

that it was a clean opinion and they had no concerns with the District's financial statements.

Board members expressed concern about the water accountability ratio shown on page TSI1. The large amount of water "gain" is a result of the problems with the master meters and is addressed in the MD&A portion of the audit. STES notified the City that the master meters were not reading correctly and needed to be checked or calibrated. Once the meters were recalibrated, the City billed the District a much smaller amount than had been anticipated, and then reduced the amount even further. Peña Swayze has advised against continuing to accrue funds because they don't believe it is owed. There was a lengthy discussion on this matter.

Director Davies moved to accept the audit report. Director Henry seconded the motion, which passed unanimously.

Mr. Swayze and Ms. Carter then reviewed the Management Report. Three material weaknesses were discussed (billing adjustments, accounts receivable reconciliations, and property tax revenues), and Peña Swayze's recommendations for each. Mr. Misenheimer will include these items in the SOP manual.

Reportable conditions were interfund transactions, customer deposits, transactions affecting fund balance, and unknown District bank account. Peña Swayze presented recommendations on these items as well, which will be included in the SOP manual.

Since QuickBooks allows changes to be made to prior periods, Ms. Shanks was directed to obtain Board approval before making any changes to a previous year's transactions that would affect the fund balance. Similar changes to a previous month need to be approved by the Finance & Audit Subcommittee. This will also be included in the SOP manual.

STES will research the Ameritrust -1991 Refunding account.

Cash reconciliations, the Manager's account, and builder/developer escrow accounts were discussed as unresolved from the prior year.

Mr. Fry assured the Board that STES would clear up these matters.

Mr. Swayze said the new Statement on Auditing Standard No. 99, which deals with documentation on processes to avoid fraud, requires the auditor go through an interview process with a board member and a representative of the management company. He said he had a phone conversation with Director Hawk several months ago and had also met with Skip Ferris on this matter.

Mr. Fry asked if part of problem delaying the audit was GASB-34. Mr. Swayze said "not really", that the depreciation schedule was very lengthy and time-consuming. He added that STES' reporting took longer than normal. Mr. Fry indicated that audits for other districts have been delayed because of GASB-34.

Director Hardin moved to accept the Management Report and Director Davies seconded the motion. Director Henry asked Mr. Fry if he had read the report and if he agreed with its findings. Mr. Fry said he had read the report and respected the auditor's views and opinions. Directors Nasky and Henry both said they were not satisfied with how long it had taken the auditor to complete the audit procedure. The Management Report was accepted on a unanimous vote.

The Bills and Invoices Committee will review the invoice presented by Mr. Swayze.

Director Nasky then called for Agenda Item 2: Refinancing of District's outstanding bonds. Mr. Pattillo distributed copies of the preliminary offering statement and said he could get it published this afternoon or tomorrow. The underwriter would be willing to hold his bid until Noon on Tuesday, July 12. AMBAC will insure the refinancing at a better premium than last time. He requested permission to publish the POS, saying if any corrections are necessary they can be made in the final.

On a motion by Director Hardin, seconded by Director Davies, the Board unanimously approved publishing the Preliminary Offering Statement.

The next meeting will be held at Noon on Tuesday July 12, 2005. Severn Trent should bring a \$750 check payable to the Attorney General for the filing fee.

Director Nasky then called for Agenda Item 3: Adjournment. The meeting was adjourned at 2:04 p.m.

Steve Davies, Secretary

Board of Directors