

**MINUTES OF REGULAR MEETING
OF THE BOARD OF DIRECTORS OF
SOUTHGATE WATER DISTRICT
ARAPAHOE AND DOUGLAS COUNTIES, COLORADO**

June 9, 2009

The Board of Directors of the Southgate Water District, Arapahoe and Douglas Counties, Colorado, met in regular joint session with the Board of Directors of the Southgate Sanitation District on Tuesday, June 9, 2009, at the office of the Districts, 3722 East Orchard Road, Centennial, Colorado 80121. The meeting was called to order at 4:02 p.m., by the President and Chairman, John J. Herbolich. These minutes reflect the proceedings of the Board of the Southgate Water District.

Notice of the meeting was duly posted as required by law. The agenda for this meeting was posted at the District office more than 24 hours before the meeting convened. The purpose of the meeting was stated to be for consideration of any and all business that may come before the Board of Directors of the Southgate Water District.

The following Directors were present:

David Bickham
John J. Herbolich
Terry Kirkpatrick
George J. MacDonald
Don E. Winslow

Also present were:

Duane Tinsley, Manager
William Jennings, District Engineer
Bert Bondi, Auditor

Approval of Agenda:

Director Herbolich MOVED to approve the agenda as presented. Director

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MacDonald SECONDED the motion. Upon a call of the vote, all Directors present voted "AYE", and the motion was declared UNANIMOUSLY PASSED.

Public Comment:

No public comment was offered.

Consent Matters:

Chairman Herbolich identified the items to be considered under "Consent Matters" and asked if any Director wished to pull any item for discussion. Director MacDonald noted that the Operations Work Group goals had been adjusted and that there is still a significant positive variance in the financial statements relative to Operations expenses. He asked if the revised goals would bring expenses into line with the budget forecast. Manager Tinsley indicated that the revised goals (reflecting the impact of "curative maintenance" upon the "preventative maintenance" activities) are anticipated to be much more attainable. It is not expected that the revised goals will cause the expenses to increase. Several of the operations (maintenance) line items have a budget authorization at the anticipated highest potential expense level even though we hope to not have to spend that level during the year. For those reasons it is anticipated that the positive budget variance will continue through the year. Director Kirkpatrick asked about the positive variance in the employee compensation line items. Manager Tinsley reported that the variance is the result of: 1) temporarily open positions (Operator and Engineering Field Technician) and 2) funds budgeted for annual compensation adjustments but not used (at the time 2008/09 adjustments were approved and for employees still on introductory status).

There being no further questions or discussion, Director Herbolich MOVED to approve the consent matters, consisting of:

1. Minutes May 12, 2009 - Regular
2. W09-06(A) Investments - May, 2009
3. W09-06(B) Financials - May, 2009
4. W09-06(C) Improvements Agreements: None.

Director MacDonald SECONDED the motion. Upon a call of the vote, all Directors present voted "AYE", and the motion was declared UNANIMOUSLY PASSED.

Public Hearings/Scheduled Visits:

FY 2008 Audit (09-11):

Chairman Herbolich invited Auditor Bondi to discuss the 2008 audit results.

Auditor Bondi briefly reviewed the audit process, including: monthly progress reviews, monthly letters to governance, and then year end audit. Progressive "fixes" were dealt with through the year. The numbers and resulting financial statements, (together with

the "client representations" letter signed by the Manager during the audit process), are the responsibility of the District. The two page "Independent Auditor's Report" and the review process leading to that report are the auditor's responsibility. He reported that there were no "exceptions" with management representations and the accounting policies used by the District. There were no discussions of significance. He then discussed the "Independent Auditor's Report", noting that: 1) there was audit of the financial statements prepared by staff, 2) there was review of a statistically sufficient number of representative transactions, and 3) the "Opinion Statement" in which the Auditor states that the financial statements fairly reflect the financial position of the District at the end of the year and the financial activity for the year. It was an unqualified "clean opinion".

He briefly reviewed the "Statement of Net Assets" and "Statement of Activities" and the significance of the various numbers. In summary the District is "better off" at the end of 2008 than it was at the beginning of 2008. There was brief discussion of "operating" and "non-operating" profit or loss. Director MacDonald asked if the Auditor has observed any anomalies in how the District has reached the annual surplus. Auditor Bondi spoke of the District's dependence upon tap sales. Director MacDonald spoke of the District's determination, in the context of the 50 year fiscal analysis, to institute a customer service charge. There was brief discussion of the District's 2001 determination to eliminate the property tax.

Auditor Bondi then reviewed the "Report to Governance". The report commented favorably on the District's review of cash management and short-term practices. The report contained a financial analysis section presenting statistics and charts regarding capital expenditures and investment allocations. The report additionally contained several "Advisory Comments and Suggestions" including: 1) the need to review/update the purchasing and procurement policy, 2) the need to establish a formal information technology policy and disaster recovery plan, 3) documentation and control of credit card purchases, and 4) the GASB 51 requirement for the year ending December 31, 2010 reporting of intangible assets (such as water rights and easements).

At the request of Director Kirkpatrick there was discussion of the manner in which depreciation is calculated. That led to discussion of the asset management system planned for 2010, the potential for current value presentation rather than depreciated value/depreciation (as permitted by GASB), and the relationship to the GASB 51 requirements.

As to the District's investment practices, Auditor Bondi expressed concern regarding the heavy reliance upon the Colotrust and CSAFE investment pools. There was additional concern expressed regarding the Federal agencies. Discussion followed.

Director MacDonald MOVED to approve and deliver the District audit to appropriate parties. Director Kirkpatrick SECONDED the motion. Upon a call of the vote, all Directors

present voted "AYE", and the motion was declared UNANIMOUSLY PASSED.

Auditor Bondi presented an audit engagement letter for fiscal year 2009, with indication that there are no significant changes from the 2008 audit engagement. Director MacDonald MOVED to approve the audit engagement for fiscal year 2009 as presented. Director Herbolich SECONDED the motion. Upon a call of the vote, all Directors present voted "AYE", and the motion was declared UNANIMOUSLY PASSED.

Auditor Bondi departed at this point.

Engineering and Capital Projects:

Project Status Reports (08-05):

Engineer Jennings provided brief status reports on the following projects:

- County Line & S. Yosemite Waterline & Valve Replacement - The contractor is working with the City of Lone Tree and the City of Centennial for the necessary permits. The pre-construction meeting is scheduled for June 11th. Subject to permitting by the cities, it is anticipated that work will begin on June 22nd. Notice has been sent to the adjacent property owners east of Yosemite and south of County Line. The history of the old pipe was discussed.
- Geographic Information System - Phase III - The CityWorks work management implementation is progressing according to schedule. Additional training is scheduled. Data entry into the GIS data base is progressing. A new lap top computer is being tested in the Field Technician's pickup. Depending on the success of that test, field accessibility will be extended to the Operations vehicles.

Engineering - Special Reports:

Engineer Jennings indicated that he had nothing further to report.

District Engineer Jennings departed at this point.

Administrative:

Surplus Property (07-14):

District Manager Tinsley reported that at the May Board meeting there was discussion and direction regarding the sale of the surplus property at Walnut Hills. There was subsequent counter offer from the interested party, polling of the Directors, and unanimous response that the counter offer be accepted. He presented and recommended approval of a Quit Claim deed prepared by the District's Legal Counsel.

Director MacDonald MOVED to approve the Quit Claim Deed as submitted. Director Kirkpatrick SECONDED the motion. Upon a call of the vote, all Directors present voted

"AYE", and the motion was declared UNANIMOUSLY PASSED.
"Closing" procedures were discussed.

Cash Receipts and Expenditures (09-06-D):

The Board reviewed and discussed the cash receipts and expenditures for May, 2009. Director Kirkpatrick MOVED to approve the expenditures in the amount of \$131,492.85 as set forth in the disbursement schedule attached hereto. Director MacDonald SECONDED the motion. Upon a call of the vote, all Directors present voted "AYE", and the motion was declared UNANIMOUSLY PASSED.

Recess:

Director Kirkpatrick MOVED to recess at 6:12 p.m. Director MacDonald SECONDED the motion. Upon a call of the vote, all Directors present voted "AYE", and the motion was declared UNANIMOUSLY PASSED.

The meeting was reconvened at 6:58 p.m.

Organizational Assessment (09-10):

Director Herbolich, reported on behalf of the Assessment/Compensation Subcommittee, (being Directors Herbolich and Kirkpatrick), that the Board approved request for proposals (RFP) was sent to six consulting firms and that five proposals were subsequently received. He then reported that the sub-committee has completed review of those proposals. He asked if the remaining Directors have had opportunity to review the proposals. Directors Bickham, MacDonald, and Winslow responded in the affirmative and indicated their highest rating for the Red Oaks proposal. Director Kirkpatrick indicated that the sub-committee rated Mountain States and SBC as the highest rated.

Each Director spoke of their reactions to the proposals.

Following discussion, it was the consensus of the Board that: 1) SBC and Red Oaks be selected for interview by the sub-committee, 2) all Directors communicate their thoughts, concerns and suggestions to the sub-committee, and 3) the sub-committee be authorized to select and engage the preferred consultant following the interviews with a report back to the Board as a whole.

Director Herbolich spoke of a compensation consultant mentioned by AWWA as having done work for the Denver Water Department. He will get back with the AWWA contact for contact information on that compensation consultant.

Administrative - Special Reports:

Director Herbolich suggested discussion of the Special Districts Accountability legislation (Senate Bill 09-087) passed in the last legislative session. Manager Tinsley

briefly reviewed the reasons for the legislation and the resulting public notification requirements. He indicated that he would respond to the notification requirements with the next issue of the WaterViews newsletter, post such notice on the website, and repeat such notice with each future issue of the newsletter.

Legal - Special Reports: None.

Board:

Directors - Special Reports:

Director Kirkpatrick asked if there has been determination of the cause of the water line failure at Lodgepole and Timberline. Manager Tinsley discussed the investigative efforts and reported that no specific cause for the pipe failure has been identified. Director Herbolich advised that: 1) he had observed the site during the initial repair and spoke favorably of the District's response, and 2) he had received favorable comment from neighbors regarding the District's response. One observation is that, despite 19 years of the WaterViews Newsletter, many of the property owners do not know that they are in the Southgate Water District. Test calls to the Lone Tree dispatch and the Denver Water dispatch demonstrated that Southgate customers are property routed to the Southgate emergency contact number.

Director MacDonald reported, on behalf of the Fiscal Sub-committee (Directors MacDonald and Bickham), that: 1) the fifty year fiscal forecast has been reviewed, 2) data regarding historic treasury and agency investment yields has been located, and 3) there was test modeling of the fifty year forecast with investment yields comparable to the historic data and with higher rates of inflation. Summary modeling results were distributed and discussed in detail. It was found that none of the test models resulted in a long term fiscal profile less favorable than the model last approved by the Board of Directors. It was recommended, on the basis of the alternative modeling and results, that: 1) there be no revisions to the established fiscal policies, (including the planned water service charge) and 2) the fiscal model be reviewed annually. The Board concurred. Director MacDonald invited suggestions regarding alternative assumptions for additional modeling. The Board expressed appreciation to the Fiscal Sub-committee for their efforts, findings and recommendations.

Director MacDonald noted the recent advisories regarding "red flag" customer account protective measures. Manager Tinsley indicated that the deadline for such measures has again been postponed and that Southgate, (not possessing or maintaining customer account or billing records), has asserted that the "red flag" regulations are not applicable to Southgate.

Training:

Chairman Herbolich noted the training schedule in the packet.

Directors Herbolich and Kirkpatrick, together with Manager Tinsley, will attend the June 15th American Water Works Association conference.

Directors Herbolich, Kirkpatrick and MacDonald, together with Manager Tinsley, will attend the June 30th Special Districts Association Financial Management workshop.

Director Kirkpatrick reported that the Special Districts Association housing reservations are now open for the September conference. Manager Tinsley will move soonest possible to make hotel reservations.

Adjournment:

There being no further business to come before the Board of Directors, Director Winslow MOVED to adjourn the meeting. Director Kirkpatrick SECONDED the motion. By UNANIMOUS vote the meeting was adjourned at 7:56 p.m.

Director

President & Chairman

Director

Director

Director