

**MICHAEL W. BEDFORD
CERTIFIED PUBLIC ACCOUNTANT
205 WEST HIGH STREET
TERRELL, TEXAS 75160**

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 statements of financial position as of December 31, 2018 and 2017, and the related statements of income and expense, changes in membership equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from 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, 2018 and 2017, and the results of its operation, changes in membership equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Michael W. Bedford

Michael W. Bedford
Certified Public Accountant
Terrell, Texas
March 11, 2019

MARKOUT WATER SUPPLY CORPORATION
FORNEY, TEXAS

STATEMENT OF FINANCIAL POSITION
December 31, 2018 and 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash in banks	\$ 896,158	\$ 993,212
Total cash	<u>896,158</u>	<u>993,212</u>
Accounts receivable, net of allowance for uncollectible	63,855	63,768
Other current assets	21,309	22,192
Total current assets	<u>981,322</u>	<u>1,079,172</u>
FIXED ASSETS		
Plant, property and equipment	4,265,035	4,249,891
Less: Accumulated depreciation	1,358,741	1,467,084
Total fixed assets	<u>2,906,294</u>	<u>2,782,807</u>
Total assets	<u>\$ 3,887,616</u>	<u>\$ 3,861,979</u>
<u>LIABILITIES AND MEMBERSHIP EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 104,126	\$ 87,550
Other liabilities	-	-
Total current liabilities	<u>104,126</u>	<u>87,550</u>
LONG-TERM LIABILITIES		
Long-term liabilities	-	-
Total liabilities	<u>104,126</u>	<u>87,550</u>
MEMBERSHIP EQUITY		
Membership fees	122,095	115,145
Paid in capital	2,809,689	2,798,303
Total contributed capital	<u>2,931,784</u>	<u>2,913,448</u>
Retained earnings	851,706	860,981
Total membership equity	<u>3,783,490</u>	<u>3,774,429</u>
Total liabilities and membership equity	<u>\$ 3,887,616</u>	<u>\$ 3,861,979</u>

See accompanying notes to financial statements.

MARKOUT WATER SUPPLY CORPORATION
FORNEY, TEXAS

STATEMENT OF INCOME AND EXPENSE
For the Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING REVENUE		
Water sales and other revenue	\$ 1,095,515	\$ 901,949
OPERATING EXPENSES		
Water costs	509,856	443,934
Field expenses	52,931	62,203
Contract services	160,524	94,956
Employee expenses	112,845	87,265
Office expenses	35,223	36,932
Administrative and general	64,434	58,534
Depreciation and amortization	191,849	135,772
Total operating expense	1,127,662	919,596
Total operating income (loss)	(32,147)	(17,647)
NON-OPERATING INCOME (EXPENSE)		
Gain (loss) from sale of assets	13,132	-
Interest income	9,740	5,646
Net income (loss) for period	\$ (9,275)	\$ (12,001)

See accompanying notes to financial statements.

MARKOUT WATER SUPPLY CORPORATION
FORNEY, TEXAS

STATEMENT OF CHANGES IN MEMBERSHIP EQUITY
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Membership equity at beginning of year, unadjusted	\$ 3,774,429	\$ 2,829,911
Net income (loss) for year	(9,275)	(12,001)
Membership fees - net	6,950	13,250
Paid in capital	11,386	943,269
Increase (decrease)	9,061	944,518
Membership equity at end of year	\$ 3,783,490	\$ 3,774,429

See accompanying notes to financial statements.

MARKOUT WATER SUPPLY CORPORATION
FORNEY, TEXAS

STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Net income (loss) for period	\$ (9,275)	\$ (12,001)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	191,849	135,772
Gain on sale of assets	(13,132)	-
(Increase) Decrease in accounts receivable	(87)	104,579
(Increase) Decrease in other current assets	883	(15,224)
Increase (Decrease) in payables & accrued expenses	16,576	16,432
	<u>186,814</u>	<u>229,558</u>
INVESTING ACTIVITIES		
(Increase) Decrease in time deposits	420	49,353
Purchases of plant, property and equipment	(422,204)	(242,426)
Proceeds from sale of plant, property and equipment	120,000	-
	<u>(301,784)</u>	<u>(193,073)</u>
FINANCING ACTIVITIES		
Proceeds from paid in capital	11,386	9,620
Proceeds from membership fees	6,950	13,250
	<u>18,336</u>	<u>22,870</u>
Increase (Decrease) in cash	(96,634)	59,355
Cash and cash equivalents at beginning of year	<u>483,867</u>	<u>424,512</u>
Cash and cash equivalents at end of year	<u>\$ 387,233</u>	<u>\$ 483,867</u>
<u>Reconciliation of Cash and Cash Equivalents to Balance Sheet</u>		
Cash and cash equivalents per cash flow statement	387,233	483,867
Cash investments with original maturities over three months when purchased, not considered to be cash and cash equivalents for cash flow statement	508,925	509,345
Total cash per Balance Sheet	<u>896,158</u>	<u>993,212</u>

See accompanying notes to financial statements.

MARKOUT WATER SUPPLY CORPORATION
FORNEY, TEXAS

NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 1. **SUMMARY OF ACCOUNTING POLICIES**

Organization and purpose - Markout Water Supply Corporation (Corporation) is a non-profit corporation that is engaged in the distribution of potable water in its rural community service area.

Basis of accounting - The accounting policies of the Corporation conform to generally accepted accounting principles. The operations are maintained on an accrual basis.

Cash equivalents - Cash and cash equivalents of \$387,233 and \$483,867 at December 31, 2018 and 2017, respectively, consist of funds due from banks and brokers. For purposes of the statement of cash flows, the Corporation considers all highly liquid instruments with original maturities when purchased of three months or less to be cash equivalents.

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.

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. Tax years 2015 through 2019 are subject to examination by the Internal Revenue Service.

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.

Note 2. **PLANT, PROPERTY AND EQUIPMENT**

A summary of fixed assets follows:

	<u>12/31/2018</u>	<u>12/31/2017</u>
Land	\$ 94,188	\$ 94,188
Building and improvements	122,898	122,898
Distribution system	3,962,019	3,721,747
Equipment, furniture, fixtures	80,932	80,932
Construction in progress	4,998	230,126
Total	<u>4,265,035</u>	<u>4,249,891</u>
Less accumulated depreciation	1,358,741	1,467,084
Net	<u>\$ 2,906,294</u>	<u>\$ 2,782,807</u>

Note 3. **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 2018, 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 North Texas Municipal Water District.

MARKOUT WATER SUPPLY CORPORATION
FORNEY, TEXAS

NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 3. **COMMITMENTS - (continued)**

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 4. **CONCENTRATION OF RISKS**

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

The Corporation purchases treated water for sale to its members from the City of Forney. The City is currently the Corporation's only source of water.

The Corporation had money on deposit in excess of FDIC insurance at its bank during the years ended December 31, 2018 and 2017.

Note 6. **SUBSEQUENT EVENTS**

The Corporation's management has evaluated subsequent events through March 11, 2019, the date which the financial statements were available for use.