

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 368

MINUTES OF BOARD OF DIRECTORS MEETING

July 6, 2006

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 July 6, 2006, 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
Michael J. Ward	Treasurer
Allison Dunn	Assistant Secretary

All members of the Board were present. Also attending were Mike Plunkett of Eagle Water Management, Inc. ("Operator"); Mark Stendahl, P.E. and Eric Johnson, P.E. of Pate Engineers, Inc. ("Engineer"); A. J. Sullivan and Tony Padua of Sam Yager, Inc. ("Yager"); Doug Sebastian of KB Home ("KB"); and Kaye C. Corprew, attorney, and Marian D. Henderson, paralegal, of Johnson Radcliffe Petrov & Bobbitt PLLC ("Attorney").

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 and declared it open for such business as may come before it at 7:07 p.m.

1. PUBLIC COMMENT. There was no public comment.
2. APPROVE MINUTES. The Board next tabled approval of the minutes of the May 18, 2006, June 1, 2006 and June 6, 2006 meetings.
3. PAYMENT OF INVOICES. No invoices were presented for payment.
4. OPERATOR'S REPORT. The President next recognized Mr. Plunkett who presented the monthly Operations Report, a copy of which is attached hereto as Exhibit "A".
 - a. Report on Monthly Operations. Mr. Plunkett reported that the District had a 99.79% water accountability ratio with 2,763 accounts. Mr. Plunkett next reported that he is in the process of amending the District's groundwater withdrawal permit to increase it by 50 million gallons in order to complete the permit term which expires August 31, 2006.
 - b. Status of items to be repaired and/or replaced at District facilities. Mr. Plunkett next reported that the roofs have been completed at the Water Plant

and the Wastewater Treatment Plant. Discussion then ensued regarding the condition of the Parkway, Ashford Place and Northern Point Detention Ponds and whether or not they are eligible to be added to the District's maintenance schedule with Champions Hydro-Lawn. Mr. Johnson stated that the developer has more work to perform on the Northern Point Detention Pond but that the Parkway and Ashford Place ponds have been conveyed to the District and are ready to be added to the District's maintenance schedule at a cost of \$15,000 per year and \$23,000 per year, respectively.

Upon motion by Director Ward, seconded by Director Lackey, after discussion and with all Directors present voting aye, the Board approved the Operator's Report, authorized termination of service of delinquent customers in accordance with the provisions of the District's Rate Order, and directed the Operator to add the Parkway and Ashford Place Detention Ponds to the District's maintenance schedule with Champions Hydro-Lawn.

5. ENGINEER'S REPORT. The President then recognized Messrs. Stendahl and Johnson, who presented the Engineer's Report, a copy of which is attached hereto as Exhibit "B".

a. Engineer's Action Items. Mr. Johnson first directed the Board's attention to Pay Application No. 13 with respect to Water Plant No. 2 in the amount of \$118,729.32, which amount reflects a reduction in retainage from 10% to 5%. Discussion ensued regarding the status of the project and potential liquidated damages to be assessed to the Contractor for failure to complete the project on time. Upon motion by Director Cook, seconded by Director Lackey, after discussion and with all Directors present voting aye, the Board approved Pay Application No. 13 in the amount of \$105,129.32, the amount requested less liquidated damages of \$13,600.00 (\$400.00 per day X 34 days).

b. Water Plant No. 2 (Industrial TX Corp.). Mr. Stendahl reported that the contractor reached substantial completion on the project on June 15, 2006. Upon motion by Director Lackey, seconded by Director Cook, after discussion and with all Directors present voting aye, the Board declared Water Plant No. 2 substantially complete as of June 15, 2006 and directed the Attorney to add Water Plant No. 2 valued at \$2,150,536 to the District's property schedule with AquaSurance. Discussion then ensued regarding the need to get Water Well No. 5 on line due to the high volume of water being used by the District's customers. Mr. Stendahl discussed re-submittal of the request to the Texas Commission on Environmental Quality ("TCEQ") with all supporting documentation and expressing the necessity to put the well on-line.

c. Wastewater Treatment Plant – Phase 4 Expansion. Mr. Stendahl reported that the design work is continuing and that the Engineer plans to conduct a 70% review meeting with the Board President and Operator on July 23, 2006.

d. Bond Application No. 9. Mr. Stendahl reported that the Bond Application Report for Bond Issue No. 9 is approximately 75% complete and requested Board approval to submit it to the TCEQ pending review by the Board and the District's

consultants. Mr. Johnson reported that they are waiting on additional information from Great America Company regarding the Ashford Place development to complete the Application. Discussion then ensued regarding the need for an additional generator in order to avoid tying up the District's only generator in one area, such as the Northern Point Detention Pond, when the District also needs it to move sanitary sewer flow during a power outage. The Board decided to defer this matter to the next meeting.

e. Channel M-122 Maintenance. Mr. Johnson reported that the Engineer has not completed the engineering proposal for preparing the plans for the Boudreaux Road (Harris County Channel M-122) maintenance project and submitting them to Harris County for approval.

f. Willow Falls, Section Three. Mr. Johnson reported that they are still waiting on Harris County to inspect the project.

g. Ashford Place, Sections 2 & 3, WS&D. Mr. Johnson reported that as of June 1, 2006, the water, sewer and drainage projects for Ashford Place, Sections 2 and 3, were approximately 90% and 98% complete, respectively, and the developer was waiting on the Harris County Engineering Department to schedule an inspection. Mr. Johnson also reported that Triple B Construction fixed the separation next to the lift station.

h. Northpointe East. Discussion next ensued regarding the condition of the roads in Northpointe East subdivision, particularly the missing street signs and broken curb stops and the need to get them approved and accepted by Harris County.

i. Northpointe Boulevard. Mr. Johnson stated that he could request a copy of the approved plans from Harris County and Ms. Corprew suggested that she write a letter to the developer requesting a copy of the final plans for the public streets and utilities approved by Harris County and a copy of the recorded plat, as required by the District's Reimbursement Agreement with JEC Texas, Ltd. Upon motion by Director Lackey, seconded by Director Cook, with all Directors present voting aye, the Board authorized the attorney to send a letter to Focus Commercial Real Estate/JEC Texas, Ltd., the developer of the Walgreen's tract, requesting the final plans and recorded plat, and authorized the Engineer to secure plans from Harris County.

Upon motion by Director Ward, seconded by Director Dunn, after discussion and with all Directors present voting aye, the Board approved the Engineer's Report.

6. DEVELOPERS' REPORT. The President next called for the Developers' Report, first recognizing Mr. Padau. Mr. Padau reported that Willow Falls has a new product that gives potential buyers more choices and that design had started in Section 4. Mr. Sullivan added that he anticipates a temporary decline in sales until the models of the new designs are completed. Mr. Sebastian reported that KB Home has started construction in Sections 4 and 5 of Northern

Point and that they were running out of lots in Section 3. Mr. Sebastian further reported that KB Home is averaging 5 home sales per month in Sections 3 and 4.

7. ATTORNEY'S REPORT. Ms. Corprew stated that the only item under her report is the amendment to the Rate Order regarding security fees. Discussion ensued with regard to the amount that should be assessed to commercial property for security services. Mr. Plunkett also suggested the Board consider increasing the amount the District is charging customers for the North Harris County Regional Water Authority pumpage fee due to lost water since the District is currently losing money. The Board requested that the District's Operator and Bookkeeper be prepared to make a recommendation at the next meeting at which time the Board would consider both proposed amendment items.

THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, upon motion by Director Bishop, seconded by Director Cook, with all Directors present voting aye, the President adjourned the meeting at 8:55 p.m.

Passed and approved this 3rd day of August, 2006.

Secretary, Board of Directors

EXHIBITS:

- A - Operator's Report
- B - Engineer's Report