

Bylaws

CAPE CARANCAHUA WATER SUPPLY CORPORATION

ARTICLE I – OFFICES

1.01. Principal Office. The principal office of the Corporation in the State of Texas shall be located in Jackson County, Texas. The Corporation may have such other offices, within Jackson County, as the Board of Directors may determine or as the affairs of the Corporation may require from time to time.

1.02. Registered Office and Registered Agent. The Corporation shall have and continuously maintain in the State of Texas a registered office, and a registered agent whose office is identical with such registered office, as required by the Texas Non-Profit Corporation Act. The registered office may be, but need not be, identical with the principal office of the Corporation in the State of Texas, and the address of the registered office may be changed from time to time by the Board of Directors.

ARTICLE 2 – MEMBERS

2.01. Classes of Members. The Corporation shall have one class of members. The designation of such class and the qualifications and rights of the members of such class shall be as follows: every person (which includes any legal entity) owning 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 connection and operation of and service by the system. Membership shall not be denied because of the applicant's race, color, creed 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.

2.02. Membership Fee. The membership fee shall be One Hundred Fifty and No/100 Dollars (\$150.00) per lot which shall entitle the member to one connection per lot to the water main of the Corporation. Each lot owner within the area served by the Corporation must purchase a membership. All other fees or rates for services Provided by the Corporation shall be set by the Board of Directors from time to time and shall be contained in the rules and regulations governing the extension of its services contained in the Corporation's tariff adopted by the Board of Directors.

2.03. Voting Rights. 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 on each matter submitted to a vote of the membership. Membership certificates shall be in such form as shall be determined by the Board of Directors. 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 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, who have not had water services disconnected pursuant to Section 2.04 of these bylaws and who are not shown to be in arrears in any payment, assessments, charges or other obligations to the Corporation thirty days prior to the date on which the vote is to be taken.

2.04. Termination or Suspension of Water Service.

(a) Water service may be terminated for violation of any provision of the Corporation's rules, regulations, or policies governing potable water service. Termination under this section will be done in accordance with the rules, regulations and policies of the Board as set forth in the Corporation's tariff.

(b) All members will be billed, disconnected, or reconnected in accordance with the written policies of the Corporation contained in the Corporation's tariff. Upon written request of any member, 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 or the charge for water used during the current month, whichever is greater, and except as for any prior unpaid amounts due the Corporation. In the event water service is terminated, cancelled, withdrawn or surrendered, whether voluntarily or involuntarily, the member's rights and interest in the assets of the Corporation will not be forfeited.

2.05. Transfer of Membership. A person who 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 without the prior approval of the Corporation except:

- (a) by will to a person related to the testator within the second degree of consanguinity;
- (b) by transfer without compensation to a person related to the owner of

the stock or other interest within the second degree by consanguinity;

- (c) by transfer without compensation or any sale to the Corporation; or
- (d) as part of the conveyance of real estate from which the membership arose.

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 transferred from the original members, their transferees, pledges, administrators or executors, or purchasers at judicial sale, or to other persons, shall be treated as transferred 'on the records of the Corporation' only after approval by the Directors of the transfer of said membership. Except as hereinafter provided, membership in the Corporation shall be deemed a personal estate, and shall be transferable on the records of the Corporation only upon surrender of the membership certificate endorsed by the record owner to the transferee and satisfactory evidence tendered by the transferor or transferee that such transfer has been accomplished within the requirements enumerated above, and only after approval of the Board of Directors of the person or entity proposing to receive such membership. After all indebtedness due the Corporation has been paid by the transferring member, a new membership certificate may be issued. 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 purchasers at judicial sale, 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. Therefore, under no circumstances shall a membership be transferred for consideration greater than that paid for it by the transferor.

ARTICLE 3 - MEETINGS OF MEMBERS

3.01. Annual Meeting. An annual meeting of the members shall be held in the month of March in each year for the purpose of electing Directors and for the transaction of other business as may come before the meeting. If the election of Directors shall not be held on the month designated herein for any annual meeting, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the members as soon thereafter as possible, but no later than the first day of May in any such year. 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. Voting by mailed ballot or by proxy shall be permitted. At all meetings of the members, those members present either in person or represented by proxies, a total of fifteen (15) or more members so represented will constitute a quorum for the transaction of business.

3.02 Special Meeting. *(As amended 12/29/91)* Special meetings of the members may be called by the President. A special meeting of the members shall be called on the written request of (a) three (3) or more Directors of the Board, or (b) not less than one-third (1/3) of the members having voting rights. 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 notice to the members, and that such special meeting is otherwise noticed as provided under Article 4.03 of these By-laws. Such notice shall indicate the time, place and purpose of the meeting, and shall be addressed and mailed to such members at their address last known to the Corporation.

3.03. Place of Meeting. The Board of Directors may designate any place within Jackson County, Texas, as the place of meeting for any annual meeting, or for any special meeting called by the Board of Directors.

3.04. Agenda of Meetings. An agenda will be posted in the principal office of the Corporation at least ten (10) days prior to any annual or special meeting listing items to be discussed at the meeting. Any member wishing to place an item on the agenda for discussion must submit the item to the Secretary/Treasurer prior to the publication of the agenda.

3.05 Quorum. At all meetings of the members, if a total of fifteen (15) or more members are present, those present either in person or represented by proxy shall constitute a quorum at such meeting. If a quorum is not present at any meeting of members, the members present may adjourn the meeting from time to time without further notice.

3.06. Proxies. At any meeting of members, a member entitled to vote may vote by proxy executed in writing by the member or by his duly authorized attorney-in-fact. No proxy shall be valid after eleven (11) months from the date of its execution, unless otherwise provided in the proxy.

Prior to any meeting of the members, the Board of Directors, in order to establish uniformity, may prescribe the form of the proxy to be used, which form shall be in conformity with the provisions of the Texas Non-Profit Corporation Act. Any proxy form other than the form prescribed by the Board shall be invalid.

3.07. Voting of Proxies. Unless acting in a representative capacity as an attorney, executor, administrator, trustee, guardian or officer of a church, association or organization, corporation, partnership, or business, trust or estate which is a member, no non-member shall vote a proxy of a member.

3.08 Rules of Order. For any meeting of the members, the Board shall appoint a Parliamentarian and one or more Sergeants-at-arms. The meeting shall be conducted in accordance with the most recent version of the Roberts' Rules of Order. Governed by the Roberts' Rules of Order, the Parliamentarian shall rule and decide any issues of procedure and decorum. Any person found in violation of the bylaws of the Corporation or Roberts' Rules of Order by the Parliamentarian or a ruling of the Parliamentarian, or who in the opinion of the Parliamentarian or the President Officer, conducts himself in a disruptive or disorderly manner may be expelled from the meeting.

3.09. Election Inspectors. Prior to any meeting of the membership at which an election of officers may be had, the Board may appoint one or more election inspectors. The election inspector or inspectors appointed by the Board shall supervise the registration of members and proxies; shall review the books and records of the Corporation to determine those members eligible to vote; shall determine the validity of any proxies; shall conduct the nomination and election pursuant to these bylaws and the Texas Non-Profit Corporation Act; shall tally the vote, and announce the results of such tally. Notwithstanding the provisions of 3.07, the decision, of the election inspector on any matter pertaining to the conducting of the election shall be final.

ARTICLE 4 - BOARD OF DIRECTORS

4.01. General Powers. The affairs of the Corporation shall be managed by its Board of Directors. Directors shall either reside in or own property within the area served by the Corporation. The Board of Directors shall consist of five members.

4.02. Classes of Directors. *(as amended 3/11/01)* In the event there are no contested races or no opposing candidates, a mail ballot will be deemed unnecessary and the candidates will automatically become Directors at the annual meeting on the second Sunday in March of that year. 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 Directors of the first class to expire at the first annual meeting of the shareholders after their election, terms of the Directors of the second class to expire at the second annual meeting after their election and the terms of the Directors of the third class to 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 fourth succeeding annual meeting.

4.03. Regular Meetings. (as amended 12/29/91)

- (a) 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, and shall include posting of the meeting as required by the Texas Open Meetings Act, Article 6252-17, Tex. Rev. Civ. Stat., by furnishing the notice to the county clerk or clerks of the county or counties in which the Corporation provides service, and by posting such notice in a place readily convenient to the public in its administrative office at all times for at least seventy-two (72) hours preceding the scheduled time of the meeting. Such notice shall specify the date, hour, place and subject of each meeting held by the Board of Directors.
- (b) The Board of Directors shall ensure that all meetings comply with the requirements of the Open Meetings Act. Article 6252-17, Tex. Rev. Civ. Stat., including any subsequent amendment thereto. In event of any conflict between the provisions of these bylaws and the requirements of the Texas Open Meetings Act, the provisions of the Open Meetings Act shall prevail.

4.04. Special Meeting. (as amended 12/19/91) Special meetings of the Directors may be held upon the posting of notice of such special meeting in the manner provided under Article 4 of these bylaws, and at least two hours before the meeting is convened. It shall be the responsibility of the President or his designee to ensure that proper notice is posted. In no event shall any special meeting of the Directors be convened where the business of such meeting could be considered at a regular meeting of the Directors receiving at least seventy-two (72) hours notice as provided under Article 4.03 of these bylaws

4.05. Notice. Notice of any special meeting of the Board of Directors shall be given at least three (3) days previously thereto by written notice delivered personally or sent by mail or telegram to each Director at his address as shown by the records of the Corporation. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail so addressed with postage thereon prepaid. If notice be given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. Any Director may waive notice of any meeting. The attendance of a Director at any meeting shall constitute a waiver of notice of such meeting, except where a Director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board need be specified in the notice or waiver of notice of such meeting, unless specifically required by law or by these bylaws.

4.06. Quorum. A majority of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board; but if less than a majority of the Directors are present at said meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice.

4.07. Manner of Acting. The act of a majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the act of a greater number is required by law or by these bylaws.

4.08. Vacancies. Any vacancy occurring in the Board of Directors and any directorship to be filled by reason of an increase of the number of Directors, shall be filled by the Board of Directors until the next annual meeting at which time the membership shall hold an election to fill the vacancy pursuant to Article 3 above. A Director elected by the Board of Directors or the membership to fill a vacancy under this provision shall be elected for the unexpired term of his predecessor in office.

4.09 Compensation. Directors as such shall not receive any stated salaries for their services, but by resolution of the Board of Directors a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the Board; but nothing herein contained shall be construed to preclude any Director from serving the Corporation in any other capacity and receiving compensation therefore.

4.10 Informal Action by Directors. Any action required by law to be taken at a meeting of Directors, or any action which may be taken at a meeting of Directors, may be taken without a meeting if a consent in writing setting forth the action shall be signed by all of the Directors.

4.11 Rules of Conduct and Order. The meetings of the Board of Directors shall be governed by the most recent version of the Roberts' Rules of Order, unless the Board shall by two-thirds (2/3) vote suspend the rules. The Board may also elect a Parliamentarian to rule on matters of procedure, and decorum, and one or more Sergeants-at-Arms. Any person found in violation of the rules, a ruling by the Chair or the Parliamentarian, or who in the opinion of the Chair or Parliamentarian, conducts himself in a disruptive or disorderly manner, may be expelled from the meeting.

ARTICLE 5 – OFFICERS

5.01 Officers. The officers of the Corporation shall be a President, Vice President, a Secretary/Treasurer, and such other officers as may be elected in accordance with the provision of this Article. The Board of Directors may elect or appoint such other officers, including a Manager to serve with or without compensation, as it shall deem desirable, such officers to have the authority and perform the duties prescribed, from time to time, by the Board of Directors. Any two or more offices may be held by the same persons, except the offices of President and Secretary.

5.02 Election and Term of Office. The officers of the Corporation shall be elected annually by the Board of Directors at the regular annual meeting of the Board of Directors. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. New offices may be created and filled at any meeting of the Board of Directors. Each officer shall hold office until his successor shall have been duly elected and shall have qualified.

5.03 Removal. Any officer elected or appointed by the Board of Directors may be removed by the Board of Directors whenever, in its judgment, the best interests of the Corporation would be served thereby, but such removal shall be without prejudice to the membership rights, if any, of the officer so removed.

5.04. Vacancies. A vacancy in any office because of death, resignation, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.

5.05. President. The President shall preside at all meetings of the members and of the Board of Directors. He may sign, with the Secretary or any other proper officer of the Corporation authorized by the Board of Directors, any deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors have authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these bylaws or by statute to some other officer or agent of the Corporation; and in general he shall perform all duties incident to the office of President or such other duties as may be prescribed by the Board of Directors from time to time.

5.06. Vice-President. In the absence of the President or in the event of his inability 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. Any Vice-President shall perform such other duties as from time to time may be assigned to him by the President or Board of Directors.

5.07. Secretary/Treasurer.

(a) The Secretary/Treasurer shall have charge and custody of and be responsible for all funds and securities, of the Corporation; receive and give receipts for monies due and payable to the Corporation from any source whatsoever, and deposit all such monies in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of Article 7 of these bylaws; sign all checks together, with the President or, in his absence, the Vice-President; and in general, perform all the duties as from time to time may be assigned to him by the President or by the Board of Directors.

(b) The Secretary/Treasurer shall keep the minutes of the meetings of the members and of the Board of Directors in one or more books provided for that purpose; give all notices in accordance with the provisions of these bylaws or as required by law; be custodian of the Corporate records and of the seal of the Corporation, and affix the seal of the Corporation to all documents, the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of these bylaws; keep a register of the post office address of each member which shall be furnished to the Secretary by each member; and in general perform all duties as from time to time may be assigned to him by the President or by the Board of Directors.

5.08 Bonding of Officers. The Board of Directors may require such officers of the Corporation, as deemed necessary, to furnish bonds for the faithful performance of their duties.

ARTICLE 6 – COMMITTEES

6.01. Committees of Directors. The Board of Directors, by resolution adopted by a majority of the Directors in office, may designate and appoint one or more committees, each of which shall consist of two or more Directors, which committees, to the extent provided in said resolution shall have and exercise the authority of the Board of Directors in the management of the Corporation. However, no such committee shall have the authority of the Board of Directors in reference to amending, altering, or repealing the bylaws; electing, appointing, or removing any member of any such committee or any director or officer of the Corporation; amending the Articles of Incorporation; adopting a plan of merger or adopting a plan of consolidation with another corporation; authorizing the sale, lease, exchange, or mortgage of all or substantially all of the property and assets of the Corporation; authorizing the voluntary dissolution of the Corporation or revoking proceedings therefore; adopting a plan for the distribution of the assets

of the Corporation; or amending, altering, or repealing any resolution of the Board of Directors which by its terms provides that it shall not be amended, altered, or repealed by such committee. The designation and appointment of any such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any individual Director, of any responsibility imposed on it or him by law.

6.02. Other Committees. Other committees not having and exercising the authority of the Board of Directors in the management of the Corporation may be designated by a resolution adopted by a majority of the Directors Present at a meeting at which a quorum is present. Except as otherwise provided in such resolution, members of each such committee shall be members of the Corporation, and the President of the Corporation shall appoint the members thereof. Any members thereof may be removed by the person or persons authorized to appoint such member whenever in their judgment the best interests of the Corporation shall be served by such removal.

6.03. Term of Office. Each member of a committee shall continue as such until the next annual meeting of the members of the Corporation and until his successor is appointed, unless the committee shall be sooner terminated, or unless such member be removed from such committee, or unless such member shall cease to qualify as a member thereof.

6.04. Chairman. One member of each committee shall be appointed chairman by the person or persons authorized to appoint the members thereof.

6.05. Vacancies. Vacancies in the membership of any committee may be filled by appointments made in the same manner as provided in the case of the original appointments.

6.06. Quorum. Unless otherwise provided in the resolution of the Board of Directors designating a committee, a majority of the whole committee shall constitute a quorum and the act of a majority of the members present at a meeting at which a quorum is present shall be the act of the committee.

6.07. Rules. Each committee may adopt rules for its own government not inconsistent with these bylaws or with rules adopted by the Board of Directors.

ARTICLE 7 - CONTRACTS, CHECKS, DEPOSITS AND FUNDS

7.01. Contracts. The Board of Directors may authorize any officer or officers, agent or agents of the Corporation, in addition to the officers so authorized by these bylaws, to enter into any contract or execute and deliver any

instrument in the name of and on behalf of the Corporation. Such authority may be general or confined to specific instances.

7.02. Checks and Drafts. All checks, drafts, or orders for the payment of money, notes or other evidences of indebtedness shall be issued in the name of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors. In the absence of such determination by the Board of Directors, such instruments shall be signed by the Secretary/Treasurer and countersigned by the President or the Vice-President of the Corporation.

7.03. Deposits. All funds of the Corporation shall be deposited from time to time to the credit of the Corporation in such banks, trust companies, or other depositories as the Board of Directors may select.

7.04. Gifts. The Board, of Directors may accept on behalf of the Corporation any contribution, gift, bequest, or devise for the general purpose or for any special purpose of the Corporation.

ARTICLE 8 - CERTIFICATE OF MEMBERSHIP

8.01. Certificates of Membership. The Board of Directors may provide for the issuance of certificates evidencing membership in the Corporation, which shall be such form as may be determined by the Board. Such certificates shall signed by the President or Vice-President and by the Secretary/Treasurer, and shall be sealed with the seal of the Corporation. All certificates evidencing membership shall be consecutively numbered. The name and address of each member and the date of issuance of the certificate shall be entered on the records of the Corporation. If any certificate shall become lost, mutilated, or destroyed, a new certificate may be issued therefore on such terms, and conditions as the Board of Directors may determine.

8.02. Issuance of Certificates. When a member has acquired membership and has paid any fee and dues that may then be required, a certificate of membership shall be issued in his name and delivered to him by the Secretary/Treasurer, if the Board of Directors shall have provided for the issuance of certificates of membership under the provisions of Paragraph 8.01 of Article 8.

8.03. Restrictive Transfer of Certificate. No membership shall be transferred except in compliance with Section 2.05 of the bylaws. Any transfer or attempted transfer of membership not in compliance with these bylaws shall be void *ab initio*. All membership certificates issued by the Board shall contain the following notice:

The membership represented by this Certificate and any transfer thereof are subject to the bylaws of this Corporation, Sections 2.05 and 3.03 which

provide that no member shall transfer any membership certificate except on approval of the Board of Directors and then for no more consideration than that paid for by the transferor. Any transfer not made in compliance with these provisions is null and void.

ARTICLE 9 - BOOKS, RECORDS AND FINANCIAL AFFAIRS

9.01. Books and Records. (as amended 12/29/91) The Corporation shall keep correct and complete books and records of account and shall also keep minutes of the proceedings of its members, Board of Directors, and committees having any of the authority of the Board of Directors, and shall keep at the registered or principal office a record giving the names and addresses of the members entitled to vote. With prior written request, corporate records, books and annual reports, subject to exceptions provided by the Open Records Act, Article 5252-13a, Tex. Rev. Civ. . Stat., including any amendments thereto, shall be available for public inspection and copying by the public or their duly authorized representatives during normal business hours subject to a reasonable charge for the preparation of copies.

In the event of any conflict between the provisions of the Open Records Act and the provisions of these bylaws, the provisions of the Open Records Act shall prevail.

9.02. Fiscal Year. The Fiscal year of the Corporation shall begin on the, first day of January and end on the last day of December in each year.

9.03. Affairs Conducted Not for Profit. The Corporation shall conduct its business on a non-profit basis and no dividends shall ever be paid upon the memberships of such Corporation. After the establishment of a sufficient reserve fund to provide for future improvements, emergency repairs and replacement of obsolete equipment, any excess funds arising from the operation of such business shall be annually paid out to the persons, save and except members, who have, during the past year, transacted business with such Corporation, in direct proportion to the amount of business transacted, provided that no such monies shall ever be paid while any indebtedness of the Corporation remains unpaid.

9.04. Indebtedness. The Board of Directors may not incur indebtedness other than for routine or emergency operation of the water system without prior approval of the membership. That approval shall be obtained by proposition submitted to the membership by mailed ballot pursuant to the procedures and restrictions contained in Section 2.03 herein. A decision on the issue submitted to the membership by mailed ballot shall be determined by a majority vote of the

mailed ballots returned to the principal office of the Corporation within the time period specified by the Corporation for that return. Information concerning the indebtedness to be incurred will accompany the ballot and a special meeting or regular meeting to discuss the issue will be held prior to the due date of the mailed ballot.

9.05. Reserve Account.

- (a) The directors of the Corporation shall establish and maintain, so long as the Corporation is indebted to the Government or 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 pursuant to the provisions of Section 9.03 herein. There shall be deposited in such fund the sum as required by a total of all loan resolutions executed by the Corporation. Such deposits will be made monthly and will 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 required by the executed loan resolutions.
- (b) Withdrawals from this fund upon prior Farmers Home Administration approval shall be made only for emergency repairs obsolescence of equipment, improvements to facility, and for satisfying any deficiencies in revenue for loan payments.
- (c) The Directors shall invest all sums in this fund not required to be expended with the year in which the same are deposited in bonds or other evidence of indebtedness to 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 a part of the reserve fund account.

9.06. Distribution of Assets on Dissolution. *(as amended 12/29/91)* Upon the discontinuance of the Corporation by dissolution otherwise, all assets of the Corporation remaining after any payment of the indebtedness of the Corporation all be distributed among the members and former members in direct proportion to the amount of their patronage th the Corporation insofar as practicable. Any indebtedness to 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 discontinuance of the Corporation otherwise, all assets of the Corporation

transferred to that member shall be in turn immediately transferred from the individual member to an entity that provides a water supply or wastewater service, or both, that is exempt from ad valorem taxation.

9.07. Indebtedness to the United States of America. 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.

9.08. Levy of Assessment.

- (a) 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.
- (b) In the event a member should surrender his membership certificate property 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 9 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.

9.08. Annual Audit. The books and accounts of the Corporation shall be audited at least once a year by a person competent to perform such audit. The reports prepared by such auditor shall be submitted to the members at the

annual meeting of such members.

ARTICLE 10 - ALTERATIONS AND AMENDMENTS

10.01. These bylaws may be altered, amended, or repealed by a vote of a majority of the members present at any regular meeting of the Corporation, or at any special meeting of the Corporation called for that purpose, except that the members shall not have the power to 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 bylaws as to effect a fundamental change in the policies of the Corporation. Notice of any amendment will be submitted to the entire membership through a mailed ballot enclosing proxies and information concerning the issue will accompany the ballot, and a special meeting or regular meeting to discuss the issues will be held prior to the due date of the mailed ballot. 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 bylaws 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 11 - SEAL

11.01. The Board of Directors shall provide a corporate seal, which shall be in the form of a circle and shall have inserted thereon the name of the Corporation and the words "Cape Carancahua Water Supply Corporation."

ARTICLE 12 - WAIVER OF NOTICE

12.01 Whenever any notice is required to be given under the provision of the Texas Non-Profit Corporation Act or under the provisions of the Articles of Incorporation or by the bylaws of the Corporation, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

ARTICLE 13 - PLEDGE

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