

**MINUTES OF MEETING OF
THE BOARD OF DIRECTORS OF
NORTHTOWN MUNICIPAL UTILITY DISTRICT**

January 23, 2007

THE STATE OF TEXAS §
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COUNTY OF TRAVIS §

A meeting of the Board of Directors of Northtown Municipal Utility District was held on January 23, 2007, at the Wells Branch Community Center, 2106 Klattenhoff Drive, Austin, Texas. The meeting was open to the public and notice was given as required by the Texas Open Meetings Act. A copy of the Certificate of Posting of the Notice is attached as Exhibit "A".

The roll was called of the members of the Board:

Texana Kowis	-	President
Robin Campbell	-	Vice President
Brenda Richter	-	Secretary
Michael Zeniecki	-	Assistant Secretary
William E. Henderson	-	Treasurer

and all of the Directors were present, thus constituting a quorum. Also present at the meeting were Mike Morin of ECO Resources, Inc.; Deputy Keith Kinnard of the Travis County Sheriff's Department; Mona Oliver of Wells Branch Municipal Utility District; Nejiba Kheribi, a resident of the District; David Armistead of the Wildflower Homeowners' Association; Richard Fadal of TexaScapes, Inc.; Mary Bott of Peña Swayze & Co., L.L.P.; Sam Jones of Sam Jones Consulting; and Sue Brooks Littlefield of Armbrust & Brown, L.L.P.

Director Kowis called the meeting to order at 6:00 p.m., and stated that the Board would first consider approving the consent items on the Board's meeting agenda: the minutes of the December 19, 2006 Board meeting; the Secretary's Certificate and Resolution Regarding Manager's Accounts, and the Secretary's Certificate and Resolutions Regarding Accounts. After discussion, upon motion by Director Campbell and second by Director Henderson, the Board voted unanimously to approve the minutes and deferred action on the Secretary's Certificate and Resolutions Regarding Manager's Account, and the Secretary's Certificate and Resolutions Regarding Account until the next meeting.

There being no citizens' communications and no announcements by Board members, Director Kowis recognized Mary Bott, for purposes of receiving a report from Peña Swayze & Co., L.L.P. in connection with the audit of the District's financial statements for the fiscal year ended September 30, 2006. Ms. Bott presented the audit report, attached as Exhibit "B", and noted that the report was substantially the same as the draft which had been submitted to the Board members earlier in the month. She noted that Ms. Littlefield had called in several clarifications, which had been incorporated into the final draft. Ms. Bott drew the Board's attention to the filing affidavit and noted that, if the audit was approved, her firm was asking the Board to sign the filing affidavit and provide it to Ms. Littlefield for filing with the appropriate authorities. Ms. Bott advised the Board that her firm's opinion was a clean opinion, which was

the highest level of opinion an entity could get from a firm of certified public accountants. She reviewed the basic financial statements, and advised the Board the certain adjustments had been made in order to convert governmental fund accounting to full accrual accounting. She noted that the District's net income for the fiscal year was \$2.3 million and stated that the District was in a strong fiscal position. She added that the notes to the financial statements presented additional detail on certain line items, and discussed District commitments and contingencies, as well as how the District managed risk. She stated that the supplemental information was required by the Texas Commission on Environmental Quality, and included additional information on District services, rates and bonded debt. She pointed out that within the audit report was a management report, which provided her firm with an opportunity to communicate to the Board and provide information which was required to be disclosed by professional accounting standards. She noted that a big issue continued to be anti-fraud measures. She stated that, in the course of the audit, her firm had discovered three things which needed to be brought to the Board's attention. She stated that, first, deposits were not being made on a daily basis. She stated that, in addition, certain capital recovery fees were required to be held in a separate account, but had been co-mingled with other District funds. She stated that her firm recommended that a separate account for these fees be reestablished. Finally, she stated that accounting reconciliations needed to be made on a monthly basis, noting that, due to failure to make these reconciliations, a material accounting correction had been required. After discussion, upon motion by Director Henderson and second by Director Zeniecki, the Board voted unanimously to approve the audit report, and to authorize it to be filed with the Texas Commission on Environmental Quality and the City of Austin. Director Kowis directed Mr. Morin to provide a response to the management issues which had been raised, and Mr. Morin agreed that he would respond, in writing, to those issues. He assured the Board that all of the items had been addressed. Director Kowis thanked Ms. Bott for her report, and Ms. Bott left the meeting.

Director Kowis then stated that the Board would consider taking action on Industrial Waste Regulations. Ms. Littlefield noted that the Amended Order Establishing Industrial Waste Regulations and Establishing Fees, Policies and Procedures Relating to Industrial Waste attached as Exhibit "C" and the Amended Order Establishing Service Rates, Charges and Tap Fees and Adopting Rules and Policies with Respect to the District's Water, Wastewater and Drainage Systems attached as Exhibit "D" were required in order to implement the District's interlocal agreement with the City of Austin for industrial waste management, and to provide the District with the ability to collect certain fees that would be incurred under that interlocal agreement. Upon motion by Director Richter and second by Director Henderson, the Board voted unanimously to approve both orders, as presented.

Director Kowis then recognized Ms. Oliver, for purposes of receiving a report under the Interlocal Agreement with Wells Branch Municipal Utility District. Ms. Oliver advised the Board that the 18-wheeler had returned to the District, and that the matter had been referred to Ms. Littlefield. She stated that the Mayorga residence was now in compliance, and the Board directed Ms. Oliver to send the Mayorags a "thank you" letter for addressing the District's concerns. Ms. Littlefield advised the Board that the house on Greinert was a HUD home and, after discussion, the Board directed Ms. Littlefield not to spend any more money pursuing the removal of the disabled vehicle at that address.

Director Kowis then recognized Mr. Armistead, who advised the Board that there were currently four garages under construction in Wildflower, and that people were now submitting plans for approval, and matching additions to their houses. He stated that the process seemed to be working. Mr. Armistead provided Ms. Littlefield with several referrals for enforcement action, and stated that he would update his report for the next month's meeting.

Director Kowis then recognized Deputy Kinnard, for purposes of receiving a security report. Deputy Kinnard indicated that the barricades at the entryway to the Parkway development were down, and that a lot of traffic was still going back into this property. He stated that dumping had also been observed. Deputy Kinnard noted that the lights had been installed at the entry to the development. The Board requested Ms. Littlefield to follow-up with DR Horton, and determine why the barricades had been removed. Deputy Kinnard then reported on an incident in Wildflower, which had resulted when an individual who had been involved in a collision on Howard Lane had run away, and had been apprehended within the District. He stated that the number of incidents was about on schedule for the month, and noted that there was still fairly heavy activity in the Tudor House area. He pointed out that there was approximately a 3:1 ratio of incidents in this area compared to the rest of the District. Director Richter pointed out that this area was also three times as large as the remainder of the District, and the Board agreed. After discussion, the Board agreed to provide some information on incidents within the District on the District's website, in order to keep the residents informed. Ms. Littlefield suggested that Deputy Kinnard also provide security tips, such as keeping your garage door down and locked, to be posted on the website, and Deputy Kinnard agreed to do so.

There being no solid waste contractor report, Director Kowis stated that the Board would consider park development matters. Director Kowis presented a landscape improvement plan which had been provided by Mr. Fadal, a copy of which is attached as Exhibit "E". Director Richter noted that improvements were being planned to Stoney Creek Park to make the area more cohesive, and to provide a better gateway into the park. She stated that the park Subcommittee was asking for authorization to proceed with these phases of the Park development, noting that the money was available in the District's park budget. Director Richter also pointed out that the proposal, attached as Exhibit "F", included adding irrigation to sustain the landscaping which was proposed. After discussion, upon motion by Director Richter and second by Director Zeniecki, the Board voted unanimously to approve the proposal. Director Kowis requested that Mr. Fadal email the proposal showing the cost breakdown to all of the Board members, and he agreed to do so.

Director Kowis then stated that the Board would receive the landscape maintenance report. Mr. Fadal presented his report, a copy of which is attached as Exhibit "G". He pointed out that the removal of the creek deadfall had been postponed due to the weather, and noted that the four phases of the park improvements at Stoney Creek Park which had just been approved should be completed within the next six to eight weeks.

Director Kowis then recognized Mr. Morin, for purposes of receiving a report from the District's general manager. Mr. Morin called the Board's attention to his report, which was included in the Board's meeting packet, and also advised the Board that he had responded to the resident who had asked for a deposit refund, as directed by the Board at the previous meeting. He stated that he and Director Henderson were working on the preparation of the District brochure, for the Board's approval. Mr. Morin presented the list of write-offs attached as Exhibit

“H”, and recommended that they be approved. Upon motion by Director Henderson and second by Director Campbell, the Board voted unanimously to approve the write-offs. Mr. Morin then presented the transfer letter attached as Exhibit “I”, noting that this included a transfer of the capital recovery fees as recommended by Ms. Bott. Upon motion by Director Campbell and second by Director Zeniecki, the Board voted unanimously to approve the transfer.

Mr. Morin then presented the bills and invoices received by the District, as set forth on the updated check register attached as Exhibit “J”. He stated that the bills had been reviewed by Director Henderson, and pointed out that the list did include an additional payment for security and a payment to Wells Fargo Bank for bond administration. Upon motion by Director Henderson and second by Director Zeniecki, the Board voted unanimously to approve the payment of the bills and invoices as presented. Mr. Morin then presented the quarterly investment report, attached as Exhibit “K”, and requested approval. Upon motion by Director Henderson and second by Director Richter, the Board voted unanimously to approve the investment report. Mr. Morin then distributed the delinquent taxpayer report, attached as Exhibit “L”, noting that this included information which Ms. Littlefield has requested that he obtain based on her review of the audit. The Board noted that the bulk of the delinquent taxes noted on the report were for one residence, on which the homeowner had apparently not paid taxes for a substantial period of time and had then filed bankruptcy. Director Kowis expressed concern regarding the failure of the Travis County Tax Office to take prompt action with regard to these delinquent taxes.

Mr. Morin then reported that a problem had been experienced at the low flow lift station, noting that one of the lines had separated at the point where it entered the pump. He stated that his company intended to make a repair on Thursday, and noted that this would require hauling while the repair was being made.

There being no attorney’s report, Director Kowis recognized Mr. Jones, for purposes of receiving a report from the District’s engineer. Mr. Jones stated that he had not yet received funding from Dessau Fountains, and so had not issued the notice to proceed on the improvements which were proposed under the tri-party agreement with the City of Austin, Aus-Cal, L.L.C., Tex Aust Limited Partnership and Dessau Fountains Estates, L.L.C. He stated that he had received a maintenance bond on the DR Horton ponds, and had also received a letter from DR Horton earlier in the day, confirming that they would correct any problems with the ponds for a period of one year from the District’s acceptance. Director Kowis reminded the Board that this had been requested in order to provide the District with assurance that the ponds would be under warranty for one year from acceptance, as there had been a delay between the date that the contractor completed the ponds and issued its maintenance bond and the period at which the requirements of the District were satisfied and the District accepted the ponds for operation and maintenance.

Mr. Jones then presented Pay Estimates No. 1 through 4 for Lakes Boulevard-Lakes at TechRidge water, wastewater and drainage improvements, copies of which are attached as Exhibits “M” through “P”, respectively. Director Zeniecki pointed out that the pay estimates indicated that retainage was 5%, rather than the District’s standard 10%. Mr. Jones indicated that the developer would be requesting that the Board approve a reduction in the amount of retainage at the next month’s meeting. Mr. Jones recommended that the Board approve the pay estimates, without approving the amount of the retainage, confirming that this was not consistent with the District’s policy. After discussion, Director Zeniecki moved that the Board approve the

pay estimates for payment by the developer, with the caveat that the District was not approving the retainage amount by doing so. Upon second by Director Campbell, the motion was unanimously adopted.

Mr. Jones then reported that, in connection with the District's by-pass piping project, the District had received Pay Estimate No. 1, a copy of which is attached as Exhibit "Q". Mr. Jones recommended approval of the pay estimate. Upon motion by Director Campbell and second by Director Zeniecki, the Board voted unanimously to approve the pay estimate.

Director Kowis then inquired whether there were any reports from developers' and landowners' representatives. Ms. Littlefield advised the Board that she had received a request from KB Home Lonestar, L.P. for the District's consent to an amendment of the utility construction agreement with NWC Howard and I-35, Ltd. for the residential area. She reminded the Board that the District had approved the assignment of this utility construction agreement from NWC Howard and I-35, Ltd. to KB Home Lonestar, L.P., upon KB Homes' closing its purchase of the residential area. She explained that, in connection with the financing of the purchase and development of the property, KB Homes had retained a development entity composed of Blake Magee and Jay Hanna, and wished to assign the utility construction agreement to this entity. Ms. Littlefield stated that KB Homes would still be the homebuilder, but that the actual development work would be undertaken by the Hanna/Magee entity. Ms. Littlefield also stated that she wished to disclose that her firm did represent Mr. Magee on certain real estate and utility district matters, although it was not representing this entity in connection with the request pending before the Board. After discussion, upon motion by Director Richter and second by Director Henderson, the Board voted unanimously to approve the amendment attached as Exhibit "R".

Director Campbell then reported that the Morgan Group had scheduled a meeting with him, but that it had been delayed due to the weather. He stated that he hoped to have a report to present to the Board at the next Board meeting.

There being no further business to come before the Board, the meeting was adjourned at 6:41 p.m., upon motion by Director Campbell and second by Director Henderson.

Date: _____.

(SEAL)

Brenda Richter, Secretary
Board of Directors