

MINUTES OF MEETING OF BOARD OF DIRECTORS
January 15, 2008

THE STATE OF TEXAS
COUNTY OF HARRIS
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 186

The Board of Directors (the "Board") of Harris County Municipal Utility District No. 186 (the "District") met in regular session, open to the public, at the offices of Fulbright & Jaworski L.L.P., 1301 McKinney, Suite 5100, Houston, Texas, at 12:00 p.m. on January 15, 2008; whereupon the roll was called of the members of the Board, to wit:

Gary Henderson, President
Mark Day, Vice President
Carol Barnes, Secretary
Leonard Fojt, Treasurer
Charles Bumpass, Assistant Secretary

All members of the Board were present. Also attending all or parts of the meeting were Ms. Michelle Guerrero of Bob Leared Interests ("BLI"), tax assessor and collector for the District; Mr. Tony Sarman of TCB, Inc. ("TCB"), engineers for the District; Mr. Chris Hoffman of H2O Consulting ("H2O"), operator for the District; Ms. Lori Hogue of Myrtle Cruz, Inc., bookkeeper for the District; Mr. Noel Barfoot of McCall, Gibson & Company, PLLC ("McCall Gibson"), auditors for the District; and Ms. Jana Cogburn and Ms. Nancy Green of Fulbright & Jaworski L.L.P. ("F&J"), attorneys for the District.

The meeting was called to order and, in accordance with notice posted pursuant to law, copies of Certificates of Posting of which are attached hereto as Exhibit "A," the following business was transacted:

1. **Minutes.** Consideration was given to the approval of the minutes of the meeting of December 18, 2007, previously distributed to the Board. Upon motion by Director Fojt, seconded by Director Day, after full discussion and the question being put to the Board, the Board voted four in favor, with Director Barnes abstaining, to approve the minutes of the meeting of December 18, 2007, as presented.

2. **Tax Assessor and Collector's Report.** Ms. Guerrero presented to and reviewed with the Board the Tax Assessor and Collector's Report, copies of which are attached hereto as Exhibit "B." Ms. Guerrero reported that 44.389% of the District's 2007 taxes have been collected. Upon motion by Director Day, seconded by Director Bumpass, after full discussion and the question being put to the Board, the Board voted unanimously to approve the Tax Assessor and Collector's Report, and to authorize payment of check nos. 1336 and 1337 from the Tax Account in the amounts, to the persons, and for the purposes described in the Tax Assessor and Collector's Report.

3. **Consider property tax exemptions.** Ms. Guerrero reviewed with the Board the exemption options for individuals who are 65 years of age or older or are disabled, a

copy of which is attached hereto as Exhibit "C." Discussion ensued. Upon motion by Director Bumpass, seconded by Director Barnes, upon full discussion and the question being put to the Board, the Board voted four in favor, with Director Fojt opposed, to adopt the Order Adopting Exemption from Taxation for Individuals who are Disabled or 65 Years of Age or Older, thereby approving a \$10,000 home exemption for residents who are disabled or are 65 years of age or older, a copy of which is attached hereto as Exhibit "D." Upon motion by Director Bumpass, seconded by Director Barnes, after full discussion and the question being put to the Board, the Board voted unanimously to adopt the Order Adopting Residential Homestead Exemption from Taxation, thereby approving a homestead exemption of 20% of the appraised value of residential homesteads, a copy of which is attached hereto as Exhibit "E."

4. **Engage auditor for the fiscal year ending February 29, 2008.** Mr. Barfoot presented to and reviewed with the Board the auditor engagement letter, a copy of which is attached hereto as Exhibit "F." Mr. Barfoot discussed the Audit Risk Assessment Standards Nos. 104-111. Mr. Barfoot stated that questionnaires would be sent to each of the District's consultants to document risks of fraud or accounting errors and to test their compliance with procedures. In response to a question from Director Bumpass, Mr. Barfoot stated that if requested by the Board, McCall Gibson could prepare a report on the internal control risks. Upon motion by Director Bumpass, seconded by Director Barnes, after full discussion and the question being put to the Board, the Board voted unanimously to engage McCall, Gibson & Company, PLLC to perform the audit for the fiscal year ending February 29, 2008 and to authorize execution of the auditor's legal engagement letter and the legal representation letter by the President on behalf of the Board.

5. **Operations Report.** Mr. Hoffman presented to and reviewed with the Board the Operations Report, a copy of which is attached hereto as Exhibit "G." Mr. Hoffman reported that the District pumped 7,193,000 gallons of water and purchased 5,667,000 gallons of water from the West Harris County Regional Water Authority ("WHCRWA") during the last period and that the District has 63,726,000 gallons and zero months remaining on its Harris-Galveston Coastal Subsidence District Permit. Mr. Hoffman reported that H2O accounted for 95.8% of the water pumped in and purchased by the District in December 2007.

Mr. Hoffman presented to and reviewed with the Board the Maintenance Summary, a copy of which is attached to the Operations Report. Mr. Hoffman reported that the paint contractor is still waiting on an appropriate day to begin painting the GSTs and hydrotanks in the District.

Mr. Hoffman reported on the interior GST tank inspection and noted that the tank was inspected by Swain and Associates. Mr. Hoffman stated that the report has been submitted to TCB and that Swain does not recommend a re-coating of the GST tank at this time.

Mr. Hoffman reported on well #2 and stated that H2O noticed a drop in chlorine level (and an increase in chlorine demand) while filling GST #1 from well #2. Mr. Hoffman reported that well #2 was taken off-line late last week. Mr. Hoffman noted that H2O super-chlorinated the tank and that the lab will take a sample. Mr. Hoffman reported that TCB would be providing a well recommendation.

Mr. Hoffman reported on water line maintenance and noted that H2O performed blow off repairs at two locations in the District. Mr. Hoffman recommended installing a two-inch blow off at the intersection of Mesa Garden and Branch Point to improve the water quality.

Mr. Hoffman reported on the water quality complaint log and noted that H2O increased flushing at Echo Lodge and Starbridge.

Mr. Hoffman asked if the Board wanted to pass the WHCRWA water rate increase through to its customers. Mr. Hoffman requested that amending the Rate Order be added to the February agenda.

6. **Bookkeeper's and Investment Report.** The President recognized Ms. Hogue, who presented to and reviewed with the Board the Bookkeeper's Report and the Investment Report, copies of which are attached hereto as Exhibit "H." Director Henderson reported that he would contact TexPool and request one of their representatives attend a future meeting to answer questions by the Board. Upon motion by Director Fojt, seconded by Director Bumpass, after full discussion and the question being put to the Board, the Board voted unanimously to accept the Bookkeeper's Report, to authorize payment of check nos. 5878 through 5888 and checks 5890 through 5900 from the Operating Account, each in the amounts, to the persons, and for the purposes described in the Bookkeeper's Report and to approve the Investment Report.

7. **Engineer's Report.** The President recognized Mr. Sarman, who presented to and reviewed with the Board the Engineer's Report, a copy of which is attached hereto as Exhibit "I." Mr. Sarman reported on the GIS mapping system updates and noted that TCB will complete the draft forms and map updates for review by H2O. Mr. Sarman stated that TCB anticipates presenting the completed drafts at the February meeting.

Mr. Sarman reported that TCB has not received updated plans from Mattress Pro.

Mr. Sarman stated that TCB submitted a letter of no objection to St. Mary's on January 2, 2008, a copy of which letter is attached to the Engineer's Report. Mr. Sarman noted that TCB is coordinating with St. Mary's on the dedication of the easements.

Mr. Sarman reported that TCB has still not received a response from Harris County Municipal Utility District No. 257 regarding authorization to perform the capacity analysis.

8. **Adopt Order Calling Directors Election.** Upon motion by Director Barnes, seconded by Director Fojt, after full discussion and the question being put to the Board, the Board voted unanimously to adopt the Order Calling Directors Election for May 10, 2008.

9. **Update on reclaimed water system ("RWS").** Mr. Sarman reviewed with the Board the 2006 cost estimates and updated 2008 cost estimates for the RWS, copies of which are attached hereto as Exhibit "J." Mr. Sarman stated that the cost estimates from 2008 are based on the unit costs of current projects in North Harris County. Mr. Sarman reported that the cost estimates have increased by 80% from 2006 to 2008. Mr. Sarman noted that the RWS irrigation meters would total 82 if all six districts participated in the project. Discussion ensued.

10. **Report on Copperfield Joint Operations Board (“CJOB”) meeting and Update on RWS.** This item was discussed with RWS.

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

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The foregoing minutes were passed and approved by the Board of Directors on

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President, Board of Directors

ATTEST:

Secretary, Board of Directors

(DISTRICT SEAL)