

HIGH GABRIEL WATER SUPPLY CORPORATION

BY-LAWS

The aim of High Gabriel Water Supply Corporation (hereinafter called the "Corporation") is to provide safe drinking water to its members at the lowest cost consistent with sound economy and good management.

Article I  
Officers

Section 1. President. The President shall:

(a) be the principal executive officer of the Corporation and shall preside at all meetings of the members and of the Board of Directors;

(b) upon demand in writing of one-third (1/3) of the members, call a special meeting of the members or directors, and he may and shall, upon demand of two-thirds (2/3) of the directors, call a special meeting of the directors or membership; and

(c) sign, with the Secretary, certificates of membership, the issue of which shall have been authorized by resolution of the Board of Directors, and may sign any deeds, mortgages, deeds of trust, notes, bonds, contracts or other instruments authorized by the Board of Directors to be executed, except in cases in which the signing and execution thereof shall be expressly delegated by the Board of Directors or by these by-laws to some other officer or agent of the Corporation, or, shall be required by law to be otherwise signed or executed; and

(d) in general, shall perform all duties incident to the office of the President and such other duties as may be prescribed by the Board of Directors from time to time.

Article II  
Officers

Section 1. Vice President. The Vice President shall:

(a) in the absence of the President, or in the event of his inability or refusal to act, the Vice President shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President and shall perform such other duties as from time to time may be assigned to him by the Board of Directors.

Article III  
Officers

Section 1. Secretary. The Secretary shall:

- (a) be responsible for the keeping of the minutes of meetings of the members and the Board of Directors;
- (b) see that all notices are duly given in accordance with these by-laws or as required by law;
- (c) be custodian of the corporate records and of the seal of the Corporation and see that the seal of the Corporation is affixed to all documents, the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provision of these by-laws;
- (d) be responsible for the keeping of a register of the post office address of each member, which shall be furnished to the Secretary or his representative by such member;
- (e) sign with the President certificates of membership, the issuance of which shall have been authorized by resolution of the Board of Directors;
- (f) have general supervisory charge of the books of the Corporation in which a record of the members is kept;
- (g) keep on file at all times a complete copy of the by-laws of the Corporation containing all amendments thereto, which copy shall always be open to the inspection of any member, and at the expense of the Corporation forward a copy of the by-laws and of all amendments thereto to each member upon their request;
- (h) be responsible for validating the ballots cast at the annual membership meeting and presenting the election results at the board meeting following the annual membership meeting, and
- (i) in general, perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the Board of Directors.

Section 2. Treasurer. The Treasurer shall:

- (a) have supervisory charge and supervisory custody of and be responsible for all funds and securities of the Corporation;
- (b) be responsible for receiving and giving receipts for moneys due and payable to the Corporation from any source whatsoever, and have

deposited all such moneys in the name of the Corporation in such bank or banks as shall be selected in accordance with the provisions of these by-laws; and

(c) in general, perform all duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Board of Directors.

Section 3. Secretary-Treasurer. If the Board of Directors so choose, the office of Secretary and the office of Treasurer may be combined, and one director may hold the office of Secretary-Treasurer of the Corporation.

Section 4. Bonding. The position of the Treasurer or Secretary-Treasurer shall be placed under a fidelity bond in an amount which shall be set by the Board of Directors.

#### Article IV Directors

Section 1. General Powers. The business and affairs of the Corporation shall be managed by a Board of seven (7) directors (a majority of which shall constitute a quorum) which shall exercise all of the powers of the Corporation except such as are by law or by the Articles of Incorporation of the Corporation or by these by-laws conferred upon or reserved to the members. At the first regular meeting in January, the Board of Directors shall elect a President, a Vice President, and a Secretary-Treasurer. The Board shall be elected by the members at the members regular meeting provided for in Article XI of these by-laws. The Directors so elected shall serve without pay, but may be compensated for actual expenses by a majority vote of the Board of Directors. Upon the death or resignation of a member of the Board of Directors, a successor shall be elected by a majority vote of the remaining directors to serve the unexpired portion of the term thus vacated.

Section 2. Qualifications and Tenure. Terms shall be staggered so that 3 expire at first year, 2 expire at second year, and 2 expire at third year. Any person elected for a first term to the Board of Directors must be a member of High Gabriel Water Supply Corporation and a bona fide resident of the community served by the Corporation. No member shall be eligible to become or remain a director or to hold any position of trust in the Corporation who is in any way employed by or financially

interested in a competing enterprise or a business selling potable water or supplies to the Corporation, or a business engaged in selling water or plumbing appliances, fixtures, or supplies to the members of the Corporation or a business selling real estate, if such business constitutes a possible conflict of interest. When a membership is held jointly by a husband and wife, either one, but not both, may be elected a director.

Nothing in this section contained shall, or shall be construed to, affect in any manner whatsoever, the validity of any action taken at any meeting of the Board of Directors. Any director may succeed himself.

Section 3. Nominations. The directors shall be elected by the members at the members regular meeting provided for in Article XI of the by-laws. Nominations should be in twenty(20) days prior to the yearly meeting, but this does not prevent nominations from being made from the floor at the meeting of the members.

Section 4. Absenteeism. If a Board member misses three(3) consecutive meetings, the Board shall have the prerogative to expell that board member after procedural hearing. Any board member may be expelled for cause by two-thirds (2/3) vote of the Board or by two-thirds (2/3) vote of membership at large.

#### Article V Board of Directors Meetings

Section 1. Regular Meetings. Regular meetings of the Board of Directors shall be held at such time and place as the Board of Directors may determine at the next previous regular meeting. No further notice to the directors of such regular meeting shall be required, and it shall be the duty of each director to attend the same without further notice.

Section 2. Manner of Acting. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

#### Article VI Corporation Business

Section 1. Non-Profit Status. The corporation shall conduct its business on a non-profit basis, and no dividends shall ever be paid upon the memberships of such corporation while any indebtedness of the corporation remains unpaid.

Article VII  
Reserve Fund

Section 1. Reserve Fund. The directors of the Corporation shall establish and maintain, in a bank or savings and loan within the State of Texas, insured with Federal Deposit Insurance Corporation, a reserve fund account separate and apart from other fund accounts of the Corporation. Such fund shall be in conformity with state statute 1434.A section 1 title 32.

Article VIII  
Memberships

Section 1. Eligibility and Service. Every person (which includes any legal entity) owning or having a legal right to the control, possession or occupancy or property served or which may reasonably be served by the Corporation shall have the right to become a member of the Corporation upon payment of the membership fee hereinafter provided and upon compliance with the reasonable requirements of the Corporation governing the purchase of water, charges for connections and operation of and service by the system. Membership shall not be denied because of the applicant's race or color, creed, or national origin. It is the intent of the Corporation to provide service on a non-discriminatory basis to all persons desiring service to the extent that the capability of the system will reasonably permit. Membership and service may be denied when the additional service requested would prevent the system from providing adequate service.

Section 2. Line Extension. Line extensions shall be the responsibility of the High Gabriel Development Co., Inc. The Corporation shall set the meter for a fee not to exceed \$300.00 unless raised by a vote of the membership. Cost of meter will be responsibility of buyer or seller.

Section 3. Membership Fee and Rights. The membership fee as set by the Board of Directors shall entitle the member to one (1) connection to the water main of the Corporation. A person may own more than one membership but each member shall be entitled to only one (1) vote regardless of the number of memberships owned. Membership certificates shall be in such form as shall be determined by the Board of Directors.

Article IX  
Voting

Section 1. Determining Eligibility. For the purpose of determining members entitled to notice of or to vote at any meeting of members or any adjournment thereof or in order to make a determination of members for any other proper purpose, ownership of memberships shall be deemed to be in those persons who are in the record owners of memberships as evidenced by the membership book on the 15th day of the month next preceding the month of the date upon which the action requiring such determination is to be taken. When a membership is held jointly by a husband and wife, either one, but not both, may vote at any regular or special meeting of the membership.

Section 2. Method of Voting. Any vote to be cast at annual meetings or in election of directors may be in person, by written proxy or by mail ballot.

Article X  
Membership

Section 1. Transfer of Membership. To insure that the business done by the Corporation shall continue within the capacity of its facilities and to prevent undue financial burden on the members of the Corporation, membership in the Corporation shall be non-transferrable. New members will purchase membership certificate at the fee set by the Board of Directors.

Section 2. Refund of Membership Fee. A portion of the membership fee shall be returned to the prior member after all prior member debt obligation to the Corporation has been satisfied. That portion of the membership fee may be refunded at the next regular board meeting to the member withdrawing from membership, upon presentation of proof that all his debts and liabilities to the Corporation have been paid in full and upon the surrender to the Corporation of his membership certificate.

Article XI  
Membership Meetings

Section 1. Annual Meeting. There shall be a regular meeting of the members annually to transact all business that may properly be brought before the membership, including election of directors, passing upon reports, covering the previous fiscal year and transacting such other

business as may be on the agenda. The Secretary or Secretary-Treasurer shall give at least fifteen (15) days written notice of such annual meeting to the membership indicating the time, place, and purpose of such meeting, and addressed and mailed to each member at his address last known to the Corporation. If mailed such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the member at his address as it appears on the records of the Corporation, with postage thereon prepaid. The failure of any member to receive notice of an annual or special meeting of the membership shall not invalidate any action which may be taken by the members at any such meeting. At all meetings of the members, a majority of the members present in person or represented by written proxy shall constitute a quorum to transact the business of the corporation.

Article XII  
Special Meetings

Section 1. Called Meetings. Special meetings of the members may be called by at least four (4) directors or upon a written request signed by at least 33 per centum (33%) of all members, and it shall thereupon be the duty of the Secretary to cause notice of such meeting to be given as hereinabove provided.

Article XIII  
Corporation Business

Section 1. General Powers of Board of Directors. The Board of Directors shall have the power to make and adopt such rules, rates and regulations as it may deem advisable for the management, administrations, and regulation of the business affairs of the Corporation, insofar as such rules, rates and regulations are not inconsistent with the law, the Articles of Incorporation, or these by-laws. The Board of Directors shall be empowered to amend the by-laws by a two-thirds (2/3) of the Board.

Section 2. The Manager. The Board of Directors may appoint a Manager who may be, but who shall not be required to be, a member of the Corporation. The Manager shall be appointed by a majority vote of the Board of Directors, and he may serve with or without compensation. The Manager shall perform such duties as the Board of Directors may from time to time require of him and shall have such authority as the Board of Directors

may from time to time vest in him. The Manager, with the approval of the Board of Directors, may employ with or without compensation, such supervisory, clerical or other employees as he may require to effectively operate the business of the Corporation.

Article XIV  
Conditions of Service

Section 1. Monthly Billing. All members will be billed monthly for water charges, and bills will be due and payable within fifteen (15) days of the postmark date on the bill. If payment is made after the designated grace period, a penalty may be assessed. Each member shall pay the Corporation such minimum amount per month as shall be fixed by the Board of Directors, from time to time, regardless of the amount of water consumed. Each member shall also pay obligations which may from time to time become due and payable by such member to the Corporation as and when the same shall become due and payable.

Section 2. Discontinuance of Service. If payment is not made for regular or additional water charges or any other indebtedness owing the Corporation by the fifteenth day after billing, the Corporation may discontinue water service after five days written notice to delinquent member. After such water service has been discontinued by reason of non-payment, the member will be charged a reconnect fee, to be fixed by the Board of Directors, if he should later pay the amount due the Corporation on prior bills and request to be reconnected to the facilities of the Corporation. In the event a member should surrender his membership certificate properly endorsed to the Secretary-Treasurer of the Corporation, his water service shall be discontinued and his obligation to pay for water service shall terminate except as for the minimum charge for the current month, whichever is greater, and except as for any prior unpaid amounts due the Corporation.

Section 3. Responsibilities of Membership. The members of the Corporation by dealing with the Corporation, acknowledge that the terms and provisions of the Articles of Incorporation and by-laws shall constitute and be a contract between the Corporation and each member, and both the Corporation and the members are bound by such contract, as fully as though each member had individually signed a separate instrument containing such terms and provisions.



Article XV  
Forfeiture of Membership

Section 1. Powers of Board of Directors. The Board of Directors shall have the authority to terminate the membership of any member in the event of non-payment of any water charges or other indebtedness owing by said member within thirty (30) days after demand for payment by mail, properly addressed to such delinquent member at the address of the member, last known to the Corporation.

Section 2. Corporate Dissolution. Upon dissolution of the Corporation, all assets of the Corporation remaining after payment of the indebtedness of the Corporation shall be distributed among the members in direct proportion to the amount of their patronage with the Corporation by a member for water service or otherwise shall be deducted from such members share prior to final distribution.

Article XVI  
Insurance

Section 1. Requirements. The Corporation shall insure with a reputable insurance company such of its properties and in such amounts as is deemed necessary by the Directors of the Corporation. Public liability coverage should be maintained in such levels as considered expedient by Board of Directors.

Article XVII  
Fiscal Year

Section 1. Definition. The fiscal year of the Corporation shall be from January 1st to December 31st.

Article XVIII  
Special Assessments

Section 1. Operational Assessment. If at the end of any fiscal year or in the event of emergency repairs the Board of Directors determine the total amount derived from the collection of water charges to be insufficient for the payment of all costs incident to the operation of the Corporations system during the year in which such charges are collected, the Board shall make and levy an assessment against each member of the Corporation, as the Board may determine so that the sum of such assessments and the amount collected from water and other charges is sufficient to fully pay all costs of operation, maintenance, replacement and

repayments on indebtedness for the years operations, but this provision shall not operate for the benefit of any third party creditor other than the loaning institution without a favorable vote of the majority of the members. A proportionate amount of the necessary total of such assessments levied in any year shall be levied against each member in an amount which bears the same relation to the total assessment as the number of service connections supplying such member bears to the total number of service connections with the system of the Corporation.

Section 2. Members Responsibility. In the event a member should surrender his membership properly endorsed to the Secretary-Treasurer of the Corporation, his obligation to pay such assessments shall be limited to assessments made and levied prior to the date of surrender of his membership certificate; provided, however, that this paragraph and the last sentence of Section 2, Article XIV shall not apply to relieve a member of his obligation under special agreements covering multiple membership certificates held by one member.

#### Article XIX Audit

Section 1. Procedure. The Board of Directors shall after the close of each fiscal year cause to make a full and complete audit of the accounts, books and financial condition of the Corporation as of the end of each fiscal year. Such audit reports, prepared by a person or firm competent to perform same, shall be available to the members for inspection at the following annual meeting.

#### Article XX Amendments

Section 1. Amendment Procedure. These by-laws may be altered, amended, or repealed by not less than the affirmative vote of two-thirds (2/3) of all of the Board of Directors at any regular or special meeting. These by-laws may also be altered, amended, or repealed by a vote of a majority of the members present at any special meeting of the Corporation called for that purpose, except that the members shall not have the power to change the purposes of the Corporation so as to decrease its right and powers under the laws of the State, or to waive any requirement of bond or other provision for the safety and security of the property and funds

of the Corporation or its members, or to deprive any member of rights and privileges then existing, or so to amend these by-laws as to effect a fundamental change in the policies of the Corporation. Notice of any amendment to be made at a special meeting of the members must be given at least ten (10) days before such meeting and must set forth the amendments to be considered.

Article XXI  
Seal

The corporate seal of the Corporation shall be in the form of a circle and shall have inscribed thereon "HIGH GABRIEL WATER SUPPLY CORPORATION."