

MARKOUT  
WATER SUPPLY CORPORATION  
AUDITED FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019

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

MARKOUT WATER SUPPLY CORPORATION  
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DECEMBER 31, 2020 AND 2019

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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

**OPINION**

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, 2020 and 2019, 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.

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, 2020 and 2019, 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.

**BASIS FOR OPINION**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Markout Water Supply Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**RESPONSIBILITIES OF MANAGEMENT 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Markout Water Supply Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

**AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a

substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Markout Water Supply Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Markout Water Supply Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Murrey Paschall & Caperton, PC*

Murrey Paschall & Caperton, P.C.  
Forney, Texas  
April 7, 2021

MARKOUT WATER SUPPLY CORPORATION  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2020 AND 2019

ASSETS		<u>2020</u>	<u>2019</u>
CURRENT ASSETS:			
Cash, savings and certificates of deposit	\$	1,092,376	\$ 832,039
Accounts receivable, net of allowance for uncollectable		79,244	76,525
Other current assets		<u>23,751</u>	<u>19,176</u>
Total Current Assets		<u>1,195,371</u>	<u>927,740</u>
FIXED ASSETS: (NOTE 2)			
Property, plant and equipment		4,840,090	4,395,973
Less accumulated depreciation		<u>(1,737,960)</u>	<u>(1,542,878)</u>
Total Fixed Assets		<u>3,102,130</u>	<u>2,853,095</u>
TOTAL ASSETS:	\$	<u>4,297,501</u>	<u>\$ 3,780,835</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable and accrued expenses	\$	123,888	\$ 120,412
Current portion long-term debt		<u>16,089</u>	<u>-</u>
Total Current Liabilities		<u>139,977</u>	<u>120,412</u>
LONG-TERM LIABILITIES:			
Customer deposits		145,625	130,869
Notes payable (NOTE 3)		447,421	23,940
Less: current portion		<u>(16,089)</u>	<u>-</u>
Total Long-Term Liabilities		<u>576,957</u>	<u>154,809</u>
NET ASSETS			
Without donor restrictions		<u>3,580,567</u>	<u>3,505,614</u>
Total Net Assets		<u>3,580,567</u>	<u>3,505,614</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>4,297,501</u>	<u>\$ 3,780,835</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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
REVENUES:		
Water Sales	\$ 1,163,092	\$ 992,823
Penalties and other fees	<u>66,945</u>	<u>73,796</u>
Total Revenue	<u>1,230,037</u>	<u>1,066,619</u>
EXPENSES:		
Water costs	589,643	563,389
Field expenses	46,033	55,080
Contract services	159,250	153,179
Employee expenses	156,490	124,876
Office expenses	26,638	32,398
Administrative and general	84,812	131,570
Depreciation and amortization	<u>195,082</u>	<u>184,137</u>
Total Expenses	<u>1,257,948</u>	<u>1,244,629</u>
NON-OPERATING INCOME (EXPENSE)		
Interest income	8,393	14,368
Sale of fixed assets gain/(loss)	(26,708)	-
Member equity buy-in fees	<u>121,179</u>	<u>7,862</u>
Total non-operating income (expense)	<u>102,864</u>	<u>22,230</u>
Increase in Net Assets	74,953	(155,780)
Total Net Assets Beginning	<u>3,505,614</u>	<u>3,661,394</u>
Total Net Assets Ending	<u>\$ 3,580,567</u>	<u>\$ 3,505,614</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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 74,953	\$ (155,780)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	195,082	184,137
(Increase) Decrease in accounts receivable	(2,719)	(12,670)
(Increase) Decrease in other current assets	(4,575)	2,133
Increase (Decrease) in current liabilities	3,476	16,285
Increase (Decrease) in member deposits	<u>14,756</u>	<u>8,774</u>
Net cash provided by operating activities	<u>280,973</u>	<u>42,879</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(444,117)</u>	<u>(130,938)</u>
Net cash provided (used) by investing activities	<u>(444,117)</u>	<u>(130,938)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from new debt	426,060	23,940
Principal payments on debt	<u>(2,579)</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>423,481</u>	<u>23,940</u>
INCREASE (DECREASE) IN CASH	260,337	(64,119)
Cash and cash equivalents at beginning of year	<u>832,039</u>	<u>896,158</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,092,376</u>	<u>\$ 832,039</u>
SUPPLEMENTAL DATA:		
Cash restricted per debt requirements	<u>\$ 15,000</u>	<u>\$ 15,000</u>
Cash paid for interest	<u>\$ 12,679</u>	<u>\$ -</u>

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

MARKOUT WATER SUPPLY CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019

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 Forney 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, 2020 and 2019 was \$195,082 and \$184,137. 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  
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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, 2020 and 2019, 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, 2020 and 2019 was \$145,625 and \$130,869, 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  
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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 2017, 2018 and 2019 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  
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NOTE 2 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows:

	<u>Balance</u> <u>12/31/19</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/20</u>
Land	\$ 94,188	\$ -	\$ (46,188)	\$ 48,000
Distribution System	3,980,506	519,398	-	4,499,904
Building	155,135	-	-	155,135
Equipment	55,009	39,392	-	94,401
Furniture & Fixtures	22,158	-	-	22,158
Vehicle	20,491	-	-	20,491
Construction in Progress	68,486	-	(68,486)	-
Accum. Depr.	<u>(1,542,878)</u>	<u>(195,082)</u>	<u>-</u>	<u>(1,737,960)</u>
Total	<u>\$ 2,853,095</u>	<u>\$ 363,708</u>	<u>\$ (114,674)</u>	<u>\$ 3,102,130</u>

*Capital asset activity during the year included the new SCADA equipment at the pump station, new Harmony meter reading software/equipment, and installing a chlorine plant at the pump station. Construction in progress was entirely made up of the new 150,000 groundwater storage tank which was completed in early 2020 for \$519,398 (including construction and engineering). This project was 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 were completed by mid 2020 at which time the loan was converted to two, 20-year fixed rate notes (\$194,275 and \$255,725). The first loan payment was due November 20, 2020 with both notes scheduled to mature in November 2040. The rate for each was set based on market factors at the time of conversion (3.95% and 3.16%).

During the year ended December 31, 2020, the following changes occurred in long-term notes:

<u>Balance</u> <u>12/31/2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2020</u>
\$ 23,940	\$ 426,060	\$ (2,579)	\$ 447,421

MARKOUT WATER SUPPLY CORPORATION  
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Maturities of loan balances at year end are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2021	\$ 16,089	\$ 15,415	\$ 31,504
2022	16,659	14,845	31,504
2023	17,250	14,254	31,504
2024	17,862	13,642	31,504
2025	18,496	13,009	31,505
Years after 2025	<u>361,065</u>	<u>101,437</u>	<u>462,502</u>
Total	<u>\$ 447,421</u>	<u>\$ 172,602</u>	<u>\$ 620,023</u>

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, 2020, 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 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, 2020 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 2020, the Corporation is required to purchase 118,196,000 gallons per year. The total price paid for the water will be determined annually

MARKOUT WATER SUPPLY CORPORATION  
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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 118,196,000, 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. For FY2021, the monthly fee paid to Forney will be \$47,967.88.

NOTE 7 – SUBSEQUENT EVENTS

Management has evaluated its operations through April 7, 2021, the financial statement issuance date, to determine whether there are any significant subsequent events to merit inclusion in these financial statements.

NOTE 8 – 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 9 – 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, 2020</u>	<u>December 31, 2019</u>
Cash, savings and CDs	\$ 1,092,376	\$ 832,039
Accounts receivable	<u>79,244</u>	<u>76,525</u>
	<u>\$ 1,171,620</u>	<u>\$ 908,564</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, 2020 and 2019 was \$145,625 and \$130,869, respectively.

MARKOUT WATER SUPPLY CORPORATION  
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NOTE 10 - FUNCTIONAL EXPENSE ALLOCATION

<u>December 31, 2020</u>	<u>Program</u>	<u>Administrative</u>	<u>Total</u>
Water costs	\$ 589,643	\$ -	\$ 589,643
Field expenses	46,033	-	46,033
Contract services	159,250	-	159,250
Employee expenses	-	156,490	156,490
Office expenses	-	26,638	26,638
Administrative and general	-	84,812	84,812
Depreciation and amortization	<u>195,082</u>	<u>-</u>	<u>195,082</u>
Total Expenses	\$ 990,008	\$ 267,940	\$ 1,257,948
Percent Allocation	<u>79%</u>	<u>21%</u>	

<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>	

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

April 7, 2021

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, 2020 and 2019, and have issued our report thereon dated April 7, 2021. 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 February 9, 2021. 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, 2020. 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, prepaid assets and accounts payable as of year-end to agree with the December billing register summary and invoices paid in January 2021.
- Adjustment needed to record 2020 depreciation expense.
- Reclassification entry needed to capitalize new additions to plant, property and equipment and record the sale of land during 2020.
- Reclassification entry needed to tie out long term debt to bank amortization schedules.

### *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*

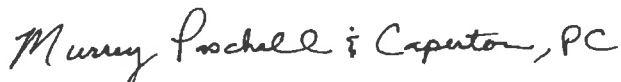
We have requested certain representations from management that are included in the management representation letter dated April 7, 2021.

### *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.

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,



Murrey Paschall & Caperton, P.C.