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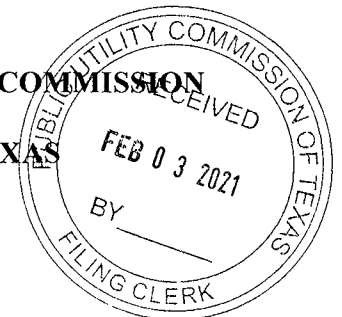
Item Number: 10

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DOCKET NO. 51610

APPLICATION OF MARKOUT §  
WATER SUPPLY CORPORATION AND §  
THE CITY OF MESQUITE FOR SALE, §  
TRANSFER, OR MERGER OF §  
FACILITIES AND CERTIFICATE §  
RIGHTS IN KAUFMAN COUNTY §

PUBLIC UTILITY COMMISSION  
OF TEXAS



**CITY OF MESQUITE'S RESPONSE TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION FROM MARKOUT WATER SUPPLY CORPORATION**

Comes now, the City of Mesquite and submits this, its Response to the Commission Staff's First Request for Information to the Markout Water Supply Corporation Question No. Staff 1-1.

**Staff 1-1:** Provide a copy of Markout Water Supply Corporation's most recent audited financial statements.

**Answer:** Attached is a true and correct copy of the Markout Water Supply Corporation's most recent audited financial statements is attached.

Respectfully submitted,

Emily W. Rogers  
State Bar No. 24002863  
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3711 S. MoPac Expressway  
Building One, Suite 300  
Austin, TX 78746  
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BY: Emily W. Rogers  
Emily W. Rogers

**CERTIFICATE OF SERVICE**

I certify that a copy of this document was served on all parties of record via email on February 3, 2021, in accordance with the requirements of 16 Tex. Admin. Code § 22.74 and PUC Order No. 2 in Docket No. 50664.

*Emily W. Rogers*  
\_\_\_\_\_  
Emily W. Rogers

**M** **Murrey Paschall & Caperton PC**  
**Certified Public Accountants**

March 5, 2020

To the Board of Directors of  
Markout Water Supply Corporation

We have audited the financial statements of Markout Water Supply Corporation for the year ended December 31, 2019 and 2018, and have issued our report thereon dated March 5, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 30, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Markout Water Supply Corporation, are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2019. We noted no transactions entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the amount of depreciation expense is based on the estimated useful life of the related asset. We evaluated the key factors and assumptions used to develop the estimated useful lives of each asset in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of Long Term Debt outstanding in Note 3 to the financial statements is sensitive because it reflects the obligations of the corporation to be paid from current earnings.

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following adjustments were made:

- Adjustment needed to true up accounts receivable and accounts payable as of year-end to agree with the December billing register summary and invoices paid in January 2020.
- Adjustment needed to record 2019 depreciation expense.
- Reclassification entry needed to capitalize new additions to plant, property and equipment.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 5, 2020.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Recent Accounting Pronouncements*

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, as an update to ASC 958, Not-for-Profit Entities. This update makes several improvements to current reporting requirements that address complexities in the use of the previously required three classes of net assets and enhance required disclosures related to donor restrictions of net assets. The updated guidance results in a change in the classes of net assets reported on the face of the statement of financial position from three classes (unrestricted, temporarily restricted, and permanently restricted) to two classes (net assets without donor restrictions and net assets with donor restrictions).

The update also requires all not-for-profit entities to report expenses by function and by natural classification, either on the face of the financial statements or in the footnotes. Additional qualitative information about the methods used to allocate costs is also required to be disclosed. (Note 9) The update also requires all not-for-profit entities to disclose quantitative information that communicates the availability of the Organization's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year as well as qualitative information on how the Organization manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date. (Note 11)

The updated guidance is effective for annual periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The new guidance should be applied on a retrospective basis. The Organization adopted this update in fiscal year 2019.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash, as an update to ASC 230, Statement of Cash Flows. This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The updated guidance will be effective for annual periods beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The new guidance should be applied on a retrospective basis. The updated guidance will result in a change in the statement of cash flow to include restricted cash and restricted cash equivalents. The Organization adopted this update in 2019.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The statement is effective for annual periods beginning after December 15, 2018. The Organization adopted this update in 2019.

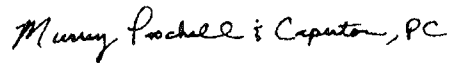
In February 2016, the FASB issued ASU 2016-02, Leases, which will supersede the current lease requirements in ASC 840. The new standard requires lessees to recognize a right-of-use (ROU) asset and a related lease liability for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities and changes in net assets. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statement of financial position. The new standard is effective for private entities for annual periods beginning after December 15, 2019. The Organization is currently assessing the impact on its statement of position but expects that the guidance will not result in significant changes to the results of operations.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,

as an update to Accounting Standards Codification (ASC) 958, Not-for-Profit Entities and to ASU 2014-09. The guidance provides a framework for evaluating whether grants should be accounted for as exchange transactions or as nonexchange transactions. For nonexchange transactions, the new guidance clarifies the contribution accounting model's guidance regarding whether arrangements are conditional or unconditional. The ASU applies to all entities that make or receive contributions but is primarily related to grants. The statement is effective for annual periods beginning after December 15, 2018. The Organization adopted this update in 2019.

This information is intended solely for the use of the board of directors and management of Markout Water Supply Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Murrey Paschall & Caperton, PC".

Murrey Paschall & Caperton, P.C.

MARKOUT  
WATER SUPPLY CORPORATION  
AUDITED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

MURREY PASCHALL & CAPERTON, P.C.  
Certified Public Accountants



MARKOUT WATER SUPPLY CORPORATION  
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DECEMBER 31, 2019 AND 2018

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**M** **Murrey Paschall & Caperton PC**  
**Certified Public Accountants**

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Markout Water Supply Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019 and 2018, the related statement of activities and changes in net assets and the statement of cash flows for the years then ended, and the related notes to the financial statements. The financial statements of Markout Water Supply Corporation as of December 31, 2018, and for the year then ended were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated March 11, 2019.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Markout Water Supply Corporation as of December 31, 2019 and 2018, and the changes in its statement of activities and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Murray Paschall & Caperton, PC*

Murray, Paschall & Caperton, P.C.  
Forney, Texas  
March 5, 2020

MARKOUT WATER SUPPLY CORPORATION  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2019 AND 2018

ASSETS		
	<u>2019</u>	<u>2018</u>
CURRENT ASSETS:		
Cash, savings and certificates of deposit	\$ 832,039	\$ 896,158
Accounts receivable, net of allowance for uncollectable	76,525	63,855
Other current assets	<u>19,176</u>	<u>21,309</u>
Total Current Assets	<u>927,740</u>	<u>981,322</u>
FIXED ASSETS: (NOTE 2)		
Property, plant and equipment	4,395,973	4,265,035
Less accumulated depreciation	<u>(1,542,878)</u>	<u>(1,358,741)</u>
Total Fixed Assets	<u>2,853,095</u>	<u>2,906,294</u>
TOTAL ASSETS:	<u>\$ 3,780,835</u>	<u>\$ 3,887,616</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 120,412	\$ 104,127
Current portion long-term debt	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>120,412</u>	<u>104,127</u>
LONG-TERM LIABILITIES:		
Customer deposits	130,869	122,095
Notes payable (NOTE 3)	23,940	-
Less: current portion	<u>-</u>	<u>-</u>
Total Long-Term Liabilities	<u>154,809</u>	<u>122,095</u>
NET ASSETS		
Without donor restrictions	<u>3,505,614</u>	<u>3,661,394</u>
Total Net Assets	<u>3,505,614</u>	<u>3,661,394</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,780,835</u>	<u>\$ 3,887,616</u>

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

MARKOUT WATER SUPPLY CORPORATION  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
REVENUES:		
Water Sales	\$ 992,823	\$ 1,020,649
Penalties and other fees	<u>73,796</u>	<u>74,866</u>
Total Revenue	<u>1,066,619</u>	<u>1,095,515</u>
EXPENSES:		
Water costs	563,389	509,856
Field expenses	55,080	52,931
Contract services	153,179	160,524
Employee expenses	124,876	112,845
Office expenses	32,398	35,223
Administrative and general	131,570	64,434
Depreciation and amortization	<u>184,137</u>	<u>191,849</u>
Total Expenses	<u>1,244,629</u>	<u>1,127,662</u>
NON-OPERATING INCOME (EXPENSE)		
Interest income	14,368	9,740
Sale of fixed assets gain/(loss)	-	13,132
Member equity buy-in fees	<u>7,862</u>	<u>11,386</u>
Total non-operating income (expense)	<u>22,230</u>	<u>34,258</u>
Increase in Net Assets	(155,780)	2,111
Total Net Assets Beginning	<u>3,661,394</u>	<u>3,659,283</u>
Total Net Assets Ending	<u>\$ 3,505,614</u>	<u>\$ 3,661,394</u>

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

MARKOUT WATER SUPPLY CORPORATION  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (155,780)	\$ 2,111
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	184,137	191,849
(Increase) Decrease in accounts receivable	(12,670)	(87)
(Increase) Decrease in other current assets	2,133	883
Increase (Decrease) in current liabilities	16,285	16,576
Increase (Decrease) in member deposits	8,774	6,950
Gain on sale of assets	<u>-</u>	<u>(13,132)</u>
Net cash provided by operating activities	<u>42,879</u>	<u>205,150</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of plant, property and equipment	-	120,000
Purchase of property and equipment	<u>(130,938)</u>	<u>(422,204)</u>
Net cash provided (used) by investing activities	<u>(130,938)</u>	<u>(302,204)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from new debt	23,940	-
Principal payments on debt	<u>-</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>23,940</u>	<u>-</u>
INCREASE (DECREASE) IN CASH	(64,119)	(97,054)
Cash and cash equivalents at beginning of year	<u>896,158</u>	<u>993,212</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 832,039</u>	<u>\$ 896,158</u>
SUPPLEMENTAL DATA:		
Cash restricted per debt requirements	\$ 15,000	\$ -
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>

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

MARKOUT WATER SUPPLY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Markout Water Supply Corporation (the "Corporation") is a non-profit corporation formed for the purpose of furnishing water and related services to its residential and business members in the rural community near Foiney and the surrounding areas. The Texas Commission on Environmental Quality regulates Markout Water Supply Corporation, as it does all water supply corporations in the State of Texas.

Basis of Accounting

The financial statements are presented on the accrual basis of accounting in accordance with generally accepted accounting principles. The accrual basis of accounting recognizes revenue when it is earned, and expenditures in the accounting period in which the liability incurred, if measurable.

Revenue

Markout Water Supply Corporation receives a substantial portion of its revenue from its member's water consumption and related fees associated with providing water delivery services. Additional revenue sources include construction/extension contributions to the distribution system and investment income.

Cash and cash equivalents

For the purpose of the statement of cash flows, Markout Water Supply Corporation considers all cash and all related highly liquid funds such as money markets and certificates of deposit as cash equivalents.

Accounts Receivable

The corporation bills for water usage ascertained by meter readings at the end of the month. The corporation uses the direct write-off method for uncollectible amounts. This is not GAAP but is a reasonable approximation due to the fact that an advance deposit usually larger than the bill is held and that a speedy disconnect of service follows non-payment. As such, a minimal allowance for doubtful accounts was considered necessary by management (appx. \$2,500)

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, unless contributed, and then the asset is recorded at fair market value at the date of contribution. Depreciation is computed using primarily the straight-line method over estimated useful lives ranging from 5 to 40 years. Depreciation expense for the years ended December 31, 2019 and 2018 was \$184,137 and \$191,849. The Corporation considers the useful life and the cost of the asset in determining whether an asset should be capitalized. Typically, maintenance and repairs are charged to expense as incurred and major additions to property or betterments that would extend the useful life are capitalized.

MARKOUT WATER SUPPLY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

Impairment of Long-lived Assets

The Corporation reviews potential impairments of long-lived assets when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely. An impairment loss is recognized if the sum of the expected, undiscounted future cash flows is less than the net book value of the asset. Generally, the amount of the impairment loss is measured as the excess of the net book value of the assets over the estimated fair value. As of December 31, 2019 and 2018, no impairment of long-lived assets is necessary.

Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net Assets Without Donor Restrictions
  - Net assets available for use in general operations and not subject to donor restrictions. The governing board has the option to internally designate funds, but no such designations have been made.
  
- Net Assets With Donor Restrictions
  - Net assets subject to donor-imposed restrictions. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Historically, these net assets primarily consist of net assets without donor restrictions such as excess membership fees, surplus, and retained earnings of the Corporation. Surplus represents capital contributed by each new line member upon joining the Corporation in an effort to offset the cost of putting the water line and meter into service.

Membership Deposits

Membership fees are paid by new members to the Corporation on existing lines. These deposits are held until the customer leaves the system or forfeits the deposit. The balance of these deposits as of December 31, 2019 and 2018 was \$130,869 and \$122,095, respectively.

Functional Expenses

The financial statements report categories of expenses that are attributed to either program or supporting functions. The Corporation classifies all costs between programs, administration / management and general based on the direct relation to the organization's mission and purpose.



MARKOUT WATER SUPPLY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

Income Taxes

Markout Water Supply Corporation is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Therefore, Markout Water Supply Corporation has not made provision for federal income taxes in the accompanying financial statements. Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2016, 2017 and 2018 are subject to examination by the IRS, generally for three years after they were filed.

Estimates

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

Fair Value of Financial Assets

The Corporation measures and discloses certain financial assets and liabilities at fair value. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

For disclosure purposes, assets and liabilities are classified in their entirety in the fair value hierarchy level based on the lowest level of input that is significant to the overall fair value measurement. The Corporation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy.

The Corporation uses the active market approach to measure fair value of financial assets or liabilities.

MARKOUT WATER SUPPLY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

NOTE 2 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows:

	Balance <u>12/31/18</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/19</u>
Land	\$ 94,188	\$ -	\$ -	\$ 94,188
Distribution System	3,945,292	35,214	-	3,980,506
Building	122,898	32,237	-	155,135
Equipment	55,009	-	-	55,009
Furniture & Fixtures	22,158	-	-	22,158
Vehicle	20,491	-	-	20,491
Construction in Progress	4,999	63,487	-	68,486
Accum. Depr.	<u>(1,358,741)</u>	<u>(184,137)</u>	<u>-</u>	<u>(1,542,878)</u>
 Total	 \$ <u>2,906,294</u>	 \$ <u>(53,199)</u>	 \$ <u>-</u>	 \$ <u>2,853,095</u>

*Capital asset activity during the year included the renovation of the office building with new flooring and new metal roof. There was also a new connection and take point added with the City of Forney on their 12" line. Markout WSC also completed a valve & hydrant mapping and maintenance project in 2019. Construction in progress is entirely made up of the new 150,000 groundwater storage tank which is expected to be completed in early 2020 for an estimated \$459,500. This project is being financed by the CoBank loan discussed below in Note 3.*

NOTE 3 – LONG-TERM DEBT

Markout Water Supply Corporation entered into an agreement with CoBank for a multiple advance term promissory note on October 4, 2019. The terms of the agreement allow Markout WSC to borrow funds not to exceed \$450,000 in order to provide funding for the capital expenditures and related closing costs on the 150,000 groundwater storage tank noted above. All draw requests are expected to be completed by October 31, 2020 at which time the loan is to be converted to a 20-year fixed rate note. The rate is to be set based on market factors. As of December 31, 2019, only 1 draw down had been made for the total amount outstanding of \$23,940. No interest payments were made in 2019.

NOTE 4 – CONCENTRATIONS OF RISK

Markout Water Supply Corporation maintains an interest bearing operating account. Interest bearing accounts are FDIC insured up to \$250,000. As of December 31, 2019, the operating account did not exceed insured limits. At times during the year an account may exceed the insured limit. However, the corporation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash.

Markout Water Supply Corporation holds certificate of deposit investments with a federally insured institution. Steps are taken to ensure that each of these certificate of deposit purchases are with institutions covered by FDIC or other similar insuring organization and the total with each institution is at or under insured limits.

**MARKOUT WATER SUPPLY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**

Markout Water Supply Corporation considers all aspects, including but not limited to the anticipated immediate financial need with respect to current projects when considering whether amounts in excess of federally insured limits are reasonable.

**NOTE 5 – COMPENSATED ABSENCES**

Benefits include vacation and sick leave. There is no accrued liability due to the fact that the number of eligible employees is so few, that any accrual would be immaterial to the financial statements taken as a whole. As of December 31, 2019 the Corporation does not offer retirement or health insurance benefits.

**NOTE 6 – COMMITMENTS**

The Corporation has entered into a contract with the City of Forney for the purchase of water which requires a minimum purchase of 65,046,000 gallons in the first year and a minimum purchase in each ensuing year which is not less than the highest total amount withdrawn by the Corporation during any previous year or 65,046,000 gallons, whichever is greater. At year end 2019, the Corporation is required to purchase 114,654,000 gallons per year. The total price paid for the water will be determined annually and will be sixty-three percent (63%) above the rate charged the City of Forney (City) by the North Texas Municipal Water District (NTMWD) for the actual gallons used or for 114,654,000, whichever is greater. The rate automatically adjusts upon any change to the rate charged the City of Forney by NTMWD. The Differential Rate shall be subject to review and adjustment by the City Council of Forney each year during the term of the contract.

**NOTE 7 – SUBSEQUENT EVENTS**

Management has evaluated its operations through March 5, 2020, the financial statement issuance date, to determine whether there are any significant subsequent events to merit inclusion in these financial statements.

**NOTE 8 – CHANGE IN ACCOUNTING PRINCIPAL**

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-For-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-For-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about the liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The effective date for the changes to be implemented was December 15, 2018. We have implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly. ASU 2016-14 has been applied retrospectively to all periods presented.

MARKOUT WATER SUPPLY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

NOTE 9 - FUNCTIONAL EXPENSE ALLOCATION

<u>December 31, 2019</u>	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Water costs	\$ 563,389	\$ -	\$ 563,389
Field expenses	55,080	-	55,080
Contract services	153,179	-	153,179
Employee expenses	-	124,876	124,876
Office expenses	-	32,398	32,398
Administrative and general	-	131,570	131,570
Depreciation and amortization	<u>184,137</u>	<u>-</u>	<u>184,137</u>
Total Expenses	\$ 955,785	\$ 288,844	\$ 1,244,629
Percent Allocation	<u>77%</u>	<u>23%</u>	

<u>December 31, 2018</u>	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Water costs	\$ 509,856	\$ -	\$ 509,856
Field expenses	52,931	-	52,931
Contract services	160,524	-	160,524
Employee expenses	-	112,845	112,845
Office expenses	-	35,223	35,223
Administrative and general	-	64,434	64,434
Depreciation and amortization	<u>191,849</u>	<u>-</u>	<u>191,849</u>
Total Expenses	\$ 915,160	\$ 212,502	\$ 1,127,662
Percent Allocation	<u>81%</u>	<u>19%</u>	

MARKOUT WATER SUPPLY CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2019 AND 2018

NOTE 10 – RESERVE FUND

The Corporation is required to comply with certain covenants prescribed by the loan resolutions relating to CoBank Promissory Note. Major covenants which the Corporation must comply with are as follows:

Reserve Fund. The Corporation will deposit into the Reserve Fund an amount equal to \$15,000. The value of the reserve fund is fully covered by the Edward Jones savings funds.

NOTE 11 – LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of net position date, comprise the following:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash, savings and CDs	\$ 832,039	\$ 896,158
Accounts receivable	<u>76,525</u>	<u>63,855</u>
	<u>\$ 908,564</u>	<u>\$ 960,013</u>

As part of Markout Water Supply Corporation’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The policy is that monthly revenues are to cover monthly expenses. Monthly revenues and expenditures are deposited in and deducted from the operating accounts

Any excess cash for the year is to be used for general capital purchases in the upcoming years. These funds are invested in savings and certificate of deposit accounts with short term maturities. The board has approved a list of financial institutions for which it may deposit funds. Limits were set at each of the financial institutions, so monies are transferred when needed to stay within the guidelines.

As previously noted, the Corporation is required to have a reserve fund equal to \$15,000 over the life of the loan with CoBank.

Additionally, the corporation monitors asset levels to cover the amount of outstanding membership deposits. These deposits are held until the customer leaves the system or forfeits the deposit. The balance of these deposits as of December 31, 2019 and 2018 was \$130,869 and \$122,095, respectively