

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 368

MINUTES OF BOARD OF DIRECTORS MEETING

September 1, 2005

The Board of Directors (the "Board") of Harris County Municipal Utility District No. 368 (the "District") met in regular session, open to the public at 6:30 p.m., at Graceview Baptist Church, 22510 Tomball Parkway, Tomball, Texas, on September 1, 2005, pursuant to the notice of said meeting posted in accordance with Chapter 551 of the Texas Government Code; whereupon the roll was called of the members of the Board, to-wit:

Roy P. Lackey	President
Tiffani C. Bishop	Vice President/Investment Officer
Sharon L. Cook	Secretary
Drexel Moerbe	Assistant Secretary
Michael J. Ward	Treasurer

All members of the Board were present, except Director Ward. Also attending were Mike Plunkett of Eagle Water Management, Inc. ("Operator"); Bob D. Boozer, P.E., of Pate Engineers, Inc. ("Engineer"); David Summerlin of P. J. Hargis & Associates ("Bookkeeper"); David McGowen of KB Home ("KB"); A.J. Sullivan of Willow Falls Development, Ltd. ("Willow Falls"); Marsha Jan and Mike McCall of McCall, Gibson & Company ("Auditor"); Cecil Pearson, resident of the District; and Andrew P. Johnson, III, Kaye C. Corprew and Marian D. Henderson of Johnson Radcliffe Petrov & Bobbitt PLLC ("Attorneys").

The President, after finding that notice of the meeting was posted as required by law and determining that a quorum of the Board was present, called the meeting to order at 6:58 p.m. and declared it open for such business as may come before it.

1. PUBLIC COMMENTS. The President first recognized Mr. Pearson. Mr. Pearson stated that he would like a response to his letter of August 25, 2005 addressed to the President of the Board wherein he has requested that the District install a fence along the drainage easement behind his property, a copy of which letter is attached hereto as Exhibit "A". The President stated that the Board would like to seek the advice of legal counsel prior to responding. Upon motion by Director Cook, seconded by Director Bishop, and with all Directors voting aye, the Board convened in Executive Session at 7:00 p.m. to discuss matters subject to the attorney-client privilege pursuant to Section 551.071, Texas Government Code, as amended. The President reconvened the meeting at 7:10 p.m. Upon reconvening the meeting, Mr. Johnson stated that the Board could not take action on Mr. Pearson's request for several reasons, including, but not limited to: the drainage ditch behind Mr. Pearson's property had been constructed in accordance with standard, county and state-approved engineering guidelines, it is not economically feasible to honor Mr. Pearson's request, and the presence of the drainage ditch behind Mr. Pearson's property pose any unreasonable threat to public safety. Mr. Pearson further

stated that the swale is causing his property to erode. The President requested the Operator to inspect the swale as soon as possible. Mr. Johnson stated that Mr. Pearson purchased the property with knowledge of the swale and, therefore, accepted the condition of the property, as is. Mr. Pearson stated that he will get a petition from the residents to force the Board to take action on his request.

Mr. Pearson stated that he would like to put the Board on notice that he would sue the Board should any child get hurt in the drainage next to his property, that he will purposely go around the neighborhood to get signatures to get the Board to act upon his request and that they had not heard the last of him. Mr. Pearson departed the meeting room at 7:23 p.m.

2. APPROVE MINUTES. The Board then considered approval of the minutes of the meeting of August 4, 2005. Director Lackey stated that he had a couple of corrections to such minutes. Upon motion by Director Cook, seconded by Director Moerbe, after discussion and with all Directors present voting aye, the Board approved the minutes, subject to the corrections noted by Director Lackey.

3. REIMBURSEMENT AUDIT. Mr. McCall next presented and reviewed with the Board a draft of the Report on Applying Agreed-Upon Procedures to Construction, Engineering and Related Costs Reimbursable to Certain Developers (the "Reimbursement Audit") performed in conjunction with the Series 2005 Bonds, which funded August 18, 2005, a copy of which is attached hereto as Exhibit "B". Mr. McCall explained that there are six (6) developers being reimbursed for seven (7) projects out of the Series 2005 Bonds and that two (2) of them, Lennar Homes and Willow Falls, had been approved for reimbursement at the August 18, 2005 Board meeting. Mr. McCall further explained that the Reimbursement Audit he is presenting tonight includes the remaining development projects by DR Horton-Texas, Ltd. ("DR Horton"), KB Home Lone Star LP ("KB"), JEC Texas, Ltd. ("JEC") and A-S 45 Hwy. 249 – Boudreaux L.P. ("A-S 45"). Director Bishop questioned the amount of interest being paid to the developers and stated that she did not want to reward the developers for not getting their invoices in on time by continuing to pay them interest at the rate of interest on the bonds. Ms. Corprew stated that she had made it clear in her letters to the developers when she requested that they submit their invoices to Mr. McCall for review, that the District would only pay interest through September 1, 2005 since that is the date that Mr. McCall had indicated that would be sufficient time to complete the final reimbursement audit. Mr. McCall confirmed that interest had stopped accruing as of September 1, 2005.

Upon motion by Director Cook, seconded by Director Bishop, after discussion and with all Directors present voting aye, the Board approved the Reimbursement Audit.

4. CONVEYANCE OF FACILITIES. Ms. Corprew explained that the Developer Receipts, Utility Conveyance Agreements and the Utility System Conveyances have not yet been executed by DR Horton, KB, JEC or A-S 45, and asked that the Board approve and accept them, subject to the receipt of the executed documents from the developers. Ms. Corprew further stated that A-S 45 had not yet conveyed the Parkway Chevrolet Detention Pond to the District and that there are title issues that still need to be cured before the District can accept such project.

Upon motion by Director Cook, seconded by Director Bishop, after discussion and with all Directors present voting aye, the Board approved the conveyances of facilities from DR Horton, KB, JEC and A-S 45, the conveyance of Detention Pond by A-S 45 and the disbursement of funds to such developers, subject to the receipt of the executed conveyance documents from same and the cure of the title issues by A-S 45.

[Mr. McCall, Ms. Jan and Mr. Summerlin departed the meeting at 7:55 p.m.]

5. OPERATOR'S REPORT. The President next recognized Mr. Plunkett who presented the Operator's Report, including the Termination List, a copy of which is attached hereto as Exhibit "C". Mr. Plunkett then reported that Northwest Harris County Municipal Utility District NO. 15 ("NW15") had remitted payment of the District's invoice for water. Mr. Plunkett reported that the repairs to booster pump no. 5 had been completed. Director Lackey requested that the Operator look into the maintenance issue on Brantley Haven behind Mr. Pearson's property. Upon motion by Director Cook, seconded by Director Bishop, after discussion and with all Directors present voting aye, the Board approved the Operator's Report as presented and authorized termination of the accounts listed on the Termination List for non-payment of water and sewer services in accordance with the provisions of the District's Rate Order.

Mr. Plunkett next presented the Board with a spreadsheet showing Estimated Treatment Costs for the period covering June 2004 through May 2005 as well as a spreadsheet showing the comparable rates of other area districts for the Board's review in connection with annual review of the Rate Order, a copy of which is attached hereto as Exhibit "C-1."

Director Lackey reported on the status of payment from the parents of the boys caught vandalizing the fence at the District's Wastewater Treatment Plant with paint balls. Director Lackey stated that he had been pleased by the parents' response in that they agreed to pay for the damages but even suggested that the Board find some kind of community service for the boys to do. Discussion ensued regarding the various jobs that could be performed by the boys and liability, if any, to the District should the boys be injured while on the District's property. The Board directed the Operator to present to the Board some suggestions for projects at the next Board meeting.

[Mr. Pearson re-entered the meeting during the Operator's Report.]

6. ENGINEER'S REPORT. The President next recognized Mr. Boozer who presented the Engineer's Report, a copy of which is attached hereto as Exhibit "D." Attached to the Engineer's Report are copies of the pay estimates, change orders, utility commitments, and/or the recommendation of award of contracts discussed therein. Mr. Boozer reviewed the Report as follows:

a. Engineer's Action Items. Mr. Boozer explained that the District's Engineer is requesting the following actions be taken by the Board at tonight's meeting: (1) approve Pay Application No. 9 in the amount of \$145,187.57 to Industrial TX Corp. for the construction of Water Plant No. 2; (2) approve Pay Application No. 5 in the

amount of \$14,303.10 to Clearwater Utilities, Inc. for Stonepine, Section 2, water distribution, sanitary sewer and drainage facilities; (3) approve Pay Application No. 10 in the amount of \$937.50 to Triple B Services, LLP for the water distribution, sanitary sewer and drainage facilities to serve Ashford Place, Section 1; (4) approve Pay Application No. 2 in the amount of \$27,494.30 to SLC Construction, L.P. for water, sewer and drainage facilities to serve Ashford Place, Section 2; and (5) approve Pay Application No. 11 in the amount of \$1,434.50 to Triple B Service, L.L.P. for water, sewer and drainage to serve Northern Point, Section 3 (collectively referred to herein as the "Engineer Action Items").

b. Water Plant No. 2. Mr. Boozer reported that the contractor has completed the blast cleaning on the ground storage tank and presented a stack of photographs depicting the various stages of the blast cleaning and the results, a copy of which is attached hereto as Exhibit "D-1". Discussion ensued regarding the aesthetics of the tank with Directors Cook and Bishop stating that the tanks look the same to them after the blast cleaning. Mr. Boozer and Mr. Johnson stated that the Board does not have to accept the tanks in their present condition. Director Bishop stated that although she is not satisfied with the looks of the tanks, she does not want to delay putting them in service due to the rate of development. The Board discussed either painting the tanks or taking some sort of deduction in the contract price. Director Lackey stated that he had contacted the manufacturer and that the panels had been improperly stored in that they were stored lying flat instead of standing up so as not to damage the finish nor were they kept dry as required by the contract specifications. Director Lackey reported that the Contractor had been aware of the proper storage method but just did not adhere to it. Mr. Boozer then stated that he would get estimates of costs to paint the tanks.

c. Wastewater Treatment Plant. Mr. Boozer reported that as of September 1, 2005, the project is approximately 96% complete.

d. District Maintenance Building. Mr. Boozer reported that there is an issue with the Fire Marshall with respect to District maintenance building and that the project is not ready for bidding. Mr. Boozer also stated that he had a problem with placing his seal on the design specifications for the building which included mechanical, electrical and plumbing as well as structural since they had been included in the documents, and he requested Mr. Johnson's guidance in the matter. Mr. Johnson indicated that he would look into the matter and come up with a plan.

e. Development Inquiries. Mr. Boozer reported that he had received a phone call from a lady on Ezekiel who is interested in developing an eldercare facility.

Upon motion by Director Cook, seconded by Director Bishop, after discussion and with all Directors present voting aye, the Board approved the Engineer's Report and the Action Items.

7. DEVELOPER'S REPORTS. Mr. Sullivan thanked the Board for its assistance in development of the Willow Falls Project and requested that the Board consider using Surplus Funds, if any, for further reimbursements to the Developers.

Mr. McGowan reported that the detention pond should be completed within the next month and a half with respect to the Northern Point development.

8. ATTORNEY'S REPORT. Director Lackey next recognized Ms. Corprew, who presented the Attorney's Report, a copy of which is attached hereto as Exhibit "E". Ms. Corprew directed the Board's attention to the written report as follows:

a. Ms. Corprew first distributed a proposed amendment to the Water, Sewer and Drainage Facilities Reimbursement Agreement with Willow Falls, a copy of which is attached to the Attorney's Report. Ms. Corprew explained that the purpose of the amendment is to allow WF Residential, Ltd. to participate in the reimbursement associated with the financing and constructing of facilities to serve the Willow Falls, Section 4 subdivision.

b. Ms. Corprew also reported that the Second Amendment to the Emergency Water Supply Agreement with NW15 has been forwarded to NW15 for review and approval along with an invoice for \$2,384.92 which according to Mr. Plunkett's report tonight, has been paid.

c. Finally, Ms. Corprew directed the Board's attention to the letter addressed to Harris County attached to the Attorney's Report, wherein the District is requesting that a fourth (4th) deputy be added to patrol the District and that the Interlocal Agreement for Law Enforcement Services between the District and the County be amended to that end. No action was taken on this matter.

Upon motion by Director Cook, seconded by Director Bishop, after discussion and with all Directors present voting aye, the Board approved the Attorney's Report as amended.

9. MISCELLANEOUS. Director Lackey noted that Mr. Pearson had re-entered the meeting and asked whether or not he had anything else to say to the Board. Mr. Pearson requested a letter detailing the Board's "no action" on his request. Mr. Johnson stated that there is no need for a letter or any further explanation. The Board listened to his request and deemed that no action is necessary. Mr. Pearson stated that the Board is being unreasonable in denying his request and even more so by refusing to respond to his letter in writing. Mr. Pearson further stated that the Board had not heard the last from him.

Director Moerbe stated that he has entered into a contract for the sale of his house and will be moving to North Hampton, but that he will not close until sometime after the next meeting.

THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, the meeting was adjourned.

Passed and approved this 6th day of October, 2005.

Secretary, Board of Directors

EXHIBITS:

- A - Cecil Pearson Correspondence
- B - Draft Reimbursement Audit
- C - Operator's Report
- C-1- Estimated Treatment Costs
- D - Engineer's Report
- D-1- Photographs of Ground Storage Tank
- E - Attorney's Report