>
October 1, 2004 through September 30, 2005	171,795,000 gallons
October 1, 2005 through September 30, 2006	182,996,000 gallons
October 1, 2006 through September 30, 2007	194,197,000 gallons
October 1, 2007 through September 30, 2008	205,398,000 gallons
October 1, 2008 through September 30, 2009	216,599,000 gallons
October 1, 2009 through September 30, 2010	227,800,000 gallons

After September, 2010, the annual minimum to be purchased during any ensuing year shall not be less than the highest total amount withdrawn by the Corporation during any previous year or 227,800,000 gallons.

Note 4. BONDED DEBT

In 1998, the Corporation borrowed \$325,000 and pledged its assets and net revenue to repay the principal and interest. Effective interest rates range from 7.14% to 8.14%. The following is a summary of bonded debt transactions for the Corporation for the periods indicated:

	<u>12-31-09</u>	<u>12-31-08</u>
Balance payable at beginning of year	\$ 155,000	\$ 180,000
New bonds issued	-	-
Bonds retired	25,000	25,000
Bonds payable at end of year	<u>\$ 130,000</u>	<u>\$ 155,000</u>

Debt service requirements for bonds are as follows:

<u>Year ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	30,000	10,490	40,490
2011	30,000	8,093	38,093
2012	35,000	5,681	40,681
2013	35,000	2,849	37,849
	<u>130,000</u>	<u>27,113</u>	<u>157,113</u>

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

NOTES TO FINANCIAL STATEMENTS
December 31, 2009

Note 5. CONCENTRATION OF RISKS

Most of the Corporation's business activity is with customers located within Kaufman County, Texas and Rockwall County, Texas. Any significant occurrence affecting the economy of Kaufman and Rockwall Counties would significantly affect the Corporation.

The Corporation purchases treated water for sale to its members from the North Texas Municipal Water District. The North Texas Municipal Water District is currently the Corporation's only source of water.

The Corporation maintains accounts with several banks and a broker. Accounts at each institution are insured by the Federal Insurance Corporation (FDIC). At various times during the year 2009 the Corporation had cash deposits with institutions in excess of FDIC insurance coverage.

Note 6. COMPLIANCE WITH BOND INDENTURE

During the course of our audits we took measures to ascertain compliance with the bond indenture requirements. Nothing came to our attention to indicate any violation of those requirements.

FORNEY LAKE WATER SUPPLY CORPORATION

FORNEY, TEXAS

FINANCIAL STATEMENTS

DECEMBER 31, 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Forney Lake Water Supply Corporation
Forney, Texas

We have audited the accompanying balance sheets of Forney Lake Water Supply Corporation as of December 31, 2010 and December 31, 2009, and the related statements of income and expense, changes in membership equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Forney Lake Water Supply Corporation as of December 31, 2010 and December 31, 2009, the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,



Michael W. Bedford
Certified Public Accountant
June 14, 2011

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS
COMPARATIVE BALANCE SHEET
December 31, 2010

ASSETS	2010	2009
CURRENT ASSETS		
Cash in bank and invested cash:		
Revenue fund account	\$ 1,103,806	\$ 947,332
Membership fees	201,600	195,700
Construction	367,952	367,826
Maintenance reserve	574,300	556,600
Total cash and invested cash	2,247,658	2,067,458
Accounts receivable, net	40,257	26,614
Inventory	3,200	3,200
Other current assets	10,316	3,173
Total current assets	2,301,431	2,100,445
RESTRICTED ASSETS		
Revenue bond current debt service account	51,333	51,215
Revenue bond future debt service account	42,884	42,785
Total restricted assets	94,217	94,000
FIXED ASSETS		
Plant, property and equipment	4,334,096	4,334,096
Less: Accumulated depreciation	1,699,459	1,523,233
Total fixed assets	2,634,637	2,810,863
OTHER ASSETS		
Other	4,503	5,412
 Total assets	 \$ 5,034,788	 \$ 5,010,720
 LIABILITIES AND MEMBERSHIP EQUITY		
CURRENT LIABILITIES		
Payable from current assets:		
Accounts payable and accrued expenses	\$ 32,033	\$ 54,524
Construction related payable and retainage payable	-	-
Total current liabilities payable from current assets	32,033	54,524
Payable from restricted assets:		
Accrued interest payable	674	874
Current portion bonds payable	30,000	30,000
Total current liabilities payable from restricted assets	30,674	30,874
LONG-TERM LIABILITIES		
Bonds payable - net of current portion	70,000	100,000
Total liabilities	132,707	185,398
MEMBERSHIP EQUITY		
Contributed capital:		
Membership fees	201,600	195,700
Paid in capital	2,327,187	2,304,287
Total contributed capital	2,528,787	2,499,987
Retained earnings:		
Reserved per revenue bond indenture	63,543	63,126
Unreserved	2,309,751	2,262,209
Total retained earnings	2,373,294	2,325,335
Total membership equity	4,902,081	4,825,322
 Total liabilities and membership equity	 \$ 5,034,788	 \$ 5,010,720

See notes to financial statements.

EXHIBIT B

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

STATEMENT OF INCOME AND EXPENSE
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUE		
Water sales and charges	\$ 1,087,012	\$ 914,409
	<u>1,087,012</u>	<u>914,409</u>
OPERATING EXPENSES		
Water purchases	378,616	349,757
Utilities	86,284	70,566
Repairs and maintenance	99,334	129,836
Personal services	219,844	162,670
Inspection fees	10,250	14,525
Office supplies and expense	29,100	18,702
Administrative and general	33,474	29,230
Attorney fees	1,214	2,900
Engineering	-	6,557
Provision for uncollectible accounts	-	-
Depreciation and amortization	<u>177,134</u>	<u>178,153</u>
Total operating expense	<u>1,035,250</u>	<u>962,896</u>
Total operating income (loss)	51,762	(48,487)
NON-OPERATING INCOME (EXPENSE)		
Interest income	6,487	23,293
Interest expense	<u>(10,290)</u>	<u>(12,308)</u>
Net Income (loss) for period	<u>\$ 47,959</u>	<u>\$ (37,502)</u>

See notes to financial statements.

EXHIBIT C

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

STATEMENT OF CHANGES IN MEMBERSHIP EQUITY
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Membership equity at beginning of year	<u>\$ 4,825,322</u>	<u>\$ 4,816,524</u>
Net income (loss) for year	47,959	(37,502)
Contributed capital	<u>28,800</u>	<u>46,300</u>
Increase (decrease)	<u>76,759</u>	<u>8,798</u>
Membership equity at end of year	<u>\$ 4,902,081</u>	<u>\$ 4,825,322</u>

See notes to financial statements.

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES		
Net income (loss) for period	\$ 47,959	\$ (37,502)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	177,134	178,153
(Increase) Decrease in accounts receivable	(13,643)	(2,740)
(Increase) Decrease in other current assets	(7,143)	12,866
Increase (Decrease) in payables & accrued expenses	(22,491)	7,520
Net cash provided by operating activities	<u>181,816</u>	<u>158,297</u>
INVESTING ACTIVITIES		
(Increase) decrease in investment in time deposits	(502,938)	600,833
Purchases of plant, property and equipment	<u>-</u>	<u>(44,748)</u>
Net cash provided (used) by investing activities	<u>(502,938)</u>	<u>556,085</u>
FINANCING ACTIVITIES		
Principal payments of long-term debt	(30,000)	(25,000)
Proceeds from paid in capital	28,800	46,300
(Increase) decrease in net restricted assets	<u>(417)</u>	<u>(706)</u>
Net cash provided (used) by financing activities	<u>(1,617)</u>	<u>20,594</u>
Increase (Decrease) in cash	(322,739)	734,976
Cash and cash equivalents at beginning of year	<u>1,719,489</u>	<u>984,513</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,396,750</u></u>	<u><u>\$ 1,719,489</u></u>
<u>Reconciliation of Cash and Cash Equivalents to Balance Sheet</u>		
Cash and cash equivalents per cash flow statement	\$ 1,396,750	\$ 1,719,489
Cash investments with original maturities over three months when purchased, not considered to be cash and cash equivalents for cash flow statement	850,908	347,969
Total cash and invested cash per Balance Sheet	<u><u>\$ 2,247,658</u></u>	<u><u>\$ 2,067,458</u></u>

See notes to financial statements.

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

NOTES TO FINANCIAL STATEMENTS
December 31, 2010

Note 1. SUMMARY OF ACCOUNTING POLICIES

Basis of accounting - The accounting policies of the Forney Lake Water Supply Corporation (Corporation) conform to generally accepted accounting principles. The operations are maintained on an accrual basis.

Cash equivalents - Cash equivalents of \$1,396,750 and \$1,719,489 at December 31, 2010 and 2009, respectively, consist of funds due from banks. For purposes of the statement of cash flows the Corporation considers all highly liquid debt instruments with original maturities when purchased of three months or less to be cash equivalents.

Inventory - Inventory of parts and supplies is valued at cost.

Property, plant and equipment - Property, plant and equipment are carried at cost. Depreciation is computed using the straight-line method over estimated useful lives ranging from 3 to 50 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred, whereas significant renewals or betterment's are capitalized and a deduction is made for retirements resulting from the renewals or betterment's.

Income taxes - The Corporation is an organization that is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code and will remain exempt as long as it meets the requirements of Section 501(c)(12) each year.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events - Management has considered subsequent events through July 2, 2010, which is the date the financial statements have been available to be issued.

Note 2. PLANT, PROPERTY AND EQUIPMENT

A summary of fixed assets follows:

	12-31-10		12-31-09
Land	\$ 3,710	\$	3,710
Distribution system	4,314,704		4,314,704
Construction in progress	-		-
Equipment	15,682		15,682
Total	4,334,096		4,334,096
Less accumulated depreciation	1,699,459		1,523,233
Net	\$ 2,634,637	\$	2,810,863

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

NOTES TO FINANCIAL STATEMENTS
December 31, 2010

Note 3. COMMITMENTS

The Corporation has entered into a contract with North Texas Municipal Water District for the purchase of water which requires a minimum purchase according to number of gallons per year on a take or pay basis. Each ensuing year the Corporation must purchase minimum quantities according to the contract amounts or the highest total amount withdrawn by the Corporation during any previous year, whichever is greater. The total price paid for the water will be determined annually and will be five cents (\$.05) per thousand gallons above the rate established for the Member Cities of the North Texas Municipal Water District, but in no event less than fifty cents (\$0.50) per thousand gallons. The table listed below reflects the minimum annual purchase requirements in gallons per the contract. The minimum annual demand has exceeded the contract and is currently 295,577,000 gallons.

<u>Annual Fiscal Period</u>	<u>Number of gallons</u>
October 1, 2004 through September 30, 2005	171,795,000 gallons
October 1, 2005 through September 30, 2006	182,996,000 gallons
October 1, 2006 through September 30, 2007	194,197,000 gallons
October 1, 2007 through September 30, 2008	205,398,000 gallons
October 1, 2008 through September 30, 2009	216,599,000 gallons
October 1, 2009 through September 30, 2010	227,800,000 gallons

After September, 2010, the annual minimum to be purchased during any ensuing year shall not be less than the highest total amount withdrawn by the Corporation during any previous year or 227,800,000 gallons.

Note 4. BONDED DEBT

In 1998, the Corporation borrowed \$325,000 and pledged its assets and net revenue to repay the principal and interest. Effective interest rates range from 7.14% to 8.14%. The following is a summary of bonded debt transactions for the Corporation for the periods indicated:

	12-31-10	12-31-09
Balance payable at beginning of year	\$ 130,000	\$ 155,000
New bonds issued	-	-
Bonds retired	30,000	25,000
Bonds payable at end of year	<u>\$ 100,000</u>	<u>\$ 130,000</u>

Debt service requirements for bonds are as follows:

<u>Year ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2011	30,000	8,093	38,093
2012	35,000	5,681	40,681
2013	35,000	2,849	37,849
	<u>100,000</u>	<u>16,623</u>	<u>116,623</u>

FORNEY LAKE WATER SUPPLY CORPORATION
FORNEY, TEXAS

NOTES TO FINANCIAL STATEMENTS
December 31, 2010

Note 5. CONCENTRATION OF RISKS

Most of the Corporation's business activity is with customers located within Kaufman County, Texas and Rockwall County, Texas. Any significant occurrence affecting the economy of Kaufman and Rockwall Counties would significantly affect the Corporation.

The Corporation purchases treated water for sale to its members from the North Texas Municipal Water District. The North Texas Municipal Water District is currently the Corporation's only source of water.

The Corporation maintains accounts with several banks and a broker. Accounts at each institution are insured by the Federal Insurance Corporation (FDIC). At various times during the year 2010 the Corporation had cash deposits with institutions in excess of FDIC insurance coverage.

Note 6. COMPLIANCE WITH BOND INDENTURE

During the course of our audits we took measures to ascertain compliance with the bond indenture requirements. Nothing came to our attention to indicate any violation of those requirements.