

Bylaws
of
LSR Water Supply Corporation

adopted September 30,2000

BY-LAWS

LSR WATER SUPPLY CORPORATION

By-Laws of LSR Water Supply Corporation ("Corporation"), having been presented to the Board of Directors of said Corporation and duly adopted as follows:

ARTICLE I

The officers of the Corporation shall consist of a President, a Vice-President and a Secretary-Treasurer.

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 these 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 the Corporation's corporate book 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.

ARTICLE IV

Section 4.1. The Board of Directors shall consist of five (5) Directors, a majority of whom shall constitute a quorum. Upon issuance of the Charter and annually thereafter on the last Saturday in April, 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 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 if approved 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 4.2. 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 a complaint for removal against a Director or Officer by filing such complaint in writing with the Secretary-Treasurer of the Corporation. If presented by a Member, the complaint 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 two-thirds (2/3) of those voting if a quorum is present. The Director(s) or Officer(s) against whom such complaint has 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 complaint 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 4.3. 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 the complaint, 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 the President, Vice-President, or any other Officer or Director has been made the subject of a complaint 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 4.4. 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 5.1. Regular meetings of the Board of Directors shall be held at such time and place as the Board may determine at the immediately preceding regular meeting, and shall include posting notice of the meeting as required by the Texas Open Meetings Act, Article 6252-17, Tex. Rev. Civ. Stat., by furnishing the notice to the Hays County Clerk for posting on the bulletin board in the Hays County Courthouse 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. Directors who reside more than 50 miles from the place of any Directors meeting may attend such meeting by telephone.

Section 5.2. Any Director failing to attend two (2) consecutive regular meetings shall 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 the balance of the Board of Directors, shall give rise to the automatic removal of said Director from the Board. Following removal of a Director pursuant to this Section 2, 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 5.3. 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.

Section 5.4. 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 the event of any conflict between the provisions of these By-Laws and the requirements of the Open Meetings Act, the provisions of the Open Meetings Act shall prevail.

Section 5.5. In conducting their duties as members of the Board, each Director (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; and 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 Director reasonably believes such matters to fall within such person's professional or expert competence. Nevertheless, a Director must disclose any knowledge he or she may have concerning a matter in question that makes reliance otherwise provided herein to be unwarranted.

ARTICLE VI

The Corporation shall conduct its business on a non-profit basis, pursuant to the Texas Non-Profit Corporation Act, 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. Any profits not so paid by the Corporation shall be retained as a reserve against future expenses of the Corporation.

The Corporation is formed for the sole purpose of owning, installing, operating and maintaining water and sewer systems for that certain property platted and described as Lost Springs Ranch, Hayes County, Texas (the "Property"). Without limiting the generalities of the foregoing, the Corporation shall have the power to do the following:

- (a) To enter into and perform any contract and to exercise all powers which may be necessary or convenient to carry out the purposes of the Corporation, including without limitation the power to contract and pay for the installation, operation, maintenance and repair of water and sewer services to the property;
- (b) To levy and collect fees and assessments from the Members, including capital recovery fees, as deemed necessary by the Board to carry out the purposes of the Corporation;
- (c) To pay all office and other expenses incident to the conduct to the business of the Corporation, including all insurance expenses, licenses, taxes and special tax or utility assessments;
- (d) To indemnify officers and directors of the Corporation to the fullest extent permitted by applicable law as more particularly described in these By-Laws;

(e) To have and to exercise any and all powers, rights and privileges, including delegation of powers as permitted by law, which the Corporation may now or hereafter have or exercise in accordance with the Texas Non-Profit Corporation Act.

ARTICLE VII

INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 7.1. Definitions. In this Article:

(a) "Indemnitee" means (i) any present or former Director or Officer of the Corporation; (ii) any person who, while serving in any of the capacities referred to in clause (i) hereof, served at the Corporation's request as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise; and (iii) any person nominated or designated by (or pursuant to authority granted by) the Board of Directors or any Committee thereof to serve in any of the capacities referred to in clauses (i) or (ii) thereof.

(b) "Official Capacity" means (i) when used with respect to a Director, the office of Director of the Corporation, and (ii) when used with respect to a person other than a Director, the elective or appointive office of the Corporation held by such person or the employment or agency relationship undertaken by such person on behalf of the Corporation, but in each case does not include service for any other foreign or domestic corporation or any partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise.

(c) "Proceeding" means any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitratve or investigative, any appeal in such an action, suit or proceeding, and any inquiry or investigation that could lead to such action, suit or proceeding.

Section 7.2. Indemnification. The Corporation shall indemnify every Indemnitee against all judgments, penalties (including excise and similar taxes), fines, amounts paid in settlement, and reasonable expenses actually incurred by the Indemnitee in connection with any Proceeding in which he was, is or is threatened to be named a defendant or respondent, or in which he was or is a witness without being named

a defendant or respondent, by reason, in whole or in part, of his serving or having served, or having been nominated or designated to serve, in any of the capacities referred to in Section 7.1(a), if it is determined in accordance with Section 7.4 that the Indemnitee (i) conducted himself in good faith, (ii) reasonably believed, in the case of conduct in his Official Capacity, that his conduct was in the Corporation's best interests and, in all other cases, that his conduct was at least not opposed to the Corporation's best interests, and (iii) in the case of any criminal Proceeding, had no reasonable cause to believe that his conduct was unlawful; *provided, however*, that in the event that an Indemnitee is found liable to the Corporation or is found liable on the basis that personal benefit was improperly received by the Indemnitee, the indemnification (i) is limited to reasonable expenses actually incurred by the Indemnitee in connection with the Proceeding and (ii) shall not be made in respect of any Proceeding in which the Indemnitee shall have been found liable for willful or intentional misconduct in the performance of his duty to the Corporation. Except as provided in the immediately preceding provision to the first sentence of this Section 7.2, no indemnification shall be made under this Section 7.2 in respect of any Proceeding in which such Indemnitee shall have been (i) found liable on the basis that personal benefit was improperly received by him, whether or not the benefit resulted from an action taken in the Indemnitee's Official Capacity, or (ii) found liable to the Corporation. The termination of any Proceeding by judgment, order, settlement or conviction, or on a plea of *nolo contendere* or its equivalent, is not of itself determinative that the Indemnitee did not meet the requirements set forth in clauses (i), (ii) or (iii) in the first sentence of this Section 7.2. An Indemnitee shall be deemed to have been found liable in respect of any claim, issue or matter only after the Indemnitee shall have been so adjudged by a court of competent jurisdiction after exhaustion of all appeals therefrom. Reasonable expenses shall include, without limitations, all court costs and all fees and disbursements of attorneys for the Indemnitee.

Section 7.3. Successful Defense. Without limitation of Section 7.2 and in addition to the indemnification provided for in Section 7.2. the Corporation shall indemnify every Indemnitee against reasonable expenses incurred by such person in connection with any Proceeding in which he is a witness or a named defendant or respondent because he served in any of the capacities referred to in Section 7.1(a), if such person has been wholly successful, on the merits or otherwise, in defense of the Proceeding.

Section 7.4. Determinations. Any indemnification under Section 7.2 (unless ordered by a court of competent jurisdiction) shall be made by the Corporation only upon a determination that indemnification of the Indemnitee is proper in the circumstances because he has met the applicable standard of conduct. Such determination shall be made (i) by the Board by a majority vote of a quorum consisting of Directors who, at the time of such vote, are not named defendants or respondents in the Proceeding; (ii) if such a quorum cannot be obtained, then by a majority vote of all Directors (in which designation Directors who are named defendants or respondents in the Proceeding may participate), such committee to consist solely of two (2) or more Directors who, at the time of the committee vote, are not named defendants or respondents in the Proceeding; (iii) by special legal counsel selected by the Board or a committee therefor by vote as set forth in clauses (i) or (ii) of this Section 7.4 or, if the requisite quorum of all of the Directors cannot be obtained therefor and such committee cannot be established, by a majority vote of all of the Directors (in which Directors who are named defendants or respondents in the Proceeding may participate); or (iv) by the vote of two-thirds (2/3) of the Members when a quorum is present in a vote that excludes the Directors who are named defendants or respondents in the Proceeding. Determination as to reasonableness of expenses shall be made in the same manner as the determination that indemnification is permissible, except that if the determination that indemnification is permissible is made by special legal counsel, determination as to reasonableness of expenses must be made in the manner specified in clause (iii) of the preceding sentence for the selection of special legal counsel. In the event a determination is made under this Section 7.4 that the Indemnitee has met the applicable standard of conduct as to some matters but not as to others, amounts to be indemnified may be reasonably prorated.

Section 7.5. Advancement of Expenses. Reasonable expenses (including court costs and attorney's fees) incurred by an Indemnitee who was or is a witness or who is or is threatened to be made a named defendant or respondent in a Proceeding shall be paid by the Corporation at reasonable intervals in advance of the final disposition of such Proceeding, and without making any of the determinations specified in Section 7.4, after receipt by the Corporation of (i) a written affirmation by such Indemnitee of his good faith belief that he has met the standard of conduct necessary for indemnification by the Corporation under this Article VII and (ii) a written undertaking by or on behalf of such Indemnitee to repay the amount paid

or reimbursed by the Corporation if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article VII. Such written undertaking shall be an unlimited obligation of the Indemnitee but need not be secured and it may be accepted without reference to financial ability to make repayment. Notwithstanding any other provision of this Article VII, the Corporation may pay or reimburse expenses incurred by an Indemnitee in connection with his appearance as a witness or other participation in a Proceeding at a time when he is not named a defendant or respondent in the Proceeding.

Section 7.6. Other Indemnification and Insurance. The indemnification provided by this Article VII shall (i) not be deemed exclusive of, or to preclude, any other rights to which those seeking indemnification may at any time be entitled under the Articles, any law, agreement or vote of Members or disinterested Directors, or otherwise, or under any policy or policies of insurance purchased and maintained by the Corporation on behalf of any Indemnitee, both as to action in his Official Capacity and as to action in any other capacity, (ii) continue as to a person who has ceased to be in the capacity by reason of which he was an Indemnitee with respect to matters arising during the period he was in such capacity, and (iii) inure to the benefit of the heirs, executors, and administrators of such a person.

Section 7.7. Notice. Any indemnification of or advance of expenses to an Indemnitee in accordance with this Article VII shall be reported in writing to the Members with or before the notice or waiver of notice of the next meeting of the Members or with or before the next submission to the Members of a consent to action without a meeting and, in any case, within the twelve-month period immediately following the date of the indemnification or advance.

Section 7.8. Construction. The indemnification provided by this Article VII shall be subject to all valid and applicable laws, including without limitation the Texas Non-Profit Corporation Act, and, in the event this Article VII or any of the provisions hereof or the indemnification contemplated hereby are found to be inconsistent with or contrary to any such valid laws, the latter shall be deemed to control and this Article VII shall be regarded as modified accordingly, and, as so modified, to continue in full force and effect.

Section 7.9. Continuing Offer, Reliance, etc. The provisions of this Article VII are (i) for the benefit of, and may be enforced by, each Indemnitee of the Corporation the same as if set forth in their entirety in a written instrument duly executed and delivered by the Corporation and such Indemnitee, and (ii) constitute a continuing offer to all present and future Indemnitees. The Corporation by its adoption of these By-Laws, (i) acknowledges and agrees that each Indemnitee of the Corporation has relied upon and will continue to rely upon the provisions of this Article VII in becoming, and serving in any of the capacities referred to in Section 7.1(a) hereof, (ii) waives reliance upon, and all notices of acceptance of, such provisions by such Indemnitees, and (iii) acknowledges and agrees that no present or future Indemnitee shall be prejudiced in his right to enforce the provisions of this Article VII in accordance with their terms by any act or failure to act on the part of the Corporation.

Section 7.10. Effects of Amendment. No amendment, modification or repeal of this Article VII or any provision hereof shall in any manner terminate, reduce or impair the right of any past, present or future Indemnitees to be indemnified by the Corporation, nor the obligation of the Corporation to indemnify any such Indemnitees, under and in accordance with the provisions of this Article VII as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

ARTICLE VIII

Section 8.1. Only Members of the Corporation shall be entitled to receive water and sewer service from the Corporation unless the Board of Directors determines otherwise by majority vote. Every owner (which includes an individual owner, family owner or 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 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 8.2. The Initial 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. An owner 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 8.3. 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 such fee is approved in advance 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 10.1. 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 property 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 the spouse of the testator or a person related to the testator within the second degree by consanguinity; (2) by transfer without compensation to a transferee who is the spouse of the transferor or a person related to the transferor 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 an owner 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 in the Corporation and/or the services provided by the Corporation if the person or other entity (i) fails to meet the conditions for water or sewer service prescribed by the Corporation's published rates, charges, and conditions of service, or (ii) 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, or (iii) fails to timely pay such Member's share of any fee or assessment levied pursuant to Article VI subsection (b) of these By-Laws. 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 10.2. Notwithstanding anything to the contrary herein above 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 11.1. There shall be a regular meeting of the Members annually, on the last Saturday in April to transact all business that may be properly brought before it. Special meetings of the Members may be called by the Board of Directors or by written request from at least ten percent (10%) of the voting Members. The Secretary-Treasurer shall give at least thirty (30) days written notice of the annual or special 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. Notice by email is expressly authorized. Voting by proxy shall be permitted. Members holding twenty-five percent (25%) of the votes entitled to be cast, represented in person or by proxy, shall constitute a quorum for the transaction of business.

Section 11.2. After fixing a date for the notice of a meeting, the Board of Directors shall prepare an alphabetical list of the names of all voting members who are entitled to vote as of the record date of the meeting. The list must show the address of each voting member. Not later than two (2) business days after the date notice is given of the meeting, and continuing through the meeting, the list of voting members must be available for inspection by any member entitled to vote at the meeting for the purpose of communication with other members concerning the meeting at the Corporation's principal office or at a reasonable place

identified in the meeting notice in the city where the meeting will be held. Any voting member, or voting member's agent or attorney, shall be allowed, on written demand, to inspect and, at a reasonable time and at his expense, copy the list. Further, the Board shall make the list of voting members available at the meeting, and shall allow inspection of such list by any voting member or voting member's agent or attorney at any time during the meeting, including any adjournments thereof.

Section 11.3. 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; 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 the posting of notice of such special meeting, in the manner provided under Article V of these By-Laws, 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 V of these By-Laws.

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 related to such Membership 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.

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 in direct proportion to the number of their respective Memberships in 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.

ARTICLE XVI

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

ARTICLE XVII

Section 17.1. 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, 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 without a favorable vote of two-thirds (2/3) of the Members voting if a quorum is present. Any assessments levied to make up operational deficits in any year shall be levied against Members in proportion to the number of their Memberships in the Corporation.

Section 17.2. 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 XV shall not apply to relieve a Member of his obligation under any special agreements between a Member and the Corporation covering Multiple-Membership certificates held by one Member.

ARTICLE XVIII

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 prepare or cause to be prepared 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 financial reports. Such report shall be approved by the Board of Directors and a copy shall be mailed to each Member.

With prior written request, corporate records, books, and annual reports, subject to exceptions provided by the Open Records Act, Article 6252-17a, 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 By-Laws, the provisions of the Open Records Act shall prevail.

ARTICLE XIX

These By-Laws may be altered, amended, or repealed by a vote of two-thirds (2/3) of the Members voting if a quorum is present at (i) any annual meeting of the Members, or (ii) 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 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 thirty (30) days before such meeting and must set forth the amendments to be considered.

ARTICLE XX

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

ARTICLE XXI

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

ARTICLE XXII

The above By-Laws and regulations were unanimously adopted by the Board of Directors of the LSR WATER SUPPLY CORPORATION, at a meeting in the 230 BLUE WATER COVE - WIMBERLEY, TX. COUNTY OF HAYS on the 30 day of SEPTEMBER, 2000, as delegated by the membership at the initial formation meeting in the COUNTY OF HAYS on the 26th day of August, 2000. in ROAD PARK AT SUBDIVISION ENTRANCE

John Fincher Secretary-Treasurer

MINUTES

LSR Water Supply Corporation