

**MINUTES OF MEETING OF  
THE BOARD OF DIRECTORS OF  
WILBARGER CREEK MUNICIPAL UTILITY DISTRICT NO. 1**

February 7, 2013

THE STATE OF TEXAS           §  
  §  
COUNTY OF TRAVIS         §

A meeting of the Board of Directors of Wilbarger Creek Municipal Utility District No. 1 was held on February 7, 2013, at the offices of Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas. The meeting was open to the public and notice was given as required by the Texas Open Meetings Act. A copy of the Certificate of Posting of the notice is attached as Exhibit "A".

The roll was called of the members of the Board:

|                 |   |                     |
|-----------------|---|---------------------|
| Bill Kochwelp   | - | President           |
| Tim Dalton      | - | Vice President      |
| Scott Sams      | - | Secretary           |
| D. Page Ragland | - | Assistant Secretary |
| Diana Zuniga    | - | Assistant Secretary |

and all of the Directors were present, thus constituting a quorum. Also present at the meeting were Mary Bott of Bott & Douthitt, PLLC; Margret Wingrove of Crossroads Utility Services LLC; Danny Burnett, representing Cottonwood Holdings, Ltd., 2010 ShadowGlen, LLC, and SG Land Holdings, LLC; Marsha Jan of McCall Gibson Swedlund Barfoot PLLC; and John Bartram of Armbrust & Brown, PLLC.

Director Kochwelp called the meeting to order at 12:04 p.m., and stated that the Board would first receive citizens' communications. There being none, Director Kochwelp then recognized Ms. Jan for purposes of receiving a report from the District's auditor in connection with the audit of the District's financial statements for the fiscal year ended September 30, 2012. Ms. Jan presented the Audit Report, attached as Exhibit "B", including a summary of (i) the independent auditor's report, which she explained contained an unqualified, "clean" opinion; (ii) the Management's Discussion and Analysis, which she explained was a summary of District operations prepared by the District's bookkeeper on behalf of District management in compliance with Governmental Accounting Standards Board Statement No. 34; (iii) the basic financial statements and the notes thereto; (iv) the required supplemental information; and (v) the Texas supplemental information. She reviewed the income statement, budget comparison, and comparative schedule of revenues. Ms. Jan then reviewed the Board representation letter attached as Exhibit "C", noting that similar letters would also be signed by the District's bookkeeper and operator. She confirmed that the letter incorporated certain "knowledge" qualifiers which took into account the fact that the Board was relying on the

advice of the District's bookkeeper and operator in making the representations set forth in the letter. Mr. Bartram asked if any material weaknesses in internal control had been identified or if a separate management letter had been issued. Ms. Jan confirmed that no material weaknesses were noted, primarily because the District's bookkeeper prepared the District's financial statements and related GASB No. 34 schedules, and that there was no management letter. Ms. Jan then concluded by requesting the Board to approve the Board representation letter and the Audit Report and to authorize filing of the District's audit with the Texas Commission on Environmental Quality (the "TCEQ"). Upon motion by Director Sams and second by Director Zuniga, the Board voted unanimously to do so.

Director Kochwelp then stated that the Board would consider approving the minutes of the December 6, 2012 Board meeting. Upon motion by Director Dalton and second by Director Sams, the Board voted unanimously to approve minutes.

Director Kochwelp next announced that the Board would consider matters relating to wholesale water rates and water capacity charges. Mr. Bartram first reviewed the letter from Southwest Water Company, Metro H2O, Ltd.'s parent company, explaining certain challenges of the water business. Mr. Bartram then stated that, based on information reported at the Master District's meeting earlier in the week, the Districts were currently trending to use ±119,000,000 gallons of the 147,000,000 gallon required take-or-pay amount this year and that the delta represented about \$141,000. Mr. Bartram then reminded the Board that the annual CPI increase in the volumetric wholesale rate was scheduled to increase in February. He stated that Mr. Joyce, the Districts' rate analyst, had confirmed that this increase, as well as the annual CPI increase in the annual rate payment and the underlying Blue Water rate that would be implemented later in the year, had been factored into and were covered by the Districts' current retail rates. Mr. Bartram stated that, based on calculations provided by the Master District's bookkeeper, the volumetric rate would increase from \$5.10 per 1,000 gallons to \$5.14 per 1,000 gallons, and that the annual rate payment would increase from \$133,900 to \$137,917.

Director Kochwelp then stated that the Board would receive a report from the District's utility operator. Ms. Wingrove directed the Board's attention to the utility report attached as **Exhibit "D"**. She reviewed the water report and noted that usage was down. She confirmed that the bacteriological and chlorine samples were satisfactory. She next addressed water accountability, noting that water loss was about 6.6%. Discussion of various causes of water loss ensued. Ms. Wingrove then reviewed a new asbestos sampling report, which she stated was satisfactory. She next reviewed the wastewater report and confirmed that the wastewater treatment plant was in compliance and that there had been no excursions. She next reviewed the connection, billing, adjustments, and delinquent accounts reports. She stated that there were no delinquent accounts or write-offs for the month. She stated that she had contacted one customer whose usage appeared to be higher than normal during the winter-average period. Ms. Wingrove next addressed water conservation and drought management. She stated that, although warmer weather was approaching, the District had a plentiful water supply and needed to sell water. She, therefore, recommended that no additional watering restrictions be implemented at this time. The Board concurred. Mr. Bartram then stated that it was time for

the Board to conduct its annual review of the District's water conservation and drought contingency plan. He reviewed the District's current plan with the Board and stated that he was not aware of any changes or updates at this time. After discussion, upon motion by Director Sams and second by Director Dalton, the Board voted unanimously to approve the Resolution Confirming Annual Review of Water Conservation and Drought Contingency Plan attached as Exhibit "E". Ms. Wingrove then stated that it was time to conduct an annual review of the District's identity theft prevention program under the federal government's "red flag rules". She directed the Board's attention to the Resolution Confirming Annual Review of Identity Theft Prevention Program attached as Exhibit "F". She reported that the plan had proved effective, that there had been no significant incidents of identity theft in the District, and that she had no recommended updates to the program at this time. Upon motion by Director Zuniga and second by Director Sams, the Board voted unanimously to approve the Resolution Confirming Annual Review of Identity Theft Prevention Program, as presented.

Director Kochwelp then stated that the Board would receive a report from the District's bookkeeper. Ms. Bott first reviewed the bookkeeper's report attached as Exhibit "G", including the bills, invoices, and transfers set forth on the updated cash activity report, and recommended approval. Ms. Bott next reviewed the cash/investment activity report, the latest quarterly investment report, the tax collection report, the District's financial statements as of December 31, 2012, and the supplementary information, including the budget comparison. She stated that the District was about 82% collected on property taxes as of December 31<sup>st</sup> and was currently running about a \$2,900 negative budget variance. After discussion, upon motion by Director Zuniga and second by Director Sams, the Board voted unanimously to approve the bills, invoices, and transfers as presented. Ms. Bott then reported that she was recommending changes to the District's list of qualified brokers. Mr. Bartram stated that it was also time for the Board to conduct its annual review of the District's code of ethics and financial management policies and that the changes to the list of qualified brokers could be incorporated into the overall document. The Board reviewed the District's current code of ethics and financial management policies. After discussion, upon motion by Director Zuniga and second by Director Sams, the Board voted unanimously to approve the Resolution Confirming Annual Review of Certain Financial Management Policies; Adopting Code of Ethics and Financial Investment, Travel, and Professional Services Policy; Adopting Investment Strategies; Designating Investment Officers; and Adopting List of Qualified Brokers attached as Exhibit "H", which included the updates to the list of qualified brokers.

Director Kochwelp next recognized Mr. Burnett for a report from the developer. Mr. Burnett reported that the "SunCal" transaction had closed on December 21, 2012 and that SG Land Holdings, LLC now owned the residential portions of ShadowGlen. He stated that 2010 ShadowGlen, LLC was negotiating with SunCal to provide project management services but that the contract had not yet been finalized. Mr. Burnett stated that SunCal representatives would be in town the following week and would like to meet with the Districts' consultants and a representative from each Board. Director Kochwelp stated that he would try to attend on behalf of the District. Mr. Burnett reported that very little had been going on in the development since the closing, which would delay the delivery of additional lots until at least

June. However, he stated that the market was improving and that he expected activity soon. He stated that he did not know what the final builder group would be but that he had recommended a minimum of five builders and a maximum of eight. Mr. Burnett added that SunCal had run new pro formas that apparently indicated that their entry-level lots would start at \$55,000. Discussion of historical and projected market conditions ensued. Mr. Burnett then reported on other development in the area. He stated that his company was under contract with a medical office developer for an urgent care center at the entrance to the District. He reported that Manor Independent School District was working on the engineering for the new school site in ShadowGlen and that the school was expected to open in 2014. He stated that plans for the Lexington low-water crossing continued to progress. Mr. Burnett reported that Wal-Mart was expected to start construction in March. He stated that Autozone was now open and that his company's contract with CVS had closed. He stated that CVS was expected to delay construction until the traffic signalization improvements on Highway 290 were complete, which would most likely be some time next year. Mr. Burnett reported that his company still had contracts with McDonald's and Walgreens. He then concluded with an update on the status of construction of the Manor Expressway.

Director Kochwelp stated that the Board would next receive a report from the District's financial advisor. Mr. Bartram noted that Ms. Allen had been unable to attend the meeting and directed the Board's attention to the latest foreclosure report attached as Exhibit "I".

Director Kochwelp then stated that the Board would receive a report from the District's engineer. Mr. Bartram stated that Mr. Schroeder had been unable to attend the meeting directed the Board's attention to the engineering report and supplemental email update attached as Exhibit "J".

Director Kochwelp then recognized Mr. Bartram for purposes of receiving a report from the District's attorney. Mr. Bartram first reviewed the previous consultant directives. He then addressed website matters and encouraged anyone with suggestions on the website to forward those to him or Mr. Burnett. Mr. Burnett stated that there had been one request from a resident to fence a drainage easement within the District. He stated that he had discussed the issue with Mr. Schroeder and that they had concurred that it would not be advisable to fence the drainage easement because doing so could inhibit the flow of storm water. Mr. Burnett stated that his company had, however, cleaned up the area and posted appropriate signage, which had satisfied the resident. Mr. Bartram then stated that it was time for the Board to conduct an annual review of the District's written procedures for post bond issuance federal tax compliance. He reviewed the District's current procedures and highlighted the arbitrage, private use, and record retention requirements. He stated that these procedures would likely evolve over time to keep up with underlying regulatory changes but that he was not aware of any recommended revisions at this time. After discussion, upon motion by Director Zuniga and second by Director Sams, the Board voted unanimously to approve the Resolution Confirming Annual Review of Written Procedures for Post Bond Issuance Federal Tax Compliance attached as Exhibit "K". Mr. Bartram concluded by noting that he had no further updates on the "SunCal" transaction at this time.

Director Kochwelp next announced that the Board would consider the Master District and Advisory Committee items on the agenda. Mr. Bartram directed the Board's attention to the agenda and minutes from the most recent joint meetings of the Board of Directors of Wilbarger Creek Municipal Utility District No. 2 and the Advisory Committee, which was a recurring agenda item so that the Board could stay informed of the activities of the Master District and Advisory Committee.

Director Kochwelp then stated that the Board would consider its future meeting schedule. After discussion, the Board agreed to stay on an every-other-month meeting schedule and that the next meeting would be on April 4<sup>th</sup>.

Director Kochwelp then asked if there was any further business to come before the Board. There being none, the meeting was adjourned at 12:58 p.m.

*(Signature page follows.)*

(SEAL)

  
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Scott Sams, Secretary  
Board of Directors

Date: April 4, 2013