

MINUTES OF MEETING OF BOARD OF DIRECTORS
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1
July 20, 2007

THE STATE OF TEXAS §
COUNTY OF HARRIS §
CYPRESS HILL MUNICIPAL UTILITY DISTRICT NO. 1 §

The Board of Directors (the "Board") of Cypress Hill Municipal Utility District No. 1 (the "District") met in regular session, open to the public, at the offices of Fulbright & Jaworski L.L.P. at 1301 McKinney, Houston, Texas, on July 20, 2007, at 11:00 a.m.; whereupon the roll was called of the members of the Board, to-wit:

Ronald S. Koehn, President
Robert Henry, Vice President
Alex Handley, Treasurer
Tim Halloran, Secretary
Jerry Bryant, Assistant Secretary

All members of the Board were present, except Director Henry. Also attending all or portions of the meeting were Ms. Wendy Austin of District Data Services, Inc., bookkeeper for the District; Mr. John Brock of AquaServices L.P., operator for the District; Mr. Alan Hirshman of Dannenbaum Engineering Corp. ("DEC"), engineer for the District; Ms. Donna Bryant of Assessments of the Southwest, tax assessor-collector for the District; Mr. Bill Hixon of Cymill Partners, developer of land within the District; Mr. Jimmy Pappas of Corinthian Fry Road Investors; Mr. Greg Sissel of Baird Kurtz & Dobson ("BKD"), auditor for the District; and Mr. Oliver Pennington and Ms. Yvette Deitrick of Fulbright & Jaworski L.L.P. ("F&J"), attorneys for the District.

The meeting was called to order in accordance with the notice posted pursuant to law: Chapter 551, Texas Government Code and Section 49.063, Texas Water Code (copies of certificates of posting or mailing are attached hereto as Exhibit "A"); and the following business was transacted:

1. **Minutes.** The proposed minutes of the meeting of June 15, 2007, previously distributed to the Board, were presented for review and approval. Upon motion by Director Bryant, seconded by Director Handley, after full discussion and the question being put to the Board, the Board voted unanimously to approve the minutes of June 15, 2007, as presented.

2. **Public Comments and letters from residents.** The Board reviewed the letter by Mr. Williams which was sent to Aqua Services regarding trash service, a copy of which is attached hereto as Exhibit "B." The Board instructed Mr. Brock to forward the letter to WCA Corporation. The Board asked Ms. Deitrick to contact the resident to inform him that his letter would be forwarded to the trash company.

The President reported that he contacted Ms. Cauthen regarding her letter in the Cypress Hill Homeowner Association Newsletter. He stated that Ms. Cauthen said she had no concerns and that she would send a retraction to the Cypress Hill Homeowner Association Newsletter.

3. **Security report and any necessary action.** Director Handley reviewed the security report for the month of June, a copy of which is attached hereto as Exhibit "C." He stated that there has been an increase in juvenile disturbances due to school being out for the summer. Director Handley reported that Wal-Mart has increased the theft prevention staff and is catching more people stealing. He stated that he talked with the deputy, who reported that the District is fairly quiet.

4. **Approve audit for fiscal year ending February 28, 2007.** Mr. Sissel presented to and reviewed with the Board the audit for fiscal year ending February 28, 2007, a copy of which is attached hereto as Exhibit "D."

Mr. Sissel presented to and reviewed with the Board a draft letter to management from BKD in which BKD reported that there were various material weaknesses in the District's internal controls over financial reporting. A copy of the letter is attached hereto as Exhibit "E." Mr. Sissel reported that the letter is due to a new auditing standard. He noted that substantially all water district auditors had agreed that the letter to management was now necessary and that the material weakness found in the District's internal controls over financial reporting is true of virtually all water districts and other small governmental units. He said that the material weakness is that the Board is responsible for having the knowledge to determine whether the financial statements have been properly prepared and are free from potential misstatement, but the Board is an elected body whose members are not experts in governmental accounting. Mr. Sissel said that reliance on consultants who have this expertise does not satisfy the auditing standards because they are not "charged with governance" under the definitions within the auditing standards. Mr. Pennington asked if the Board was being provided accurate financial information on a timely basis. Mr. Sissel confirmed that the Board was receiving sufficient and accurate financial information on a timely basis.

Mr. Sissel said that the Board had the option of responding to the letter and reviewed the draft response that the Board does not feel that the addition of an employee to oversee the financial reporting process is necessary or cost effective.

Upon motion by Director Bryant, seconded by Director Handley, after full discussion and the question being put to the Board, the Board voted unanimously to approve the audit for fiscal year ending February 29, 2007 and to approve the draft response to the management letter that the Board does not feel that the addition of an employee to oversee the financial reporting process is necessary or cost effective.

5. **Developer's Report and Reimbursement Issues.** The President recognized Mr. Hixon, who reported that he received one bid for the detention and clearing work for the 3.7 acre tract of land for \$652,000. He requested the Board authorize the rejection of the bid. Mr. Hixon stated that his engineer was going to redesign the detention plan. Upon motion by Director Handley, seconded by Director Halloran, after full discussion and the question being

put to the Board, the Board voted unanimously to authorize Mr. Hixon to reject the bid for the detention and clearing work.

The President recognized Mr. Pappas, who reported that construction has been delayed due to the rain. Mr. Pennington presented to and reviewed with the Board two Access Easements, a Sanitary Sewer Easement, a Storm Sewer Easement, a Waterline Easement, a Detention Facility Deed and a Lift Station Deed, copies of which are attached hereto as Exhibits "F," "G," "H," "I," "J," "K," and "L," respectively. Mr. Pappas reported that the City of Houston modified its criteria for the lift station so that it will now require a submersible pump. Mr. Pappas said the change in the pump will involve a change order with an increase of \$48,800 to the water and sanitary sewer facilities project to serve The Shoppes at Fry Road. Upon motion by Director Handley, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to accept the two Access Easements, a Sanitary Sewer Easement, a Storm Sewer Easement, a Waterline Easement, a Detention Facility Deed and a Lift Station Deed, and to approve Change Order No. 2 of \$48,800 to the water and sanitary sewer facilities to serve The Shoppes at Fry Road.

Mr. Brock reported that Cypress Landing, Sections One and Two, built by Centex Homes, are approved and that approximately eight taps have been made in that subdivision.

6. Accept Lift Station and Detention Facility Site General Warranty Deeds from Corinthian Fry Road Investors. This item was covered under Developers' Report.

7. Accept waterline, sanitary sewer, storm sewer, access and drainage easements from Corinthian Fry Road Investors. This item was covered under Developers' Report.

8. Report on Refunding of Bonds and Take Any Necessary Acton. Mr. Pennington reported that the refunding bonds transaction is closed and that the District achieved a good rate of savings by the refunding bonds.

9. Recreational Facilities Planning/Harris County Flood Control District Partnership. Director Handley reported that he met with the Cypress Mill Homeowner Association ("HOA") regarding mosquito control. He stated that bids were obtained and recommended approval of two applications of \$450 per spray treatment that is guaranteed to work for thirty days. He stated that it is the same company that performs the mosquito treatment for the HOA and that the company will drive a truck around the detention ponds and spray over the ponds.

Director Handley reported that he also met with the HOA regarding recreational facilities. He stated that there is a limited area left in the District for recreational facilities; however, he wanted the HOA's suggestions and comments. Director Handley reported that the HOA will provide ideas to him.

Mr. Brock reported that he contacted the management company for the HOA for a schematic for the irrigation system to repair the leak. He stated that he has notified the management company and the HOA that the District has approved repair of the leaking

sprinkler. Mr. Brock stated that when the rain stops, the leak will be repaired and that currently, he has turned the sprinkler off as it is unnecessary with all the rain. Director Handley stated that he also notified the HOA that the District approved repair of the leaking sprinkler.

Upon motion by Director Bryant, seconded by Director Halloran, after full discussion and the question being put to the Board, the Board voted unanimously to approve two applications of the mosquito spray treatment for \$450 per treatment.

Mr. Pennington confirmed that the District will have a special meeting in the District on September 13, 2007. He stated that the City of Houston is now taking applications for strategic partnership agreements and asked the Board if it would like to add the two latest commercial tracts to be annexed, specifically Jin's Tae Kwon Do and the upcoming The Shoppes at Fry Road. It was the consensus of the Board to proceed with the addition of the two commercial tracts into the strategic partnership agreement with the City of Houston. The Board discussed notification of the public hearings on the strategic partnership agreement. It was the consensus of the Board to publish notification of the public hearings of the strategic partnership agreement in the newspaper.

10. **Tax Assessor-Collector's Report and payment of bills.** The President recognized Ms. Bryant, who presented to and reviewed with the Board the Tax Assessor-Collector's Report, a copy of which is attached hereto as Exhibit "M." Ms. Bryant noted that 96% of the District's 2006 taxes have been collected as of June 30, 2007. Ms. Bryant reported that the delinquent tax accounts have been turned over to the delinquent tax attorney for collection.

Ms. Bryant presented to and reviewed with the Board a resident letter requesting waiver of penalty and interest, a copy of which is attached hereto as Exhibit "N." Ms. Bryant reported that the resident is currently residing in Louisiana and was unaware of unpaid taxes. Ms. Bryant reported that the resident purchased his home in June 2006 and that the Harris County Appraisal District ("HCAD") notified her office of the change of ownership in February 2007. The Board discussed the factors involved in the resident not knowing of unpaid taxes and decided to waive the penalty and interest as the problem could have been with HCAD.

Upon motion by Director Bryant, seconded by Director Halloran, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Tax-Assessor-Collector's Report, to authorize the expenditures listed therein, and to approve waiver of the \$501.64 in penalty and interest for Mr. Sampson Daruvalla.

11. **Bookkeeper's Report, Review Investment Report and payment of bills.** The President recognized Ms. Austin, who presented to and reviewed with the Board the Bookkeeper's Report, a copy of which is attached hereto as Exhibit "O." Ms. Austin reported that Chubb made an insurance payment for the blower repair at the wastewater treatment plant. Mr. Brock reported that currently two blowers are at the manufacturer and one rented centrifugal blower is being used at the wastewater treatment plant.

Upon motion by Director Handley, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to accept the

Bookkeeper's Report, and to authorize payment of the checks listed therein.

12. **Approve Resolution Appointing Investment Officer.** Mr. Pennington presented to and reviewed with the Board the Resolution Appointing Investment Officer, a copy of which is attached hereto as Exhibit "P." Mr. Pennington reported that the resolution appoints the bookkeeper as the District's investment officer. Director Handley reported that the investment officer is required to obtain training every two years and that he would prefer that the bookkeeper is the District's investment officer. Upon motion by Director Handley, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board approved the Resolution Appointing Investment Officer.

13. **Operator's Report, authorization of maintenance and hearing on delinquent accounts.** The President recognized Mr. Brock, who presented to and reviewed with the Board the Operator's Report, a copy of which is attached hereto as Exhibit "Q." Mr. Brock reviewed the Customer Write Off Report included in the Operator's Report. He requested authorization to write off the accounts and provide them to the District's collection agent.

Mr. Brock reported that the residents may now pay their water bills at Kroger and Gerland. He reviewed the flyer announcing these new payment options with the Board and asked if the announcement should be in the message box on the water bill or as a separate flyer. Director Handley requested Mr. Brock email him the flyer so the District website could be updated with this payment information.

Mr. Brock reported that the North Harris County Regional Water Authority will increase the pumpage fee to \$0.99 per 1,000 gallons on October 1, 2007.

Upon motion by Director Handley, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Operator's Report, to terminate those accounts listed on the delinquent list, to approve the write off of the accounts in the Customer Write Off Report and to approve a separate flyer on the new payment options with the water bill.

14. **Approve Amendment to Exhibit A to Operator's Contract.** Mr. Brock presented to and reviewed with the Board the suggested amended Exhibit "A" to the Operator's Contract, a copy of which is attached hereto as Exhibit "R." Mr. Brock reported that the last increase was in March 2006. He stated that this increase is due to gasoline costs and increase in labor costs. Mr. Brock reviewed possible ways to recover the fee increases. Upon motion by Director Handley, seconded by Director Bryant, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Amendment to Exhibit A to the Operator's Contract.

15. **Approve Amended Rate Order for increase in Operator Fees.** Mr. Pennington presented to and reviewed with the Board the Order Amending and Restating Consolidated Rate and Service Order ("Amended Rate Order"), a copy of which is attached hereto as Exhibit "S." Mr. Pennington stated that the dishonored check fee, termination notice fee, and residential tap fee were changed to recover the increase in fees by Aqua Services and the

North Harris County Regional Water Authority pumpage fee was also changed for the upcoming change in October.

Upon motion by Director Bryant, seconded by Director Handley, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Amended Rate Order.

16. Engineer's Report and any necessary action regarding construction projects, detention pond maintenance and reimbursement expenses. The President recognized Mr. Hirshman, who presented to and reviewed with the Board the Engineer's Report, a copy of which is attached hereto as Exhibit "T."

Mr. Hirshman reported on utility construction in Cypress Landing and Cypress Landing Park. Mr. Hirshman recommended approval of Pay Estimate No. One to Deep South Construction in the amount of \$44,490.15 and Pay Estimate No. Two and Final to Deep South Construction in the amount of \$63,068.35 for the 12 inch offsite waterline. He recommended approval of Pay Estimate No. Three to Cravens Partners, Ltd. in the amount of \$144,597.58 for the 10 inch offsite force main. Mr. Hirshman recommended approval of Pay Estimate No. 5 to SLC Construction, L.P. in the amount of 143,988.76 for the water, sanitary and storm sewer and detention pond facilities. He recommended approval of Pay Estimate No. 6 to Conn's Construction, Inc. in the amount of \$7,190.10 for the Cypress Landing lift station. Mr. Hirshman reported that the developer is completing the model homes and that the lift station will be completed prior to occupancy. Mr. Hirshman recommended approval of Pay Estimate Nos. 5 and 6 to B&D Construction Co., Inc. in the amounts of \$24,777.25 and \$24,788.87, respectively, for the Cypress Landing offsite drainage channel. Mr. Hirshman recommended approval of Pay Estimate No. 3 to Bay Utilities, LLC. in the amount of \$56,107.09 for the water, sanitary sewer, drainage and detention facilities to serve Cypress Landing Park, Section One.

Mr. Hirshman reported that DEC continues work on the new sewer flows for the wastewater treatment plant expansion and the letter to the TCEQ requesting 280 gallons per connection rate.

Mr. Hirshman reported that DEC submitted the elevated storage tank variance request to the Texas Commission on Environmental Quality ("TCEQ") on June 20, 2007. Mr. Hirshman reviewed with the Board the information in the request submittal. He stated that this submittal was a supplement to the request sent eighteen months prior. Mr. Hirshman reported that the TCEQ requires a minimum of 35 pounds per square inch ("psi") in the waterline and that the District currently has 60 psi. He stated that the generator information was also included in the supplemental submittal.

Mr. Hirshman presented for approval Pay Estimate No. 1 to C. F. McDonald Electric, Inc. in the amount of \$22,500.00 for the water plant generator. Mr. Hirshman reviewed the Bookkeeper's Report and noted that the Pay Estimate is not listed in the checks approved. The Board authorized a check to be circulated to pay the Pay Estimate to C.F. McDonald Electric, Inc. in the amount of \$22,500.00.

Mr. Hirshman reported that the Texas Commission on Environmental Quality has

provided the draft final wastewater treatment plant permit on June 27, 2007. He stated that the final publication has occurred. Mr. Hirshman reported that he expects to receive the new permit soon and that it will expire in 2012. He reported that the new limit on the permit is 800,000 gallons. Mr. Brock stated that this will change the testing requirements at the wastewater treatment plant.

Mr. Hirshman reviewed the letter from Brown and Gay Engineers asking if the District has 2,000,000 gallons wastewater treatment capacity available. Mr. Hirshman reported that the District does not have this amount of wastewater treatment capacity available. Upon Board approval, he stated he would reply that the District does not have the surplus wastewater treatment capacity available.

Mr. Hirshman reported that Storm Water Solutions is waiting on a quote from the electrician on how to get power to a sump pump at the pond at Cypress Mill Park.

Upon motion by Director Bryant, seconded by Director Handley, after full discussion and the question being put to the Board, the Board voted unanimously to accept the Engineer's Report; to approve Pay Estimate No. One to Deep South Construction in the amount of \$44,490.15 and Pay Estimate No. Two and Final to Deep South Construction in the amount of \$63,068.35 for the 12 inch offsite waterline; to approve Pay Estimate No. Three to Cravens Partners, Ltd. in the amount of \$144,597.58 for the 10 inch offsite force main; to approve Pay Estimate No. 5 to SLC Construction, L.P. in the amount of 143,988.76 for the water, sanitary and storm sewer and detention pond facilities; to approve Pay Estimate No. 6 to Conn's Construction, Inc. in the amount of \$7,190.10 for the Cypress Landing lift station; to approve Pay Estimate Nos. 5 and 6 to B&D Construction Co., Inc. in the amounts of \$24,777.25 and \$24,788.87, respectively, for the Cypress Landing offsite drainage channel; to approve Pay Estimate No. 3 to Bay Utilities, LLC. in the amount of \$56,107.09 for the water, sanitary sewer, drainage and detention facilities to serve Cypress Landing Park, Section One; to approve Pay Estimate No. 1 to C. F. McDonald Electric, Inc. in the amount of \$22,500.00 with the bookkeeper circulating the check for signatures for this pay estimate; and to authorize Mr. Hirshman to reply that the District does not have 2,000,000 wastewater treatment capacity available to Brown and Gay Engineers.

17. **Consider Acceptance of Easements.** No action was taken on this item.

18. **Report on Association of Water Board Directors Summer Conference.** The President reported on the seminar on the development of walking trails and parks along a detention pond. Mr. Brock discussed the possibility of using gray water for the esplanade of Cypress-Rosehill.

Mr. Pennington reported on weather sensors for irrigation systems to conserve water. He stated that the sensors only cost \$200 and suggested that the District may want to purchase a few sensors to provide to residents to determine the impact of the devices.

19. **Attorney's Report.** Mr. Pennington reported that he was contacted by Harris County regarding waiving service by a sheriff to the President in a condemnation suit. He stated that Harris County is widening Mueschke Road and is pursuing condemnation of land.

Mr. Hirshman questioned what land the county is referencing as the easements recently obtained are not within the county right-of-way. Mr. Pennington provided Mr. Hirshman the contact information he had for Harris County. Upon motion by Director Bryant, seconded by Director Halloran, after full discussion and the question being put to the Board, the Board voted unanimously to authorize Director Koehn to accept service and waive formal service by a sheriff.

20. **Update on purchase of property for off-site rights of way and take any necessary action.** Mr. Pennington reported that Mr. Carroll informed him that there is a summary judgment hearing set on the motion by Mr. Drew that one of the commissioners was not a freeholder in Harris County and thus not qualified to be a commissioner.

21. **Other matters.** No other matters were discussed.

22. **Next Meeting Date.** The Board noted that the next regular monthly Board meeting will be held on August 17, 2007, at 11:00 a.m. at the offices of Fulbright & Jaworski L.L.P., 1301 McKinney, Houston, Texas.

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

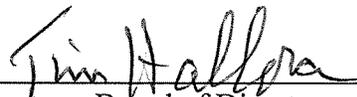
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The attached and foregoing minutes were passed and approved by the Board of Directors on August 17, 2007.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(DISTRICT SEAL)

