

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 368

MINUTES OF BOARD OF DIRECTORS MEETING

October 5, 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 October 5, 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"); Eric Johnson, P.E. and Mark Stendahl, P.E. of Pate Engineers, Inc. ("Engineer"); Tony Padua of Sam Yager, Inc. ("Yager"); Doug Sebastian of KB Home ("KB"); Noel Barfoot of McCall, Gibson & Company, PLLC ("Auditor") 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 6:32 p.m.

1. PUBLIC COMMENT. There were no members of the general public present.
2. APPROVE MINUTES. Upon motion by Director Ward, seconded by Director Cook, after discussion and with all Directors present voting aye, the Board approved the minutes of the August 17, 2006 meeting, as revised. Upon motion by Director Ward, seconded by Director Cook, after discussion and with all Directors present voting aye, except Director Lackey who abstained, the Board approved the minutes of the September 7, 2006 meeting, as presented.
3. REVIEW AND APPROVE ANNUAL AUDIT REPORT FOR FISCAL YEAR ENDED 05/31/2006. The President recognized Mr. Barfoot who presented and reviewed with the Board, the Annual Audit Report for Fiscal Year Ended May 31, 2006, a copy of which is attached hereto as Exhibit "A". Mr. Barfoot directed the Board's attention to Notes 13 through 15, inclusive, regarding the Series 2006 Refunding Bond issue, 2006 Advanced Defeasance of Bonds and the Series 2005 Bond sale, respectively. Upon motion by Director Bishop, seconded by Director Lackey, after discussion and with all Directors present voting aye, the Board approved the Annual Audit Report, subject to final review and comment by the District's

Attorneys. [Mr. Barfoot exited the meeting at this time.]

4. PAYMENT OF INVOICES. Tabled.

5. OPERATOR'S REPORT. The President next recognized Mr. Plunkett who presented the monthly Operations Report, a copy of which is attached hereto as Exhibit "B".

a. Report on Monthly Operations. Mr. Plunkett reported that the District had a 92.5% accountability rate with 2,830 accounts. Mr. Plunkett also reported that the building for storing sodium hypochlorite had been installed at Water Plant No. 1.

b. WaterWise Program Participation. Director Dunn updated the Board on the WaterWise presentation at Kohrville Elementary School. Director Dunn reported that the students received the presentation well and were very enthusiastic about the materials included in the kits (aerator, dye to detect leaks and a CD with games). Director Dunn stated that there was a forty-five minute PowerPoint presentation.

c. Termination of service and/or write off of delinquent accounts. The Operator next directed the Board's attention to Cut-off List, a copy of which is attached to the Operator's Report.

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d. Additional Requests by Operator. Mr. Plunkett reported that Champions HydroLawn was requesting that the District clean the pilot channels at an estimated cost of \$44,841.00. Discussion ensued regarding the condition of the pilot channels and it was noted that the Ashford Place channel is in satisfactory condition and needs no work. Upon motion by Director Ward, seconded by Director Dunn, after further discussion and with all Directors present voting aye, the Board authorized Champions HydroLawn to clean all the pilot channels within the District, with the exception of the Ashford Place channel at a reduced cost of \$43,041.00.

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 and authorized termination of service of delinquent customers in accordance with the provisions of the District's Rate Order.

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

a. Engineer's Action Items. The District's Engineer is requesting the following actions be taken by the Board at tonight's meeting: (1) approve Change Order No. 1 for Ashford Place, Section 2 water, sewer and drainage facilities (the "Ashford WS&D") for a reduction in contract price in the amount of \$62,840.00; and (2) approve Pay Application No. 5 and FINAL for the Ashford WS&D in the

amount of \$25,309.04 (collectively referred to herein as the "Engineer Action Items").

b. Construction and maintenance projects, including pay estimates, change orders for trailer-mounted engine generator set. Mr. Johnson reported that the original target for delivery, demonstration, and training for the District's new trailer-mounted engine generator had been August 15. The manufacturer has now advised that the District should be prepared to inspect the unit the week of October 16, 2006 in Arlington, Texas.

c. Architectural design plans for construction of District maintenance building. Mr. Stendahl reported that Mr. Weiler expects to complete the design and have bid documents ready by the end of October.

d. Motor Control Center and Controls Replacement at Water Plant No.1. Mr. Stendahl reported that the work was authorized on September 21, 2006, and a site visit to start the work is scheduled for October 10, 2006.

e. Engineering design plans for Wastewater Treatment Plant Expansion, Phase IV, to 1.275 million gallons per day. Mr. Stendahl reported that the design work is nearly complete and the 90% review meeting with the Board President and Operator has been scheduled for October 10, 2006. Mid-October is still the target date for submittal of the plans to the review agencies.

f. Boudreaux Road Outfall Drainage Control Improvements. Mr. Johnson reported that they had received comments from Harris County and are revising the plans accordingly.

g. Water Well No. 4. Mr. Stendahl stated that the pump motor is scheduled to be reinstalled into Water Well No. 4 on October 23, 2006 and then suggested he and Director Lackey go to Lubbock, Texas to inspect it before it is reassembled. Ms. Corprew requested that further discussion of this matter be conducted in Executive Session.

h. Bond Application No. 9. Mr. Johnson reported that work is approximately 90% complete and that the Engineer is revising the report to match the new format recently approved by the Texas Commission on Environmental Quality.

Upon motion by Director Cook, seconded by Director Lackey, after discussion and with all Directors present voting aye, the Board approved the Engineer's Report as presented, including approval of the Engineering Action Items, and authorizing the Engineer and Director Lackey to travel to Lubbock and Arlington, Texas for inspection of the well pump motor and trailer-mounted generator, respectively.

7. DEVELOPERS REPORT. The President next recognized Mr. Padau of Yager who reported that homebuilders are finishing up Willow Falls, Sections 1 and 2. Mr. Sebastian

of KB reported that they had 15 closings in Northern Point in September and that there were 116 lots that do not have starts on them. Mr. Sebastian also reported that they held their first homeowners association meeting in September.

8. EXECUTIVE SESSION. At 7:43 p.m., the President called an Executive Session pursuant to 551.071(a) (1) to seek advice from counsel regarding contract negotiations and potential litigation concerning the repairs to Water Well No. 4 pump motor. All attendees were dismissed, with the exception of the Board, Engineers, Operator and Attorneys. At 8:00 p.m., the President declared the Executive Session over. No action was taken.

THERE BEING NO FURTHER BUSINESS TO COME BEFORE THE BOARD, upon motion by Director Cook, seconded by Director Bishop, with all Directors present voting aye, the President adjourned the meeting at 8:03 p.m.

Passed and approved this 2nd day of November, 2006.

Secretary, Board of Directors

EXHIBITS:

- A - Annual Audit Report
- B - Operator's Report
- C - Engineer's Report