

BY-LAWS

CANYON LAKE Estates WATER SUPPLY CORPORATION

Bylaws of CANYON LAKE Estates Water Supply Corporation,
having been presented to the Board of Directors of said Corporation
and duly adopted as follows:

ARTICLE I

The President shall preside at all Members' and Directors' meetings. The President may, and upon demand of one-third (1/3) of the Members, shall call a special meeting of the Members or Directors. Such special meetings shall be held upon giving the notice required in Article XII of the By-Laws. The President shall perform all other duties that usually pertain to the office or are delegated to him by the Board of Directors.

ARTICLE II

The Vice-President shall, in case of the absence or disability of the President, perform the duties of the President.

ARTICLE III

The Secretary-Treasurer shall have the custody of all the monies and securities of the Corporation. The Secretary-Treasurer shall keep regular books and shall keep minutes of all meetings of Members and Directors. All monies of the Corporation shall be deposited by the Secretary-Treasurer in such depository as shall be selected by the Directors. Checks must be signed by the Secretary-Treasurer and the President or Vice-President, in the absence of the President. The Secretary-Treasurer shall have custody of the seal of the Corporation

and affix it as directed hereby or by resolution passed by the Board of Directors or Members. The Board of Directors may appoint an employee as assistant or deputy secretary to assist the Secretary-Treasurer in all official duties pertaining to the office of Secretary.

The position of the Secretary-Treasurer and other positions entrusted with receipt and disbursement of funds shall be placed under a fidelity bond in an amount which shall be set from time to time, but not less than once each year, by the Board of Directors. The fidelity bond coverage amount shall approximate the total annual debt service requirements for all FmHA loans and be evidenced by a position fidelity schedule bond as acceptable to the Farmers Home Administration.

ARTICLE IV

Section 1. The Board of Directors shall consist of three (3) Directors, a majority of whom shall constitute a quorum. Upon issuance of the Charter and annually thereafter on September 15, the Board of Directors shall elect a President, a Vice-President and a Secretary-Treasurer. The Directors shall be elected by the Members at the Members' regular meeting provided for in Article XI of the By-Laws. The Directors shall be divided into three (3) classes, each class to be as near as equal in number as possible. The terms of the

1. This election shall be held prior to May 1, but after the Members' annual meeting. Insert day of week, week of month, and month of year, i.e., second Tuesday of April.

Form FmHA TX 442-7
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Directors of the first class shall expire at the first annual meeting of the shareholders after their election, the terms of the Directors of the second class shall expire at the second annual meeting after their election and terms of the Directors of the third class shall expire at the third annual meeting after their election. At each annual meeting after such classification, the number of Directors equal to the number of the class whose term expires at the time of such meeting shall be elected to hold office until the third succeeding annual meeting. The Directors shall serve without pay, but may be compensated for actual expenses by a majority vote of Directors.

Upon the death or resignation of a Director, a successor shall be elected by a majority of the existing Directors to serve until the next regular or special Membership meeting at which time the general Membership shall elect a successor for the remaining balance of the previously vacated term.

Section 2. Officers and Directors may be removed from office in the following manner except as otherwise provided in Article V: Any Member, Officer, or Director may present charges against a Director or Officer by filing such charges in writing with the Secretary-Treasurer of the Corporation. If presented by a Member, the charges must be accompanied by a petition signed by at least ten (10) percent of the Members of the Corporation. Such removal shall be voted on at the next regular or special meeting of the Membership and shall be effective if approved by a vote of 2/3 majority of those

voting if a quorum is present. The Director(s) or Officer(s) against whom such charges have been presented shall be informed in writing, of such charges at least twenty days prior to the meeting, and shall have the opportunity at such meeting to be heard in person or by counsel and to present witnesses; and the person or persons presenting such charges shall have the same opportunity. If the removal of a Director(s) is approved, such action shall also vacate any other office(s) held by the removed Director(s) in the Corporation. A vacancy in the Board thus created shall immediately be filled by a qualified person other than the removed Director upon a vote of a majority of the Members present and voting at such meeting. A vacancy in any office thus created shall be filled by the Board of Directors from among their number so constituted after the vacancy in the Board has been filled.

Section 3. The President of the Board or his designee shall preside at any meeting of the Members convened to consider removal of an Officer or Director as provided under Section 2, unless the President is the subject of charges, in which event the Vice-President shall preside. In the event both the President and the Vice-President are the subject of charges, those Directors who are not the subject of any charges shall appoint one of their number to preside over the meeting. Any meeting convened to consider the removal of an Officer or Director shall be conducted in accord with the procedures prescribed by the Credentials Committee established under the provisions of Article XI. The fact that President, Vice-President, or

any other Officer or Director has been made the subject of charges does not otherwise prevent such Officer from continuing to act in his capacity as an Officer or Director of the Corporation. Any Director that has been removed under the provisions of this Article shall not be precluded from subsequent election to a position on the Board of Directors.

Section 4. The Board of Directors shall adopt and maintain a conflict of interest policy designed to promote the business of the Corporation and serve the interests of the Membership.

ARTICLE V

Section 1. Regular meetings of the Board of Directors shall be held at such time and place as the Board may determine at the next previous regular meeting. No further notice to the Directors of such regular meetings shall be required, and each Director shall be responsible for attendance of said regular meetings without further notice.

Section 2. Any Director failing to attend two (2) consecutive regular monthly meetings shall be given written notice by the balance of the Board of Directors that failure by said Director to attend a third consecutive monthly meeting, without justifiable cause acceptable to the balance of the Board of Directors, shall give rise to removal of said Director from the Board. A successor shall be elected by a majority vote of the Directors remaining to serve until the next regular or special Membership meeting, at which time the

general Membership shall elect a successor for the balance of the term. If the removal of a Director pursuant to this Section 2 occurs at an annual Membership meeting, then the successor shall be elected by a majority vote of the Membership in attendance at the meeting.

Section 3. The Board of Directors shall provide access for the public, new service applicants, or Members to the regular monthly meetings of the Board of Directors by setting aside a time for hearing of suggestions, proposals, or grievances. The Board of Directors shall establish reasonable rules for access to such meetings.

ARTICLE VI

The Corporation shall conduct its business on a non-profit basis, and no dividends shall ever be paid upon the Memberships of such Corporation. All profits arising from the operation of such business shall be annually paid out to the persons who have, during the past year, transacted business with the Corporation, in direct proportion to the amount of business transacted, provided that no such dividends shall ever be paid while any indebtedness of the Corporation remains unpaid.

ARTICLE VII

The Directors of the Corporation shall establish and maintain, so long as the Corporation is indebted to the Government, in an institution insured by the State or Federal Government, or invested in readily marketable securities backed by the full faith and credit of the United States of America, a reserve account separate and apart from other fund accounts of the Corporation. There shall be deposited

in such fund the sum as required by a total of all loan resolutions executed by the Corporation. Such deposits shall be made monthly and shall continue until the total amount deposited equals the sum as required by the executed loan resolutions provided, however that after any withdrawals, such deposits shall be resumed until the amount accumulated in the fund is restored to the sum as required by the executed loan resolutions.

Withdrawals may be made from this fund only upon prior written approval from Farmers Home Administration. Approval shall be made only for emergency repairs, obsolescence of equipment, improvements to facility, and for making up any deficiencies in revenue for loan payments.

The Directors shall invest all sums in this fund not required to be expended within the year in which the same are deposited in bonds or other evidence of indebtedness of the United States of America, or in readily marketable securities backed by the full faith and credit of the United States of America. Securities so purchased shall be deemed at all times to be part of the reserve fund account.

ARTICLE VIII

Section 1. Every person (which includes any legal entity) owning or having a legal right to the control, possession or occupancy of 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 Corporation's conditions of water

and/or sewer service as provided for in its published charges, rates and conditions of service. Membership shall not be denied because of the applicant's race, color, creed, citizenship, or national origin. It is the intent of the Corporation to provide service on a nondiscriminatory basis to all persons desiring service to the extent that the capabilities of the system will reasonably permit.

Section 2. The Membership fee shall be \$ 100.00. Payment of Membership fee or transfer of Membership shall entitle an applicant to further qualify for one (1) connection to the system or shall entitle a transferee of Membership to continue to qualify for service to an existing connection to the system by meeting the conditions for water and/or sewer as provided in the Corporation's published rates, charges, and conditions of service. A person may own more than one Membership but each Member shall be entitled to only one vote regardless of the number of Memberships owned. Membership certificates shall be in such form as shall be determined by the Board of Directors.

Section 3. The Membership fee may be revised by the Board of Directors as the Board may determine to be appropriate. In determining the amount of the Membership fee, however, the Board shall ensure that the fee is sufficient to establish the potential Member as being legitimately interested in securing water service from the Corporation for such potential Members' own needs. Furthermore, the

Board shall determine and administer such fee in a manner or in an amount which does not unreasonably deny service to financially deprived potential Members. In no event, however, shall the Membership fee exceed an amount equal to the sum of twelve (12) charges of the Corporation's minimum monthly water rate unless previously approved by Farmers Home Administration.

ARTICLE IX

Where necessary for determining those Members entitled to notice of, or those Members entitled to vote at any meeting or any adjournment thereof, or where necessary to make a determination of Members for any other proper purpose, ownership of Memberships shall be deemed to be vested in those persons who are the record owners of Memberships as evidenced by the Membership transfer book on the 15th day of the month preceding the month of the date upon which the action requiring such determination is to be taken. Nothing herein shall preclude the holder of a Membership from mortgaging such Membership, or, upon notification of the Corporation, preclude the holder of such mortgages from exercising legal rights pursuant to such mortgages upon proper notice to the Corporation.

ARTICLE X

Section 1. In order to insure that 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 transferred in accordance with the following:

(a) Except as herein provided, Membership in the Corporation shall be deemed personal estate and a person or entity that owns any stock of, is a Member of, or has some other right of participation in the Corporation may not sell or transfer that stock, Membership, or other right of participation to another person or entity except: (1) by will to a transferee who is a person related to the testator within the second degree by consanguinity; (2) by transfer without compensation to a transferee who is a person related to the owner of the stock or other interest within the second degree by consanguinity; or (3) by transfer without compensation or by sale to the Corporation.

(b) Subsection (a) of this section does not apply to a person or entity that transfers the Membership or other right of participation to another person or entity as part of the conveyance of real estate from which the Membership or other right of participation arose.

(c) The transfer of stock, a Membership, or another right of participation under this section does not entitle the transferee to water or sewer service unless each condition for water or sewer service is met as provided in the Corporation's published rates,

charges, and conditions of service. Water or sewer service provided by the Corporation as a result of stock, Membership, or other right of participation may be conditioned on ownership of the real estate designated to receive service and from which the Membership or other right of participation arose.

(d) The Corporation may cancel a person's or other entity's stock, Membership, or other right of participation if the person or other entity fails to meet the conditions for water or sewer service prescribed by the Corporation's published rates, charges, and conditions of service, or fails to comply with any other condition placed on the receipt of water or sewer service under the stock, Membership, or other right of participation authorized under Subsection (c) of this section. The Corporation may, consistent with the limitations prescribed by Subsection (a) of this section and as provided in the Corporation's tariff, reassign canceled stock, or a canceled Membership, or other right of participation to any person or entity that has legal title to the real estate from which the canceled Membership or other right of participation arose and for which water or sewer service is requested, subject to compliance with the conditions for water or sewer service prescribed by the Corporation's published rates, charges, and conditions of service.

Section 2. Notwithstanding anything to the contrary hereinabove provided, the consideration for the transfer of any Membership in the Corporation from the original Members, their transferees, pledges, administrators or executors, or other persons, shall never exceed the

amount of the original costs of such Membership. No gain or profit shall ever be realized from the sale or transfer of a Membership.

ARTICLE XI

Section 1. There shall be a regular meeting of the Members annually, on 2nd Sunday in September (2) to transact all business that may be properly brought before it. The 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 shall address and mail the notice to each Member at the address last known to the Corporation. Failure to hold or call an annual or special meeting in accordance with these By-Laws shall give each member rights to compel the Board of Directors to properly hold an annual or special meeting of the Membership. Voting by proxy shall be permitted. Members holding ten percent (10%) of the votes entitled to be cast, represented in person or by proxy, shall constitute a quorum for the transaction of business.

Section 2. The Board of Directors shall establish a standing Credentials Committee of three (3) Members, of which the Secretary-Treasurer shall be the chairperson. This committee shall adopt proper procedures for conducting an annual or special Membership meeting

2. This meeting shall be held between January 1 and May 1. Insert the day of week, week of month and month of year.

adopt a specific proxy form to be used in conducting an annual or special Membership meeting; adopt procedures for proper notification of the Membership of such meetings and delivery of the Corporation's proxy forms to the Membership; determine, qualify, and register the eligible voters for such meeting; validate proxies, determine presence of quorum for conducting the meeting, design ballots, canvass all votes, and institute proper recording of the results of such elections.

ARTICLE XII

Special meetings of the Directors may be held upon reasonable notice to each Director, either written or oral.

Prior to convening any special meeting of the Members, the President shall request in writing that the Secretary-Treasurer give at least ten (10) days prior notice to the Members. Such notice shall specify the time, place, and purpose of the meeting, and shall be addressed and mailed to each of the Members at their address last known to the Corporation.

ARTICLE XIII

The business of the Corporation shall be handled under the direction of the Board of Directors by a manager to be elected by majority vote of the Board. The manager shall serve with or without compensation. The manager, with the approval of the Board of Directors, may employ, with or without compensation, such supervisory, clerical or other employees as may be required to effectively operate the business of the Corporation.

ARTICLE XIV

Notwithstanding the ownership of a Membership certificate, all Members shall be billed, disconnected, or reconnected, and otherwise shall receive service in accordance with the written policies of the Corporation, including the tariff of the Corporation. In the event a Member should surrender his Membership certificate properly endorsed to the Secretary-Treasurer of the Corporation, the water service shall be discontinued and the obligation to pay for water service shall terminate except as for the minimum charge for the current month and the charge for water used during the current month, and except as for any prior unpaid amounts due the Corporation. In the event Membership is terminated, cancelled, withdrawn, or surrendered, whether voluntarily or involuntarily, the former Member's rights and interest in the assets of the Corporation will not be forfeited.

ARTICLE XV

Upon the discontinuance of the Corporation by dissolution or otherwise, all assets of the Corporation remaining after payment of the indebtedness of the Corporation shall be distributed among the Members and former Members in direct proportion to the amount of their patronage with the Corporation insofar as practicable. Any indebtedness due the Corporation by a Member for water service or otherwise shall be deducted from such Member's share prior to final distribution. By application for and acceptance of Membership in the

Corporation, each Member agrees that, upon the discontinuance of the Corporation by dissolution or otherwise, all assets of the Corporation transferred to that Member shall be in turn immediately transferred by the individual Member to a charitable organization in the State of Texas, selected by a majority of the Members voting, which is organized to acquire, store, transport, sell, or distribute water for public use and further is qualified for an exemption authorized by Chapter 11 of the Property Tax Code of the State of Texas, to the state, or to an educational, religious, charitable, or other similar organization that is qualified as a charitable organization under Section 501(c)(3) Internal Revenue Code of 1954, as amended.

ARTICLE XVI

The fiscal year of the Corporation shall be
to Dec 31.

January 1

ARTICLE XVII

For so long as the Corporation is indebted for a loan or loans made to it by the United States of America through the Farmers Home Administration, the Corporation shall insure with a reputable insurance company such of its properties and in such amounts as is required by the State Director of the Farmers Home Administration for the State of Texas.

ARTICLE XVIII

Section 1. If at the end of the fiscal year, or in the event

of emergency repairs, the Board of Directors determines 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 Corporation's 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 or as may be required by Farmers Home Administration, 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 repayment on indebtedness for the year's operations, but this provision shall not operate for the benefit of any third party creditor other than Farmers Home Administration without a favorable vote of the majority of the Members. Any assessments levied to make up operational deficits in any year shall be levied against Members in proportion to their patronage with the Corporation.

Section 2. In the event a Member should surrender his Membership certificate properly endorsed to the Secretary-Treasurer of the Corporation, the obligation to pay such assessments shall be limited to assessments made and levied prior to the date of surrender of the Membership certificate, provided, however, that this paragraph and the second sentence of Article XIV shall not apply to relieve a Member of his obligation under special agreements covering Multiple-Membership certificates held by one Member which may have been required or approved by the Farmers Home Administration.

change the purpose of the Corporation so as to decrease its rights and powers under the laws of the State, or to waive any requirements of bond or other provisions 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 the 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. For so long as the Corporation is indebted for a loan or loans made to it by the United States of America through the Farmers Home Administration, these By-Laws shall not be altered, amended, or repealed without the prior written consent of the State Director of the Farmers Home Administration for the State of Texas.

ARTICLE XXI

The seal of the Corporation shall consist of a circle within which shall be inscribed "CANYON LAKE ESTADOS WATER SUPPLY CORPORATION".

ARTICLE XXII

The Corporation pledges its assets for use in performing the organization's charitable functions.

ARTICLE XXIII

The above By-Laws and regulations were unanimously adopted by the Membership of the CANYON LAKE ESTADOS WATER SUPPLY CORPORATION, at a meeting in the FAGAN - Home on the 15 day of September, A.D. 1993.

Nanette P. Fagan

Wayne C. Fuller - President

Secretary-Treasurer

Nanette FABER