

**FOUR WAY WATER SPECIAL UTILITY  
DISTRICT**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2012**

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# ANNUAL FILING AFFIDAVIT

STATE OF TEXAS                    }  
COUNTY OF ANGELINA        }

I, James E Eaves, of the Four Way Special Utility District hereby swear, or affirm, that the District above has reviewed and approved at the meeting of the District's Board of Directors on the 7<sup>th</sup> day of May, 2013 its annual audit report for the fiscal period ended December 31, 2012 and that copies of the annual audit report have been filed in the District's office, located at 411 N Main Street, Huntington, TX 75949.

This filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of the Texas Water Code Section 49.194.

Date: \_\_\_\_\_, \_\_\_\_\_ By: \_\_\_\_\_  
\_\_\_\_\_

Sworn to and subscribed to before me this \_\_\_\_\_ day of \_\_\_\_\_,  
\_\_\_\_\_

My Commission Expires On: \_\_\_\_\_, \_\_\_\_\_.

Notary Public in the State Of Texas.

M. Diana Haney  
CERTIFIED PUBLIC ACCOUNTANT  
108 East Hospital Street, Suite 100  
NACOGDOCHES, TEXAS 75961

936/560-0203  
FAX 936/564-1102

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Four Way Special Utility District

I have audited the accompanying financial statements of Four Way Special Utility District which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year 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**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 statement, 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Four Way Special Utility District as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other-Matter**

In accordance with *Government Auditing Standards*, I have also issued a report dated May 6, 2013 on my consideration of Four Way Special Utility District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I not audit the information and express no opinion on it.

*M. Diana Haney, CPA*

M. Diana Haney, CPA

Nacogdoches, TX

May 6, 2013

Management's Discussion and Analysis  
Four Way Special Utility District  
December 31, 2012

The management of Four Way Special Utility District (the District) offers the reader of the District's basic financial statements this narrative overview and analysis of the financial performance of the District for the year ended December 31, 2012. Please read it in conjunction with the District's basic financial statements, which follow this section.

### OVERVIEW OF WATER DISTRICT

Four Way Water Supply Corporation was organized and chartered on March 7, 1966 under Article 143a of the Revised Civil Statutes of Texas of 1925 for the purpose of providing and furnishing a safe and dependable water supply to the rural area in Angelina County.

On July 1, 2007, Four Way Water Supply Corporation became a Special Utility District in order to provide the system customers with a recognized political subdivision that would have the powers needed to obtaining alternative and more favorable methods of financing the future system improvements.

A Special Utility District is a political subdivision, and can issue revenue bonds on the open market or for purchase by the Texas Water Development Board (TWDB). An SUD is exempt from ad valorem taxes on its personal property, utility lines and plant facilities, as well as sales tax on supplies and services. It is subject to the Open Meetings and Open Records Act. It must follow statutory bid advertisement and contract provisions for political subdivisions and is subject to the continuing right of supervision by the Texas Commission on Environmental Quality (TCEQ).

Four Way Special Utility District currently provides service to over 2000 customers.

### FINANCIAL HIGHLIGHTS

- The District's total assets exceeded liabilities by \$4,773,885 on December 31, 2012 as a result of the year's operations.
- The District's total assets were \$5,101,278; of this amount \$4,173,802 represents capital assets, and \$835,649 represents cash and cash equivalents.
- Liabilities for the District totaled \$327,393 of which \$101,849 accounts for obligations under long-term debt.
- Operating revenues for the District at year end were \$1,049,669 and exceeded operating expense by \$276,016. The major revenue sources that contributed to the District were water sales.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. Three components comprise the District's basic financial statements: (1) business-type activities financial statements, (2) notes to financial statements, and (3) required supplementary information. This report also contains other Texas supplementary information in addition to the basic financial statements themselves.

#### *Enterprise Funds*

Enterprise Funds (Proprietary Fund) are used to report the same functions presented as business-type activities in the basis financial statements. This District has only one major Enterprise Fund.

### *Notes to Financial Statements*

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

### *Statements of Net Assets*

The statements of net assets for the District are similar in many ways to the balance sheet presented as a basic financial statement for private-sector companies. The statements of net assets include all of the District's assets and liabilities. A major function of the statement of net assets is to measure the ability of the District to meet its current and long-term obligations. Perhaps the biggest difference between the statements of net assets and the private-sector balance sheet is in the reporting of the difference between total assets and total liabilities. In the balance sheet of a private-sector business, the difference between the total assets and total liabilities is a measure of the value of the business that the owners would realize if they sell their share.

Instead of measuring the "owners' equity," state and local governments report the net value of "net assets" in these major categories:

- Invested in capital assets – net of related debt
- Restricted
- Unrestricted

Since the "owners" of the District are ultimately the citizens of the state of Texas and not an individual or group of investors, GASB believes it is more useful for the reader of the basic financial statements to know whether the "net assets" were invested in capital assets, are restricted for future use, or their future use is unrestricted.

### *Required Supplementary Information*

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule. It provides detail comparisons of expenditures. Comparisons can be made between the original budget, final budget, and actual costs of the year.

### **FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a financial statement position. In the case of the District, assets exceeded liabilities by \$4,773,885 at the close of the year ended December 31, 2012.

There are \$4,173,802 of net assets that represent capital assets – net of related debt. The remaining balance of \$600,083 represents unrestricted net assets that may be used to meet the District's ongoing obligations.

### *Statements of Revenues, Expenses, and Changes in Fund Net Assets*

The statements of revenues, expenses, and changes in fund net assets serve as similar function to the statements of income for private-sector businesses. Unlike private-sector businesses, the District does not seek to earn a profit in the long-term. However, the District must cover its operations, maintenance, and other costs annually from fees and charges since the District does not levy or collect any tax revenue. The statements of revenues, expenses, and changes in fund net assets measures how well annual cost are covered by fees and charges.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### ***Capital Assets***

At the end of 2012, the District had \$6,598,874 invested in a broad range of capital assets, including facilities and equipment for transportation, administration, and maintenance.

### ***Debt***

At December 31, 2012, the District had outstanding debt in the amount of \$101,849.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

There are currently no known or anticipated economic factors affecting next year's budget. No significant changes to the District's budget for 2013 are expected.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the business office, at PO Box 250, Huntington, TX 75949-0250.



FOUR WAY SPECIAL UTILITY DISTRICT  
STATEMENT OF NET ASSETS  
December 31, 2012

ASSETS

Cash and Cash Equivalents	\$ 835,649
Accounts Receivable	86,659
Accrued Interest Receivable	709
Prepaid Expense	4,459
Capital Assets	
Land and Easements	94,265
Buildings, Office Equipment, Automobiles, Water Distribution System, Wells and Plants, net	3,872,918
Construction in Progress	<u>206,619</u>
Total Assets	<u>5,101,278</u>

LIABILITIES

Accounts Payable	6,785
Accrued Well Lease Lufkin Industries	13,137
Accrued Payroll Taxes Payable	3,902
Retirement Payable	1,677
Accrued TCEQ Payable	4,888
Service Investigation	1,500
Volunteer Fire Department Donations	1,350
Accrued Interest Payable	355
Deposits Payable	191,950
Non Current Liabilities	
Due In More Than One Year	<u>101,849</u>
Total Liabilities	<u>327,393</u>

NET ASSETS

Investment in Capital Assets, Net of Related Debt	4,173,802
Unrestricted Net Assets	<u>600,083</u>
Total Net Assets	<u>\$ 4,773,885</u>

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

FOUR WAY SPECIAL UTILITY DISTRICT  
STATEMENT OF ACTIVITIES  
PROPRIETARY FUND  
For The Year Ended December 31, 2012

OPERATING REVENUES

Water Sales	\$ 833,216
Capital Improvement Fund	144,267
Connection Fees	34,766
Penalties	<u>37,420</u>
Total Operating Revenues	<u>1,049,669</u>

OPERATING EXPENSES

Advertising	1,126
Auto Expense	25,691
Bank Charges	10,024
Chlorine and Chemicals	13,509
Depreciation	194,407
Dues and Subscriptions	6,875
Maintenance Agreement	4,442
Insurance	45,199
Legal and Professional	11,565
Leak Adjustments	4,683
Licenses and Permits	5,485
Miscellaneous	2,471
Office Expense	5,357
Payroll Taxes	15,735
Pension Expense	10,405
Postage and Billing Cards	10,041
Repairs and Maintenance	51,554
Salaries	208,094
Seminars	7,300
Supplies	11,224
Telephone	5,530
Temporary Labor	9,017
Travel	3,404
Utilities	84,265
Water Testing	5,459
Water-Lufkin Industries	2,907
Well Lease-Lufkin Industries	<u>13,136</u>
Total Operating Expenses	<u>768,905</u>

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

FOUR WAY SPECIAL UTILITY DISTRICT  
STATEMENT OF ACTIVITIES - CONTINUED  
PROPRIETARY FUND  
For The Year Ended December 31, 2012

NONOPERATING REVENUES (EXPENSES)	
Interest Income	\$ 10,399
Interest Expense	(6,510)
FSAWU Consolidation	<u>(8,637)</u>
Total Non operating Revenues (Expenses)	<u>(4,748)</u>
Change in Net Assets	276,016
Net Assets, January 1	<u>4,497,869</u>
Net Assets, December 31	<u>\$ 4,773,885</u>

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

FOUR WAY SPECIAL UTILITY DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
For The Year Ended December 31, 2012

Net Cash Flow from Operating Activities:	
Increase in Net Assets	\$ 276,016
Adjustments to Reconcile Net Assets	
To Net Cash Used In Operations	
Depreciation	194,407
Decrease in Accounts Receivable	3,660
(Increase) in Interest Receivable	(49)
Decrease in Prepaid Expenses	451
(Decrease) in Accounts Payable	(898)
(Decrease) in Payroll Taxes Payable	(1,092)
(Decrease) in Retirement Payable	(187)
Increase in TCEQ Assessment	172
(Decrease) in Volunteer Fire Dept Donations	(29)
(Decrease) in Accrued Interest Payable	(409)
Increase in Deposits Payable	2,450
Increase in Service Investigation	<u>1,500</u>
Net Cash Provided by Operating Activities	<u>475,992</u>
Cash Flows from Investing Activities	
Purchase of Capital Assets	<u>(506,595)</u>
Net Cash Used by Investing Activities	<u>(506,595)</u>
Cash Flows from Financing Activities	
Principal Payments of Long-term Debt	<u>(117,633)</u>
Net Cash Provided by Financing Activities	<u>(117,633)</u>
Net Increase in Cash and Cash Equivalents	(148,236)
Cash and Cash Equivalents at January 1	<u>983,885</u>
Cash and Cash Equivalents at December 31	<u>\$ 835,649</u>
Interest Expense at December 31	<u>\$ 6,510</u>

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

FOUR WAY SPECIAL UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
Year Ended December 31, 2012

Note A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity

On July 1, 2007, Four Way Water Supply Corporation became a Special Utility District (the District). The District is a political subdivision operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Directors elected by registered voters of the Special Utility District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in **Statement on Auditing Standards No. 69** of the American Institute of Certified Public Accountants.

Proprietary Financial Statements and Basis of Accounting

The District's business-type activities include operations that rely to a significant extent on fees and charges for support. The Proprietary Fund is accounted for on a flow of economic resources measurement focuses and utilizes the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

The District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in a proprietary (enterprise) fund.

Other Accounting Policies

For purposes of the statement of cash flows for the proprietary fund, the District considers highly liquid investments to be cash equivalents if they have a maturity of less than a year when purchased. At year-end, the District's cash balances were deposited in six banks.

FOUR WAY SPECIAL UTILITY DISTRICT  
 NOTES TO FINANCIAL STATEMENTS-CONTINUED  
 Year Ended December 31, 2012

Use of 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 differ from those estimates.

Accumulated Vacation and Sick Leave Benefits

The District does not allow employees to carryover unused vacation or sick days into the next fiscal year.

NOTE B – CASH AND CASH EQUIVALENTS

At December 31, 2012, the cash balance consists of the following:

Cash on Hand	\$	450
Cash Account		
Huntington State Bank-Operating		86,679
Capital One		39,505
Cash Equivalents (Time Deposits)		
East Tx Professional Cr Un-MM		63,044
East Tx Professional Cr Un-CD		100,429
First Bank and Trust-CD		109,417
Texas State Bank-CD		103,834
Genco Credit Union-MM		231,334
Capital One Bank-MM		100,957
Total	\$	<u>835,649</u>

NOTE C – CAPITAL ASSETS

Capital assets are recorded at cost. Expenses for maintenance and repairs are charged to operations. Betterments that materially extend the life are capitalized. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

Capital asset activity for the District for the year ended December 31, 2012 was as follows:

FOUR WAY SPECIAL UTILITY DISTRICT  
NOTES TO FINANCIAL STATEMENTS-CONTINUED  
Year Ended December 31, 2012

	<u>Beginning</u> <u>Balance</u>	<u>Addition</u>	<u>Reclassify/ Retirements</u>	<u>Ending</u> <u>Balance</u>
Proprietary Activities:				
Land and Easements	\$ 94,265	\$ -0-	\$ -0-	\$ 94,265
Buildings	332,583		1,026	331,557
Office Furniture and Equipment	284,667	6,688		291,355
Automobiles	123,164			123,164
Water Distribution System	1,693,351	74,386		1,767,737
Water Wells and Plants	3,503,247	280,930		3,784,177
Construction in Progress	61,002	500,932	355,315	206,619
	6,092,279	862,936	356,341	6,598,874
Less Accumulated Depreciation	(2,230,663)	(194,407)		(2,425,070)
Net Capital Assets	<u>\$ 3,861,616</u>	<u>\$ 668,529</u>	<u>\$ 356,341</u>	<u>\$ 4,173,804</u>

During the year ended on December 31, 2012, the District had construction cost incurred on water line upgrades and construction of ozone treatment center in the amount of \$506,595.

NOTE D – LEASE AGREEMENT

In January 1982, the District leased a well from Lufkin Industries for a term of forty years. The lease could be canceled by either party giving the other party five years prior written notice of cancellation according to the terms of agreement. On April 27, 1983, Lufkin Industries amended the contract to provide the lease may be canceled by either party giving the other party two years written notice of cancellation.

Annual rental payments under the terms of the lease are \$13,136.00 from 1983 to 2021 and \$6,568.00 for the year 2022.

If at the end of any calendar year while the lease is in force, the total paid during the calendar year by Lufkin Industries to the District for treated water exceeds the total amount paid during that calendar year by the District to Lufkin Industries for untreated water, plus the annual rental payments mentioned above, then the District is to rebate Lufkin Industries an amount of money to make the sums equal.

The District is responsible for the operation and maintenance of the leased well.

FOUR WAY SPECIAL UTILITY DISTRICT  
 NOTES TO FINANCIAL STATEMENTS-CONTINUED  
 Year Ended December 31, 2012

NOTE E - RETIREMENT PLAN

The District has a retirement plan covering employees with Texas County and District Retirement System. Under the plan, the District contributes 4.09% of each eligible employee's salary. Plan expenses incurred during the year ended December 31, 2012 are \$10,405.

NOTE F - FORT STANLEY AREA WATER UTILITY

TCEQ has requested the District to become the temporary manager of Fort Stanley Area Water Utility beginning September 1, 2004. Expenses incurred by the District will be reimbursed in the near future. Effective April 12, 2012, Fort Stanley Area Water Utility merged with the District.

NOTE G - CHANGES IN LONG-TERM DEBT

At December 31, 2012, long-term debt consists of a note payable to Capital One Bank in the amount of \$350,000 dated September 13, 2010. The outstanding balance at December 31, 2012 is \$101,849 with monthly payments of \$10,380 maturing October 01, 2013. The interest rate is fixed at 4.10%.

Long-term debt activity for the District for the year ended December 31, 2011, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Redeemed</u>	<u>Ending</u> <u>Balance</u>
Capital One Note Payable	<u>\$219,484</u>	<u>\$ 0</u>	<u>\$ 117,635</u>	<u>\$101,849</u>

The annual requirement to amortize outstanding debt as of December 31, 2012 follows:

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u> <u>REQUIREMENTS</u>
2013	<u>101,849</u>	<u>1,919</u>	<u>103,768</u>
TOTAL	<u>\$ 101,849</u>	<u>\$ 1,919</u>	<u>\$ 103,768</u>



M. Diana Haney, CPA  
108 EAST HOSPITAL STREET, SUITE 100  
NACOGDOCHES, TEXAS 75961  
(936) 560-0203  
(936) 564-1101

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENTAL AUDITING STANDARDS**

Independent Auditor's Report

Board of Directors  
Four Way Special Utility District

Members of the Board:

I have audited the financial statements Four Way Special Utility District as of and for the year ended December 31, 2012. I have issued my report on them dated May 6, 2013.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Four Way Special Utility District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Four Way Special Utility District's internal control over financial reporting. Accordingly I do not express an opinion of the effectiveness of Four Way Special Utility District's internal control over financial reporting. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I considered to be material weaknesses as defined above. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

This report is intended for the information of the Board of Directors, the audit committee and the administration and is not intended to be used and should not be used by anyone other than these specified parties.

*M. Diana Haney, CPA*  
M. Diana Haney, CPA

Nacogdoches, TX  
May 6, 2013

**M. Diana Haney, CPA**

108 EAST HOSPITAL STREET, SUITE 100

NACOGDOCHES, TEXAS 75961

(936) 560-0203

(936) 564-1101

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

Independent Auditor's Report

Board of Directors  
Four Way Special Utility District

Members of the Board:

Compliance

I have audited the compliance of Four Way Special Utility District (the District) with the types of compliance requirements described in the *U S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's administration. My responsibility is to express an opinion on the District's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of District's compliance with those requirements.

In my opinion, Four Way Special Utility District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2012.

Internal Control Over Compliance

The administration of Four Way Special Utility District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant

deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or a combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses as defined above.

This report is intended for the information of the District Director's, the audit committee and the administration and is not intended to be used and should not be used by anyone other than these specified parties.

*M. Diana Haney, CPA*

M. Diana Haney, CPA

Nacogdoches, TX

May 6, 2013

FOUR WAY SPECIAL UTILITY DISTRICT  
 COMPARATIVE SCHEDULE OF REVENUE AND EXPENSES –  
 PROPRIETARY FUND  
 For The Year Ended December 31, 2012

	Amounts	Percent of Fund Total Revenues
<b>OPERATING REVENUES</b>		
Water Sales	\$ 833,216	79.38%
Capital Improvement Fund	144,267	13.75%
Connection Fees	34,766	3.31%
Penalties	37,420	3.56%
Total Operating Revenues	1,049,669	100.0%
 <b>OPERATING EXPENSES</b>		
Advertising	1,126	.11%
Auto Expense	25,691	2.45%
Bank Charges	10,024	.95%
Chlorine and Chemicals	13,509	1.29%
Depreciation	194,407	18.52%
Dues and Subscriptions	6,875	.65%
Maintenance Agreement	4,442	.42%
Insurance	45,199	4.31%
Leak Adjustment	4,683	.45%
Legal and Professional	11,565	1.10%
Licenses and Permits	5,485	.52%
Miscellaneous	2,471	.24%
Office Expense	5,357	.51%
Payroll Taxes	15,735	1.50%
Pension Expense	10,405	.99%
Postage and Billing Cards	10,041	.96%
Repairs and Maintenance	51,554	4.91%
Salaries	208,094	19.82%
Seminars	7,300	.70%
Supplies	11,224	1.07%
Telephone	5,530	.53%
Temporary Labor	9,017	.86%
Travel	3,404	.32%
Utilities	84,265	8.03%
Water Testing	5,459	.52%
Water-Lufkin Industries	2,907	.28%
Well Lease-Lufkin Industries	13,136	1.24%
Total Operating Expenses	768,905	73.25%
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest Income	10,399	.99%
Interest Expense	(6,510)	(.62%)
FSAWU Consolidation	(8,637)	(.82%)
Total Non operating Revenues (Expenses)	(4,748)	(.45%)
Change in Net Assets	\$ 276,016	26.30%

FOUR WAY SPECIAL UTILITY DISTRICT  
 TEMPORARY INVESTMENTS  
 For The Year Ended December 31, 2012

<u>Fund</u>	<u>Identification Or Certification Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Receivable at End of Year</u>
<u>Proprietary Fund</u>					
Money Market Account	736430	.40%	12/31/12	\$ 63,044	\$ 00
Certificate of Deposit	736430-0100	3.36%	09/23/14	100,429	00
Certificate of Deposit	200022997	2.35%	07/02/16	109,417	634
Money Market Account	3620918708	.40%	12/31/12	100,957	00
Certificate of Deposit	43910	1.88%	12/17/15	103,834	75
Money Market Account	1807541-8	.60%	12/31/12	<u>231,334</u>	<u>00</u>
Total Fund				<u>\$709,015</u>	<u>\$709</u>

FOUR WAY SPECIAL UTILITY DISTRICT  
 SERVICES AND RATES  
 For The Year Ended December 31, 2012

1. The District provides services for retail water.
2. Retail Service Providers
  - a. Retail Rates for a 5/8" meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate Per 1000 Gallons Over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 20.00	0	Yes	\$ 3.60	N/A to N/A
WASTEWATER	N/A				
SURCHARGE	N/A				

The district does not employ winter averaging for wastewater usage.

- b. Water and Wastewater Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC's</u>
Unmetered	0	0	x 1.0	0
5/8"	2237	1982	x 1.0	1982
3/4"	7	7	x 1.5	10.5
1"	13	13	x 2.5	32.5
1 1/2"	4	4	x 5.0	20
2"	3	2	x 8.0	16
3"	0	0	x 15.0	0
4"	1	1	x 25.0	25
6"	1	1	x 50.0	50
8"	0	0	x 80.0	0
10"	<u>0</u>	<u>0</u>	x 115.0	<u>0</u>
Total Water	<u>2266</u>	<u>2010</u>		
Total Wastewater	<u>0</u>	<u>0</u>	x 1.0	<u>0</u>

FOUR WAY SPECIAL UTILITY DISTRICT  
SERVICES AND RATES - CONTINUED  
For The Year Ended December 31, 2012

3. Total Water Consumption during the Fiscal Year (rounded to the nearest thousand)

Gallons pumped into system: 189,390,000

Gallons billed to customers: 154,923,000

Water Accountability Ratio: (Gallons billed/Gallons Pumped) .82

4. Standby Fees (authorized only under TWC Section 49.231)

The District does not maintain standby fees.

The District does not have Operation and Maintenance standby fees.

5. Location of the District

The District is located entirely within one county - Angelina County. The District is partially located within the city of Huntington. It is not within a city's extra territorial jurisdiction. The city of Huntington does not have ETJ and the Board members are not appointed by any office outside the District.



FOUR WAY SPECIAL UTILITY DISTRICT  
 BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS  
 For The Year Ended December 31, 2012

District Mailing Address: PO Box 250, Huntington, Texas 75949-0250

District Business Telephone Number: (936) 422-4188

Submission Date of the most recent District Registration Form (TWC Sections 36.054 and 49.054: March 30, 2012

Limit on Fees of Office that the Director may receive during a fiscal year: No limit set (Set by Board Resolution – TWC Section 49.060)

<u>Names:</u>	<u>Term of Office (Elected or Appointed) Or Date Hired</u>	<u>Fees of Office Paid* (FYE date)</u>	<u>Expense Reimburse- ments (FYE date)</u>	<u>Title at Year End</u>
<b>Board Members:</b>				
James Eaves	(Elected) 05/11– 05/14	\$ 730.00	0	President
Roger Sanders	(Elected) 05/10 – 05/13	\$ 680.00	0	Vice-President
Judy Runnels	(Elected) 05/11 – 05/14	\$ 680.00	0	Secretary/ Treasurer
Gay Walker	(Elected) 05/10 – 05/13	\$ 730.00	0	Director
Don Willis	(Elected) 05/12 - 05/15	\$ 730.00	0	Director
Joyce Collins	(Elected) 05/12 – 05/15	\$ 730.00	0	Director
James Kirkland	(Elected) 05/12 - 05/15	\$ 780.00	0	Director

FOUR WAY SPECIAL UTILITY DISTRICT  
 BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS -CONTINUED  
 For The Year Ended December 31, 2012

<u>Names:</u>	<u>Term of Office (Elected or Appointed) Or Date Hired</u>	<u>Fees of Office Paid* (FYE date)</u>	<u>Expense Reimburse- ments (FYE date)</u>	<u>Title at Year End</u>
<b>Key Administrative Personnel:</b>				
Tommy Carswell	08/01/1990	\$ 64,985		General Manager
<b>Consultants:</b>				
Gregory Longino	01/01/2012	\$ 1,025		Attorney
Goodwin/Lasiter, Inc	01/01/2012	\$ 18,547		Engineer
Thelma Sherman R.T.A.	01/01/2012	-0-		Angelina Co. Tax Collector
M Diana Haney, CPA	01/01/2012	\$ 5,300		Auditor