

**CULLEOKA WATER SUPPLY
CORPORATION**

BY-LAWS

As **Proposed~~Amended~~** at the
Annual Members Meeting

~~February 17, 2003~~

February 20, 2012

**CULLEOKA WATER SUPPLY CORPORATION
BY-LAWS**

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

ARTICLE I.

The President shall preside at all members' and directors' meetings. He shall perform all other duties that usually pertain to the office or as delegated 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 custody of all monies, records and securities of the Corporation. The Secretary-Treasurer shall keep minutes of all meetings of the corporation. The Secretary-Treasurer shall deposit all monies of the Corporation in such depository as shall be selected by the Directors. Checks shall be signed by the Secretary-Treasurer or the person designated by the Board of Directors as the Secretary-Treasurer assistant or deputy. Checks shall be co-signed by the President or a designee of that office. 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. The Board of Directors may appoint a designee as assistant or Deputy Secretary to assist the Secretary-Treasurer in all official duties pertaining to the office.

The position of the Secretary-Treasurer, and other Board positions and/or employees entrusted with receipt and disbursement of funds, shall be placed under a fidelity bond in an amount that 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 USDA Rural Development, Rural Utilities Service (RUS) loans and be evidenced by a position fidelity schedule bond as acceptable to USDA Rural Development, RUS, or its successor agencies and assigns.

ARTICLE IV.

Section 1. The Board of Directors shall consist of Seven (7) directors, a majority of whom shall constitute a quorum. Upon issuance of the Charter and annually thereafter on the next regular board meeting in the month following the Annual Membership Meeting, the Board of Directors shall elect a President, a Vice-President and a Secretary-Treasurer. The Directors shall

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be elected by the Members at the Members' meetings as provided for in Article VI of the Bylaws. ~~A person must meet the qualifications as defined by the State Water Code, Sections 67.0051 - .0054 and 67.007, or any amendments thereto. A person must meet the following minimum qualifications to be eligible to become a Director:~~

- ~~1. The person must be a Certified Member of the Corporation.~~
- ~~2. The person must have completed all documents required by the Board of Directors to file for a position on the Board.~~
- ~~3. The person must not have any delinquent amounts owed the Corporation for services rendered.~~
- ~~4. The person must not have been convicted of a felony.~~
- ~~5. The person must be a citizen of the United States and at least 18 years of age.~~

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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 members after their election; the 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 third succeeding annual meeting. Directors, as such, shall not receive any stated salary for their services, except as provided by state law.

Upon the death or resignation of a Director, a successor shall be appointed 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 percent (10%) 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 two-thirds (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 (20) 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 in person or by proxy and~~ voting at such meeting, in accordance with the written annual or special meetings procedures as adopted by the Board. If the director thus removed was an officer of the corporation, a director will be appointed by the board to fill the vacated officer's

position.

Section 3. The President of the Board shall preside at any meeting of the Members convened to consider removal of an Officer or Director as provided under Section 2. If the President is the subject of charges the Vice-President shall preside. In the event that both the President and Vice-President are the subjects of charges, those Directors who are not the subject of charges shall appoint one of the directors 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 Board of Directors. The fact that the President, Vice-President or any other officer or Director has been made the subject of charges does not otherwise prevent said individual from continuing to act in the 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. Such policy, at a minimum, shall be in conformance with the provisions of the Texas Non Profit Corporation Act pertaining to duties and responsibilities of the Board of Directors.

ARTICLE V.

Section 1. Meetings of the Board of Directors shall be held at such time and place as the Board may determine and shall include posting of the meeting as required by the Texas Open Meetings Act. The Board of Directors shall ensure that all meetings comply with the requirements of the Open Meetings Act, Chapter 551, of the Texas Government Code, including any subsequent amendment thereto. In the event of any conflict between the provisions of these Bylaws and the requirements of the Open Meetings Act, the provisions of the Open Meetings Act shall prevail.

Section 2. Any Director failing to attend two (2) consecutive meetings may be given written notice by the balance of the Board of Directors that failure by said Director to attend a third consecutive meeting without justifiable cause acceptable to a majority of the other Board Members, shall give rise to removal of said Director from the Board. A successor shall be appointed 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.

Section 3. The Board of Directors shall provide access for the public, new service applicants, or Members to the meetings of the Board of Directors by setting aside a time for hearing of suggestions, proposals, or grievances; however, there shall be no deliberations or actions by the Board unless such has first been noticed in accordance with the Texas Open Meetings Act. The Board of Directors shall establish reasonable rules for access to such meetings.

Section 4. The Board of Directors may, upon lawful notice to the public, meet in executive session when permitted in the manner and for such purposes as provided for in the Texas Open

Meetings Act and any amendment thereto.

Section 5. In conducting their duties as members of the Board, the Directors (1) shall be entitled to rely, in good faith and with ordinary care, on information, opinions, reports or statements, including financial statements and other financial data, concerning the Corporation or the Corporation's affairs that have been prepared or presented by one or more officers or employees of the Corporation, or by legal counsel, public accountants, or other persons retained by the Corporation for the development of professional advice and information falling within such person's professional or expert competence; (2) may believe, in good faith and with ordinary care, that the assets of the Corporation are at least that of their book value; and (3) in determining whether the Corporation has made adequate provision for the discharge of its liabilities and obligations, may rely in good faith and with ordinary care, on the financial statements of, or other information concerning, any person or entity obligated to pay, satisfy or discharge some or all of the Corporation's liabilities or obligations; and may rely in good faith on information, opinions, reports, or statements, including financial statements and other financial data, prepared or presented by one or more Officers or employees of the Corporation, legal counsel, public accountants, or other persons, provided the Directors reasonably believes such matters to fall within such person's professional or expert competence. Nevertheless Directors must disclose any knowledge they may have concerning a matter in question that makes reliance otherwise provided herein to be unwarranted.

ARTICLE VI.

Section 1. There shall be a regular meeting of the Members annually, on the third Monday of February 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 Bylaws 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.~~ Voting by proxy shall not be permitted. A quorum shall be the same as defined in State Water Code, Section 67.007, or any amendments thereto.

Section 2. The Board of Directors shall adopt, and from time to time may revise, written procedures for conducting annual or special Membership meetings, including the ~~proxy and/or~~ ballot form which shall be the official ~~proxy and/or~~ ballot for such meetings; procedures for proper notification of the Membership of such meetings and delivery of the Corporation's official ~~proxy and/or~~ ballot forms to the Membership; procedures to determine, qualify and register the eligible voters for such meetings; and procedures for canvassing all votes and recording the results of all elections at such meetings of the Membership.

Section 3. The Board of Directors shall establish a standing Credentials Committee of three (3)

Board Members, of which the Secretary-Treasurer shall be the chairperson. This committee shall at no time have sufficient board members appointed to constitute a quorum of the Board of Directors. ~~This committee, in accordance with procedures adopted by the Board under Section 2, shall notify the Membership of annual or special Membership meetings and deliver the Corporation's official proxy and/or ballot forms to the Membership; determine, qualify and register the eligible voters for such meeting; validate proxies, determine presence of quorum for conducting the meeting, canvas all votes and record the results of such elections. Should the individual holding the office of Secretary-Treasurer be running for re-election, the President shall appoint an officer not currently running for re-election to serve as chairperson of this committee. This committee may assist the board by recommending for Board approval the Annual Meeting and Board of Director Election Procedures and the performance of other functions as may be defined from time to time by the Board of Directors in matters pertaining to the Annual Meeting and Board of Director election.~~

Section 4. After setting the date for the notice of a meeting, the Board of Directors shall cause the preparation of an alphabetical list of the names of all members who are entitled to vote at the meeting. The list must show the address of each member entitled to vote. No later than two (2) business days after the notice is given of the meeting, and continuing through the meeting, the list of members entitled to vote must be available for inspection at the Corporation's principal office or at a reasonable place identified in the meeting notice by any Member for the purpose of communication with other members concerning the meeting. Any Member entitled to vote, or the Member's agent or attorney, shall be allowed, on written demand, to inspect and, at a reasonable time and at their expense, copy the list. Further, the Board shall make the list of Members entitled to vote available at the Membership meeting, and shall allow inspection of such list by any Member or Member's agent or attorney at any time during the meeting, including any adjournments thereof.

ARTICLE VII.

A special meeting of the Members or Directors may be called by the President, or by demand by a majority of the Board Members, or one-third (1/3) of the Members. Such special meetings shall be held upon giving notice as required by the Texas Open Meetings Act.

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, and that such special meeting is otherwise noticed, as required under Article 1396-2.11, Texas Revised Civil Statute, and as provided under Article V of these Bylaws. 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, or personally delivered to each Member, or sent by facsimile to each Member.

Emergency meetings of the Directors may be held on rare occasions and only when clearly authorized by the Texas Open Meetings Act. Notice of such emergency meeting shall be provided under Article V of the Bylaws and the Texas Open Meetings Act at least two (2) hours before the meeting is convened. It shall be the responsibility of the President, or a designee of

that office, to ensure that proper notice is posted and Directors properly notified. In no event shall any emergency meeting of the Directors be convened where the business of such meeting could be considered at a regular or special meeting of the Directors receiving at least seventy-two (72) hours notice as provided under Article V of these Bylaws.

ARTICLE VIII.

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 and, provided also, that the Directors of the Corporation may allocate to sinking funds and reserve accounts such amount of profits as they deem necessary for maintenance, operation, capital improvements, expansions and replacements of all facility components, as provided by Section 67.008 (d) of the Texas Water code. Funds not required to be spent in the year in which deposited and that are allocated by the Board to a sinking fund for replacement, amortization of debts, and the payment of interest shall be invested in accordance with the provisions of Section 67.014 (b) of the Texas Water Code.

ARTICLE IX.

The Directors of the Corporation shall establish and maintain, so long as the Corporation is indebted, 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. Securities so purchased shall be deemed at all times to be part of the reserve fund account. 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 written approval from USDA Rural Development, RUS. Approval shall be made only for emergency repairs, obsolescence of equipment, improvements to facilities, and for making up any deficiencies in revenue for loan payments.

ARTICLE X.

Section 1. The Corporation shall have Members as defined by the Texas Water Code. All customers of the Corporation must hold a Membership or obtain their service through a Membership.

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, religion, sex, age, marital status, familial status, handicap, income from Public Assistance, disability or national origin. It is the intent of the Corporation to provide service on a non-discriminatory basis.

Section 2. The Membership fee shall be as determined by the Board of Directors. Payment of the 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 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 certification shall be in such form as shall be determined by the Board of Directors.

Section 3. The Board of Directors may adjust the membership fee, as they deem appropriate. The Board shall determine and administer such fee in a manner or in an amount that 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 approved by USDA Rural Development, RUS. Membership fees shall be refundable.

ARTICLE XI.

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 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 mortgage from exercising legal rights pursuant to such mortgages upon proper notification to the Corporation.

ARTICLE XII.

Section 1. In order to ensure 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 a Membership or has some other right of participation in the Corporation may not sell or transfer that 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 Membership 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 a Membership or another right of participation under this section does not entitle the transferee to water service unless each condition for water service is met as provided in the Corporation's published rates, charges, and conditions of service. Water service provided by the Corporation as a result of a 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 Membership or other right of participation if the person or other entity fails to meet the conditions for water 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 service under the 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 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 service is requested, subject to compliance with the conditions for water 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 XIII.

The Board of Directors may employ a person to manage the affairs of the Corporation. The Board shall set the salary, duties and responsibilities of the manager.

ARTICLE XIV.

Notwithstanding the ownership of a Membership, all members will be billed, disconnected, or

reconnected, and otherwise receive service in accordance with the written policies and the tariff of the Corporation. In the event a member should surrender the Membership, 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. Any remaining balance from the Membership fee will be refunded to the former Member. In the event a Membership is terminated, canceled, 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 an entity that provides a water supply or wastewater service, or both, that is exempt from ad valorem taxation. By application for and acceptance of membership in the Corporation, each Member grants the Corporation's Board of Directors that Member's permission to execute all instruments and documents necessary to effectuate such transfers in order to preserve the Corporation's statutory rights to exemption from income and ad valorem taxation.

ARTICLE XVI.

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

ARTICLE XVII.

For as long as the Corporation is indebted for a loan or loans made to it by the United States of America through the USDA Rural Development, RUS, 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 USDA Rural Development, RUS, for the state of Texas.

ARTICLE XVIII.

Section 1. If at the end of any 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 USDA Rural Development, RUS, 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 USDA Rural Development, RUS, 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 their Membership 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 provided, however, this paragraph and the second sentence of Article XIV shall not apply to relieve a member of their obligation under special arrangements covering multiple Memberships held by one member which may have been required or approved by the USDA Rural Development, RUS.

ARTICLE XIX.

The Corporation shall keep correct and complete books and records of account and shall keep minutes of the proceedings of its Members, Board of Directors, and committees, and shall keep a record of the name and addresses of its Members entitled to vote at its registered office or principal office in Texas.

Annually, the Board of Directors shall have a Certified Public Accountant perform an audit of the financial affairs of the Corporation. The auditor shall prepare a report of the financial activity of the Corporation for the preceding year including a statement of support, revenue, and expenses and changes in fund balances, a statement of functional expenses, and balance sheets for all funds or such reports as may be required by USDA Rural Development, RUS. The Board of Directors shall approve the audit report.

With prior written request, corporate records, books, and annual reports, subject to exceptions provided by the Public Information Act, Chapter 552, Texas Government Code, 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 Public Information Act and the provisions of these Bylaws, the provisions of the Public Information Act shall prevail.

ARTICLE XX.

These by-laws may be altered, amended, or repealed by a vote of a majority of the Members ~~present, whether in person or by proxy,~~ casting votes either by mail, by hand delivery or by

voting in person at any regular meeting of the Members, or at any special meeting of the Members 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 intents and purposes 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 as long as the Corporation is indebted for a loan or loans made to it by the United States of America through the USDA Rural Development, RUS, or its successors and assigns, these Bylaws shall not be altered, amended, or repealed without the prior written consent of the State Director of the USDA Rural Development, RUS, for the State of Texas.

ARTICLE XXI.

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

ARTICLE XXII.

The Corporation pledges its assets for use in performing the functions of the Corporation as provided by law and the Corporation's Articles of Incorporation.

ARTICLE XXIII.

The above Bylaws were presented to, and legally adopted by, the Members of the Culleoka Water Supply Corporation and its Board of Directors at a meeting held at the ~~Lake Lavon Baptist Encampment, Princeton, Texas on the 17th day of February 2003~~ corporation office at 100 East Princeton Drive, Princeton, Texas on the 20th day of February, 2011.

President

Attest:

Secretary- Treasurer