

MINUTES
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 365

August 16, 2012

The Board of Directors (the "Board") of Harris County Municipal Utility District No. 365 (the "District") met in regular session, open to the public, on the 16th day of August, 2012, at the offices of Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2400, Houston, Texas, outside the boundaries of the District, and the roll was called of the members of the Board:

Joe Myers	President
Megan Bradley	Vice President
Alan Silverman	Secretary
Mike Vandewater	Assistant Secretary
Paul Bland	Assistant Vice President

and all of the above were present.

Also present at the meeting were Elizabeth S. Bradley, District resident; Kristen Scott of Bob Leared Interests, Inc.; Greg Coleman of Beazer Homes of Texas ("Beazer"); Shirley McLennan of McLennan & Associates; Brian Bare and Ross Madia of Si Environmental, LLC ("SI"); Chris Burke of Sander Engineering Corporation ("SEC"); Sherri Greenwood of BKD, Inc.; Dan McDonald of SIG/McDonald & Wessendorff; and Alia Vinson, Nikole Cayles and Jane Miller of Allen Boone Humphries Robinson LLP ("ABHR").

PUBLIC COMMENT

There was no public comment.

UPDATE ON PROPOSED PRIVATE SANITARY SEWER LINE CONVEYANCE

Ms. Vinson discussed the status of conveyance of a private sanitary sewer line within Coles Crossing South.

MINUTES

The Board considered approving the minutes of the August 8, 2012, special meeting and the July 25, 2012, regular meeting. Upon a motion made by Director Vandewater and seconded by Director Bradley, the Board voted unanimously to approve the minutes of the August 8, 2012, special meeting and the July 25, 2012, regular meeting, as amended.

TAX ASSESSMENT AND COLLECTION MATTERS

Ms. Scott reviewed the District's monthly tax report, noting that 99.6% of the 2011 taxes had been collected as of the end of July, 2012. Ms. Scott also reported regarding current taxable values, anticipated date for release of certified value and the delinquent tax report. After discussion, Director Silverman moved to approve the tax assessor/collector's report, and the checks drawn on the District's tax account. Director Bradley seconded the motion, which passed unanimously. A copy of the tax assessor/collector's report and delinquent tax report are attached.

2012 TAX RATE

The Board took no action on this agenda item.

AUDIT FOR FISCAL YEAR END AUGUST 31, 2012

Ms. Greenwood reviewed a proposal for auditing services from BKD. Ms. Greenwood stated the estimated fees are \$16,000 plus estimated expenses totaling no more than \$500 for the District's audit and \$1,900 to audit each joint facility account. After discussion, Director Silverman moved to approve the audit proposals from BKD, LLP. The motion was seconded by Director Bland, and passed unanimously.

FINANCIAL AND BOOKKEEPING MATTERS

Ms. McLennan then reviewed with the Board the bookkeeper's report, investment report, and the bills and checks presented for payment. Discussion ensued regarding funds collected for services billed by SWWC, Inc. and bookkeeping procedures for providing notice to SWWC, Inc. of any disputed billings.

Ms. McLennan next reviewed a draft budget for the fiscal year ending August 31, 2013 and discussed revising line items for consolidation issues, water revenue and audit expenses.

After review and discussion, and upon a motion made by Director Silverman and seconded by Director Bradley, the Board voted unanimously to: (1) approve the bookkeeper's report; (2) approve payment of the bills; and (3) approve the budget for the fiscal year ending August 31, 2013.

RENEWAL OF DISTRICT'S INSURANCE

The Board discussed the August 31, 2012 expiration of the District's current insurance policies through SIG/McDonald & Wessendorff. Mr. McDonald reviewed the boiler machinery premium proposals, including discussion regarding minimum deductibles, from Traveler's Insurance and Chubb Group. Following discussion, Director Vandewater moved to renew the District's insurance with the Traveler's

Insurance other than boiler machinery coverage, and approve the Chubb Group proposal for boiler machinery coverage. The motion, which was seconded by Director Bland, passed unanimously.

AGREED UPON PROCEDURES REPORT REGARDING CUSTOMER BILLING AND FUNDS ACCOUNTING BY SWWC, INC.

Ms. Greenwood said the originally envisioned scope of work for the Agreed Upon Procedures Report has changed because BKD has not received information originally anticipated from SWWC, Inc. The Board and Ms. Greenwood discussed the SWWC, Inc. information available and the appropriate deliverable. Following discussion, Director Silverman moved to authorize BKD to prepare a separate report identifying potential losses concurrent with the fiscal year end audit and to track BKD fees for this report separately from the year end audit fees. Director Bradley seconded the motion, which passed unanimously.

OPERATION OF DISTRICT WATER, SANITARY SEWER, AND STORMWATER FACILITIES AND TERMINATION OF WATER SERVICE TO DELINQUENT CUSTOMERS

Mr. Bare reviewed the operations report, a copy of which is attached. Mr. Bare discussed maintenance and repairs completed during the month of July, 2012 including cleaning the onsite lift station and the sludge return line and replacing the breaker on pump no. 2 at the wastewater treatment plant.

The Board raised several customer service complaints received. Mr. Madia discussed customer service issues, including additional staffing, call statistics and reduction of call time.

Mr. Bare reported first meter reads were completed on June 11, 2012, bills were delivered in July and delinquent letters were delivered thereafter. He said, pursuant to the Rate Order, the disconnection date would be September 6, 2012. The Board discussed with Mr. Bare and Mr. Madia customer payments sent to the wrong location, including Compass Bank and SWWC, Inc., and notifying residents of payment locations and options via the District website and the emergency messaging system. The Board also discussed placing door tags notifying delinquent customers that under normal circumstances service would be disconnected on September 6.

Mr. Burke discussed with the Board permitted flows at the wastewater treatment plant and notification provided to TCEQ last year regarding planning for the next phase of the current permit.

Mr. Bare reviewed an estimate for repairs generated from the valve survey. The Board discussed with Mr. Bare valves that could not be located. Mr. Bare also said that

the valves were never fully exercised. The Board requested that an agenda item be placed on the annual agenda calendar for August to authorize exercise the valves.

Mr. Bare also reported on test results for the meter at the District's Spring Cypress interconnect with Northwest Harris County Municipal Utility District No. 10 ("No. 10"). He then reviewed a proposal for \$10,000 to replace the Spring Cypress Road interconnect meter. Mr. Bare did not recommend replacement of the meter and the Board concurred. Mr. Bare said that the valves are locked on No. 10's side of the meter and that SI is installing a locking a box on the District's side of the meter.

Following review and discussion, Director Silverman made, and Director Bland seconded, a motion to (1) accept the District operator's report; (2) authorize an emergency message through Classic Messaging, LLC to the opt-in list regarding payment locations and options; (3) authorize the District operator to tag the delinquent list customers with a warning only; (4) defer terminations for the month of August, 2012; (5) authorize ABHR to notify No. 10 that the District has decided not to replace the Spring Cypress Road interconnect meter at this time; and (6) authorize the District operator to make the valve repairs, as recommended. The motion carried by unanimous vote.

AMENDED RATE ORDER

The Board took no action on this agenda item.

REPORT REGARDING DEVELOPMENT IN THE DISTRICT

The Board received a report from Mr. Coleman regarding the number of homes sold to date, current sales and development within The Park at Arbordale. Mr. Coleman also discussed construction of the utility portion of the Park at Arbordale, Phase 2 contract, and said that the project is substantially complete, TCEQ inspected the facilities last week, and Beazer is addressing corrective action requested by TCEQ. Mr. Coleman requested the Board authorize issuance of a letter to Ashton Woods stating that the facilities are substantially complete and explaining the future conveyance of the facilities to the District. Following discussion, Director Silver moved to instruct SEC and ABHR to work with Beazer to prepare the letter. Director Bradley seconded the motion which passed unanimously.

Mr. Coleman also discussed with the Board a trail piece connecting the cul de sacs in Phase 2 to the No. 364 trail, including adjustment of the drainage swales adjacent to the trail to facilitate moving water and reducing ponding on the trail.

ENGINEERING MATTERS

The Board reviewed a written engineer's report submitted by SEC on the status of various projects in the District as follows in these minutes. A copy of the engineer's report is attached.

STORMWATER CHANNEL MAINTENANCE

Mr. Burke said that Seaback Maintenance mowed in July, 2012 and presented invoices for same.

WASTEWATER TREATMENT PLANT TANK CONDITION

There was no additional discussion on this agenda item.

UTILITY AVAILABILITY REQUESTS

Mr. Burke reported that he received a letter from No. 10 requesting verification of available wastewater treatment plant capacity for a No. 10 permit amendment. He said that he returned a response to No. 10 stating that the District has no available wastewater treatment plant capacity.

CORROSION AT WATER PLANT NOS. 1 AND 2

Mr. Burke reported repairs at ground storage tank no. 2 at water plant no. 2 are complete and a final invoice less retainage will be submitted for payment at the September, 2012 meeting. He said that the contractor is addressing pinhole leaks at ground storage tank no. 1, but said that ground storage tank no. 2 is holding well with no leaks.

REHABILITATION OF WATER WELL NO. 3

Mr. Burke then reported that rehabilitation of water well no. 3 is complete and the final pay estimate will be submitted at the September, 2012 meeting.

WATER, SEWER AND DRAINAGE FACILITIES TO SERVE THE PARK AT ARBORDALE, PHASE 2

There was no additional discussion on this agenda item.

WASTEWATER TREATMENT PLANT PERMIT

There was no additional discussion on this agenda item.

PROPOSAL FOR VALVE SURVEY AND REPAIRS

There was no additional discussion on this agenda item.

EMERGENCY INTERCONNECTS

There was no additional discussion on this agenda item.

DEEDS, EASEMENTS, AND ENCROACHMENTS

There was no additional discussion on this agenda item.

STOP SIGN ON MONTEIGNE

Mr. Burke said that Harris County Precinct 3 ("Precinct 3") has determined to use traffic survey numbers from two years ago to determine the necessity of placing a stop sign on Montaigne. Director Silverman requested the contact information for the Precinct 3 official responsible for the determination that no sign is necessary.

U.S. HIGHWAY 290 IMPROVEMENTS

Mr. Burke reported that the Texas Department of Transportation had a coordination meeting last week regarding U.S. Highway 290 improvements. Mr. Burke said that he does not anticipate the District will be required to move any facilities in connection with the improvements.

GEOGRAPHICAL INFORMATION SYSTEM

There was no additional discussion on this agenda item.

UPDATE OF EMERGENCY PREPAREDNESS PLAN

There was no additional discussion on this agenda item.

POSSIBLE CONSOLIDATION OF DISTRICT AND HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 364 ("NO. 364")

Ms. Vinson reported on the next round of documents to be produced as part of the due diligence period between the District and No. 364.

SEPTEMBER REGULAR AND SPECIAL MEETING AGENDAS AND CONSULTANTS ATTENDANCE

The Board concurred to (1) hold a special meeting in the District on September 13, 2012, at 7:00 p.m. and a regular meeting on September 20, 2012, at noon in the offices

of ABHR; (2) to authorize ABHR to prepare a consent agenda for the September 20, 2012, regular meeting; and (3) require that consultants submit reports to ABHR as part of a Board review packet to be delivered the Friday before the meeting by 5:00 p.m. Ms. Vinson said that an agenda item to approve action taken this month will be placed on the September, 2012 regular agenda.

EXECUTIVE SESSION PURSUANT TO SECTION 551.071, TEXAS GOVERNMENT CODE, TO CONDUCT A PRIVATE CONSULTATION WITH ATTORNEY TO DISCUSS PENDING OR CONTEMPLATED LITIGATION, OR A SETTLEMENT OFFER

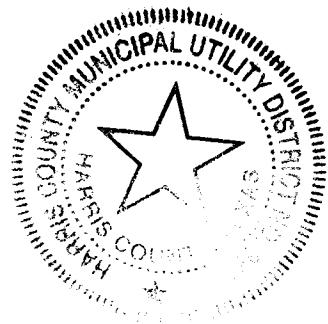
At 2:12 p.m., Director Myers announced that the Board would convene in executive session to conduct a private consultation with its attorney to discuss pending or contemplated litigation.

RECONVENE IN OPEN SESSION AND AUTHORIZE APPROPRIATE ACTION

Director Myers announced the Board would reconvene in open session at 2:15 p.m. Following discussion in executive session, Director Silverman moved to authorize Mitchell & Duff, LLC to proceed with discovery, but require further Board authorization to continue with discovery if the Defendant files an affirmative defense, a counterclaim or bankruptcy. Director Bland seconded the motion which passed unanimously.

There being no additional business to consider, the meeting was adjourned.

(SEAL)



Ass't. Secretary

Secretary, Board of Directors

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