

RAYFORD ROAD MUNICIPAL UTILITY DISTRICT

Minutes of Meeting of Board of Directors September 8, 2008

The Board of Directors ("Board") of Rayford Road Municipal Utility District ("District") met on September 8, 2008, at 312 Spring Hill Drive, Suite 100, West Entrance, Spring, Texas 77386, in accordance with the duly posted notice of the meeting, with a quorum of Directors present, as follows:

Charles Saxe, Secretary
Michael Smith, Assistant Secretary
Danny E. Agans

and the following absent:

Jon Vallery, President
Frank Moore, Vice President

Also present were J. R. Moore, Bill Russell, Jason Hajduk, Mike Williams, Mike McCall, Deputy Stephen Sprague, Herman I. Little, Jr. and persons on the attached list.

The Secretary called the meeting to order and declared it open for such business as might regularly come before it.

1. Minutes of the meeting of August 11, 2008 were presented and reviewed. Upon motion by Director Smith, seconded by Director Agans, the Board voted unanimously to approve the minutes as presented. Minutes of the August 28, 2008 meeting were not available.

2. J.R. Moore presented a tax assessor/collector's report. Mr. Moore described procedures followed in the tax office for the transition from the previous tax assessor/collector. The tax office received a number of boxes of documents that are still being reviewed and organized. The tax assessor does not have a paid list for prior year taxes yet, and this is causing a delay in making refunds that become due. There was a very small delinquent tax roll of \$53,833.68. In response to a question by the Board, Mr. Moore stated that there have not been very many complaints from taxpayers. Bill Russell stated that he has received only three calls about the transition so far.

Mr. Moore reported that the 2008 tax levy is \$3,104,168.80. The District collected \$17,314.23 during August. Mr. Moore described procedures for making refunds of tax overpayments. The books received from Equi-Tax were reviewed, and they balanced to the penny. It has been learned that the depository bank had changed routing codes without knowledge of the depositors, and additional correspondence will be required to establish proper routing codes for transfers of funds. Bill Russell stated that Texas State Bank had told districts that the ABA number would be the same with the new accounts at Compass Bank, but Amegy Bank has reported that there are no codes available for Texas State Bank. The costs of changing routing numbers and new preparation of new checks will be charged back to the bank. The Board expressed appreciation for the tax assessor/collector services.

3. Deputy Stephen Sprague presented a law enforcement report. There were 722 calls during the month. There were 16 disturbances, nine criminal mischief incidents, four misdemeanor assaults, two family violence calls, one DWI, two warrant arrests and two drug arrests. An arrest was made on an arson event that had occurred. The arrest was made by the law enforcement task force. The constable will give an update on the arson case as information is available. In response to a question by the Board, Deputy Sprague stated that the constables are up to staff levels, but Matt Finley resigned recently, so there is going to be one vacancy.

4. Mike Williams presented an operator's report. The District had revenues of \$234,463.58 during the month. There are 3,740 connections, and 36 vacant connections. 16 water leaks were repaired. Ten bacteriological samples were taken, and all were satisfactory. The wastewater treatment plant operated properly at 75% of permitted flow. No taps were made during the month. 14 taps had been made for the year-to-date. Mr. Williams presented a list of delinquent accounts that are uncollectible totaling \$333.45. After discussion, upon motion by Director Smith, seconded by Director Agans, the Board voted unanimously to approve the writing off the delinquent accounts as recommended by the operator, and the Board further voted to approve the operator's report as presented.

5. Mike Williams presented a report on Imperial Oaks Park and grounds maintenance. The District had 20 calls for use of the pavilion and five calls for use of the ball fields. Regular maintenance was performed. One wetlands outlet was repaired at Imperial Oaks Park. Information will be sent to the insurance company with regard to those costs. A barricade has been erected at the other location, and no trespass signs have been placed at the location, as well. There was discussion of the schedule for completing the work. It was mentioned that a large tree was partially burned, and it may pose a hazard if it does not live. There was discussion of the possibility of removing the tree or even moving the walkway at that location. It was proposed that the walkway should be put back in the original condition as far as possible. There was further discussion about the tree, and upon motion by Director Smith, seconded by Director Saxe, the Board voted unanimously to authorize the operator to have a tree person look at the tree and make a report about the recommended disposition at the next meeting. Mike Williams reported that the District is ready for the hurricane that is approaching the area.

6. Phillip Payter addressed the Board and described his proposed Eagle Scout community service project, which will involve installation of a bench at the Imperial Oaks soccer field. The bench will be constructed on a cement base, and excavation for the base will not be more than two feet deep. There was discussion of the procedures for the project. Mike Williams stated that he would obtain concrete for the base. Mr. Payter will install the forms and will purchase lumber and will get wire for the base. Mr. Payter will install the bench, which will be a 6-foot-wide bench. The bench will be green. After discussion, upon motion by Director Smith, seconded by Director Saxe, the Board voted unanimously to approve the proposed community service project for Phillip Payter and authorized the District operator to purchase concrete for the base for the bench, and the Board further authorized Mr. Payter to purchase lumber and to install the bench as proposed.

7. The Chair called for customer inquiries. Doug Edwards addressed the Board and stated that he resides on Smokey Forest Lane, and every time it rains, water in the street is at least 2-feet deep. Mr. Edwards stated that in these situations, it is impossible to get a car out of the driveway. The District's drainage system is not working properly. Mr. Edwards

stated that the District engineer has stated that the work was done according to code, but Mr. Edwards stated that he does not believe that any effective procedures were used to ensure that the work was done correctly. Ms. Rebecca Lentz addressed the Board and stated that she moved into the District in 2006, and there was no problem when she moved in. Now, when it rains, water collects in the cul-de-sac, and it takes several hours for the water to get out of the cul-de-sac. The water is sometimes waist deep. This happens even if it rains only 45 minutes.

Jason Hajduk advised the Board that he had received a call on August 18, 2008 following a 3-inch rainfall within one hour. The water did back up in the streets, but the system was working properly, because the water was evacuated immediately. Mr. Hajduk reported that one year ago the District authorized an examination of the storm sewers, and some debris was found in the storm sewer, together with some silting at the outfall. It would be possible to re-inspect the system again. Mr. Hajduk noted that water standing in the streets after a heavy rainfall is to be expected. The streets are a part of the storm sewer system, but water is not supposed to build up to approach the homes. There was discussion, and Director Saxe suggested that an inspection be performed of the storm sewer system. Upon motion by Director Smith, seconded by Director Agans, the Board voted unanimously to authorize Pate Engineers to do a full survey of the storm sewer system and the overall situation described by Mr. Edwards and Ms. Lentz.

Mike Dillon addressed the Board and described damage that had been caused by the garbage collection. Mr. Dillon sent photographs to Director Vallery showing the damage. Someone was supposed to come out to look at the situation, but that never happened. There was discussion, and the Board confirmed that the contractor will be required to take steps to remedy the situation. There was discussion of the District's solid waste collection service. Cory Heisler stated that in his program at the University of Houston he is conducting a survey, and he can be of assistance to the District with regard to solid waste collection contractors and service.

8. Bill Russell presented a bookkeeper's report, a copy of which is attached to the minutes. After payment of bills at this meeting, the debt service fund balance will stand at \$1,497,214.12. The capital projects fund balance is \$1,128,301.04. The general fund balance is \$975,393.37 following deposit of a transfer check of \$232,276.11. This fund balance represents approximately six months of budget expenses. It was noted that the District's tax account also has a balance of \$15,583.64. One tax refund check was presented to reimburse a property owner for a double payment. After discussion, upon motion by Director Smith, seconded by Director Saxe, the Board voted unanimously to approve the bookkeeper's report and authorized payment of bills listed thereon.

9. Mike McCall presented an audit report for the fiscal year ended May 31, 2008. The auditor is issuing an unqualified opinion. Director Saxe inquired concerning internal controls that are followed by the District. Mr. McCall stated that there are many internal controls that are applied by the District and by the consultants who provide services to the District. Mr. McCall stated that the auditor performs three functions for the District. First, the auditor prepares the District's financial statements. Second, the auditor makes adjustments from fund statements to entity-wide statements, and third, the auditor prepares schedules of the District's capital assets and depreciation of assets. Additionally, the auditor writes the management discussion and analysis for the District. This is management's description of the District's financial statements and financial affairs. It is dated September 8, 2008, the date that

management will accept the financial statements.

Mr. McCall reported that the District is in good, strong financial condition. The debt service fund balance is adequate with approximately 45% of the following year's debt service requirements. The capital projects fund balance is subject to TCEQ approval. The footnotes to the financial statements describe how the District operates and tells how the District's financial statements work. Mr. McCall reviewed the budget comparison report that reflected the District's revenues and expenses compared to budget.

Mr. McCall then presented a management letter that describes certain material weaknesses in the District's operations. The District does not have its own system for preparation of financial statements, and it does not have its own official who prepares the statements or adjustments or capitalization and depreciations schedules. This is a very common situation among Texas utility districts. Most districts do not have in-house staff capable of preparing statements in anticipation of the audit. The management letter describes the circumstances that are followed by the District and almost all other districts in the state.

Mr. McCall then described certain control deficiencies that address how the District pays director fees and reimbursements of director expenses. The auditor did a detailed analysis of all expenditures to the District's directors. All disbursements to the directors were documented, and all disbursements were made by checks signed by at least three directors. Mr. McCall then presented recommendations with regard to payment of Director fees and expenses and suggested changes that would be consistent with sound business practices. The District should comply with its ethics policy, and the District would then be in compliance with regulatory requirements and accounting standards.

Director Saxe inquired as to whether last year's management letter was like this. Mr. McCall stated that it was not. In August, 2007, the auditor did a special study relating to certain payments of director fees and expenses, but it was not a complete audit. Mr. McCall then described the Board representation letter and the statements that there have been no allegations of fraud and no impairment of the District's assets. There was discussion of the audit report and the auditor's responsibilities. Upon motion by Director Smith, seconded by Director Agans, the Board voted unanimously to approve the audit together with the representation letter, and the Board authorized the filing audit with the TCEQ as required by law.

10. The Board reviewed a Resolution Affirming Review of Investment Policy, Strategies and Objectives. Herman Little advised the Board that the investment policy is subject to review by the Board at any time, but the Board is required to acknowledge a review of the policy at least once each year, and traditionally this is accomplished at the meeting at which the audit report is presented. The auditor has advised the Board that the District is in sound financial condition, and there were no problems with District investments. The District was in compliance with the Texas Public Funds Investment Act. The Board then reviewed the Resolution, and upon motion by Director Smith, seconded by Director Saxe, the Board voted unanimously to approve the Resolution Affirming Review of Investment Policy, Strategies and Objectives, which Resolution is attached to the minutes.

11. The Board reviewed the District's Code of Ethics. Herman Little distributed proposed revisions to the Code of Ethics to the Board and to members of the

audience. The proposed changes have been prepared based upon the TCEQ's financial management guide and provisions of the Texas Water Code. Herman Little described the changes that would apply to payments of director fees and reimbursements of director expenses. The new provisions will require that every payment to a director be substantiated with information as to the date and purpose of service rendered or expense incurred. All expenses must be supported by documentation. The Board then reviewed the form of the director fee and expense reimbursement form and noted that changes in the Code of Ethics have been included on the form. After discussion, upon motion by Director Smith, seconded by Director Agans, the Board voted unanimously to approve the proposed Code of Ethics as revised and described by the attorney, and the Board further voted to approve the form for payment of director fees and expenses as presented. Director Saxe requested that a copy of the director expense form be emailed to him.

12. Jason Hajduk presented an engineer's report. The engineers are working on the new clarifier design. The engineers are working on three options for head works at the treatment plant. No firm costs are available for the three options yet. One option would involve construction of a hopper plus a well and pump. The gravel road would be extended to the hopper, and a backhoe attachment would be required to remove the hopper. The engineer's estimates that the cost would be \$5,000 plus the cost of the backhoe attachment. The second option would be installation of an electric wench. This option would cost approximately \$4,500 and would be labor intensive. There would be additional costs for bags used to collect debris. The third option would be installation of a well and pump and extension of a concrete road. This would require moving a power pole. The cost would be \$5,500. There was discussion, and the Board requested that the engineer get firm prices for Option No. 3, and the work would then be bid together with other clarifier construction items.

Jason Hajduk reported that TCEQ has issued the new discharge permit without a requirement of bacteria monitoring. The District may expect a requirement for monitoring bacteria, and it would be helpful to make tests at this time to determine whether there would be a problem if requirements were applied to the District. Changes may be possible by making operational changes without modifications of the plant. In the meantime, Mr. Hajduk recommended that the Board conduct monthly monitoring of bacteria to establish information for use by the District in the future. Upon motion by Director Smith, seconded by Director Saxe, the Board voted unanimously to authorize bacteria testing once per month for the next six months. Mr. Hajduk reported that a copper limit was added to the permit, but this limit will not be applicable for three years. Mr. Hajduk recommended that the District look at samples of the waste stream to start looking at items that could be coming into the plant that are contributing to the presence of copper. Mike Williams noted that he already has samples of the effluent for copper testing but not for the current year.

13. There was discussion of the District's requirements for continuing disclosure of information regarding the District's outstanding bonds. Upon motion duly made, seconded and unanimously carried, the Board voted to authorize First Southwest Company to prepare the District's continuing disclosure filing as required by law.

14. There was discussion of the District's website. Director Saxe stated that Mike Williams' wife is willing to maintain the website. There was discussion of actions that are needed to access the website and make changes. In response to a question by the Board, Charlie

Venema stated that knowledge of HTML would be needed to maintain the website. There are other programs that could be used, but these would require additional expenses and personnel training. It was mentioned that a professional consultant could assist the District but that there would be an expense. In response to a question by the Board, Charlie Venema stated that he would not agree to maintain the website without compensation. After discussion, it was agreed that the Board will consider an agenda item for the website and to consider proposals for such services.

There being no further business to come before the Board, the meeting was adjourned.



Secretary