

**BY-LAWS
OF
HILLTOP LAKES WATER SUPPLY CORPORATION**

ARTICLE 1 6 NAME

The name of the Corporation is Hilltop lakes Water Supply Corporation.

ARTICLE 2 6 NONPROFIT CORPORATION

The Corporation is a non-profit, member-owned, member controlled water supply corporation incorporated under the provisions and definitions of TEX. CIV. STAT. ANN. Chapter 67, the Act not inconsistent with Chapter 67, and Section 13.002 of the Texas Water Code.

ARTICLE 3 6 PURPOSES

The purpose of the Corporation is to furnish water supply to towns, cities, private corporations, individuals, and military camps and bases, and for providing a flood control and drainage system for towns, cities, counties, other political subdivisions, Private Corporation, individual, and other person. It is the purpose of the Corporation to be a ðmember-owned, member-controlledö Chapter 67 of the Texas Water Code, water supply corporation, owned by its member-customers and managed by a board of directors which shall have the sole original power to establish the rates, terms, and conditions under which the corporation will provide utility service to a state certificate service area. It is the further purpose of the Corporation to be a cooperative public utility association exempt from federal income taxes under Internal Revenue Code, Section 501(c)(12)(A). It is the further purpose of the Corporation to be a water supply corporation exempt from state ad valorem taxes under Texas Tax Code, Section 11.30. And Chapter 67 of the Texas Water Code.

ARTICLE 4 6 POWERS

Except as otherwise provided in these by-laws, the Corporation's articles of incorporation or the laws of this state, the Corporation shall have all powers invested in a water supply corporation by the Texas Non-Profit Corporation Act, Chapter 67 of the Texas Water Code, and the administrative rules of the Texas Natural Resource Conservation Commission and its successor agency(ies), not inconsistent with Internal Revenue Code Section 501(c)(12)(A) and related federal regulation, rulings, and procedures.

ARTICLE 5 6 RESTRICTIONS AND REQUIREMENTS

1. DIVIDENDS

No dividends shall ever be paid upon the memberships of the Corporation. No income of the Corporation may be distributed to members, directors, or officers in these roles. The Corporation shall receive at least eighty-five percent (85%) of its income from amounts collected from members for the sole purpose of meeting losses and expenses, Funds in excess of those needed to meet current losses and operation expenses may be retained to the extent of the Corporation's reasonable needs for expansion, or maintaining reserves for necessary purposes. In case of dissolution, each member, including former members, shall receive their proportional share of the corporation's property and assets based upon their patronage insofar as it is practicable, after paying or

providing for the payment of all debts of the Corporation. It is intended that all distributions to members shall be made in accordance with the requirements governing organizations described in Section 501(c) (12) of the Internal Revenue Code of 1986, as amended.

2. TRANSFER OF ASSETS UPON DISSOLUTION

Upon discontinuance of the Corporation by dissolution otherwise, all assets of the Corporation remaining after payment of the lawful 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 practical. 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 discontinuance of the Corporation by dissolution or otherwise, all assets of the corporation transferred to that member shall be in turn immediately transferred by that individual member to an entity that provides a water supply 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 irrevocable power of attorney 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.

3. LIMITATION ON ACTIVITIES

The Corporation shall have no power to engage in activities or use its assets in a manner that are not in furtherance of the legitimate business of a water supply cooperative as recognized by Chapter 67 of the Texas Water Code, and Internal Revenue Code 501(c)(12)(A).

ARTICLE 6 ó OFFICES

1. REGISTERED OFFICE AND AGENT

The registered office of the Corporation shall be maintained at Hilltop Lakes Water Supply Corporation, 21 Hilltop Blvd., Hilltop Lakes, Texas, 77871. The Corporation's registered agent shall be Amelia Ashpaugh at that same address. The registered office or the registered agent may be changed by resolution of the board of directors, upon filing the statement required by law.

2. PRINCIPAL OFFICE

The principal office of the Corporation shall be at Hilltop Lakes Water Supply Corporation, 21 Hilltop Blvd., Hilltop Lakes, Texas, 77871 provided that the board of directors shall have the power to change the location of the principal office in its discretion.

3. OTHER OFFICES

The Corporation may also maintain other offices at such places within or without the State of Texas as the Board of directors may from time to time appoint or as the business of the Corporation may require.

ARTICLE 7 ó MEMBERS

1. PLACE OF MEETING

All meetings of members shall be held either at the registered office of the Corporation in Texas or at such other places, either within or without the state, as shall be designated in the notice of the meeting. Where possible for the convenience of the members, the board shall attempt to hold annual meetings in or near the Corporation's

utility service area. All meetings shall be subject to the Texas Open Meetings Act and all notice provisions thereof.

2. ANNUAL MEETING

The annual meeting of members for the election of directors and for the transaction of all other business which may come before the meeting shall be held on the second Thursday of March in each year (if not a legal holiday and, if a legal holiday, then on the next Monday following) at the hour specified in the notice of meeting. In no event, shall the annual meeting be before January 1 or later than April 30 of any year.

The annual meeting of members may be held for any other purpose in addition to the election of directors, which may be specified in a notice of such meeting. The meeting may be called by resolution of the board of directors or by a writing filed with the secretary signed either by a majority of the directors or by members owning a majority of memberships in the Corporation and entitled to vote at any such meeting.

3. NOTICE OF MEMBERS' MEETING

Members shall be sent written or printed notice stating the place, day and hour of the meeting, and in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten (10) nor more than fifty (50) days before the date of the meeting, either personally or by mail, by or at the direction of the president, secretary or the officer or person calling the meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the member at his address as it appears on the membership books of the Corporation, with postage thereon prepaid.

4. MEMBERSHIPS AND VOTING OF MEMBERSHIPS

The Corporation shall have one class of members which shall be defined by the Texas Water Code, Section 13.002(11), as it may be amended or interpreted by authorized court or state agency decision.

Except, as provided below, all customers of the Corporation must hold a membership. Memberships shall be tied to the land being served. The fee simple titleholder shall hold and maintain the membership. If the beneficial recipient of service from the Corporation is not the fee simple titleholder, they must receive service through a membership held by the fee simple landowner of the property at which the customer seeks to obtain service. This membership requirement shall not apply to a person or entity that holds an interest in property solely as security for the performance of an obligation that only builds on or develops the property for sale to others or other persons exempt from membership by statute or authorized court or state agency decision. Builders or developers receiving temporary service exempt from membership shall not have any voting privileges, ownership interest in the Corporation or other corporate benefits of membership.

Except for the exercise of duly authorized proxies of other members as provided herein, each member shall be entitled to only one vote on each matter submitted to a vote at a meeting of members regardless of the number of memberships held by that member. A separate membership must be held for each point of service.

A member may vote either in person or by proxy executed in writing by the member or by his duly authorized attorney in-fact. No proxy shall be valid after three (3) months from the date of its execution unless otherwise provided in the proxy. Each proxy shall be revocable unless expressly provided therein to be irrevocable, and in no event shall it remain irrevocable for a period of more than three (3) months.

No member shall be eligible to participate in any vote of the membership if the member has an outstanding utility account balance owed to the Corporation for utility services rendered, membership fee, or authorized fees if said debt has been delinquent for a period of not less than sixty (60) days prior to the date of such election or vote.

5. CLOSING TRANSFER BOOKS AND FIXING RECORD DATE

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, the Board of directors may provide that the membership transfer books shall be closed for a stated period not exceeding thirty (30) days. If the membership books shall be closed for determining members, such books shall be closed for at least ten (10) days immediately preceding such meeting. In lieu of closing the membership books, the by-laws or in the absence of an applicable by-law, the board of directors, may fix in advance a date as the record date for any such determination of members, not later than thirty (30) days and in case of a meeting of members, not earlier than ten (10) days prior to the date on which the particular action, requiring such determination of members is to be taken. If the membership books are not closed and no record date is fixed for the determination of members entitled to notice of or to vote at a meeting of members, the date on which notice of the meeting is mailed or the date on which the resolution of the board of directors declaring such election is adopted, as the case may be, shall be the record date for such determination of members. When a determination of members entitled to vote at any meeting of members had been made as provided in this section, such determination shall apply to any adjournment thereof, except where the determination has been made through the closing of membership transfer books and the stated period of closing has expired.

6. QUORUM OF MEMBERS

Unless otherwise provided in the Articles of Incorporation, the holders of a majority of the memberships entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of members, but in no event shall a quorum consist of the holders of less than ten percent (10%) of the memberships entitled to vote and thus represented at such meeting. The vote of the holders of a majority of the memberships entitled to vote and thus represented at a meeting at which a quorum is present shall be the act of the members meeting, unless the vote of a greater number is required by law, the Articles of Incorporation or the by-laws.

7. VOTING LIST

The officer or agent having charge of the membership books for the memberships of the Corporation shall make, at least ten (10) days before each meeting of members, a complete list of the members entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of memberships held by each, which list, for a period of ten (10) days prior to such meeting, shall be kept on file at the registered office of the Corporation and shall be subject to inspection by any member at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any member during the whole time of the meeting. The original membership books shall be *prima facie* evidence as to who are the members entitled to examine such list or books or to vote at any meeting of members.

ARTICLE 8 6 DIRECTORS

1. BOARD OF DIRECTORS

A board of directors shall manage the business and affairs of the Corporation. Directors must be (a) residents of the State of Texas, (b) utility customers of the Corporation and (c) members in the Corporation.

2. NUMBER AND ELECTION OF DIRECTORS

The number of directors shall be five (5) if the number may be increased or decreased from time to time by an amendment to these by-laws, but no decrease shall have the effect of shortening the term of any incumbent director. The customary term of office of directors shall be two (2) years. However, at the first meeting of the board of directors, three (3) directors chosen by lots, shall be given terms of one (1) year. The remaining two (2) directors shall be given terms of two (2) years. At each annual election, the members shall elect directors to replace those directors whose terms have expired to hold office until the next succeeding annual meeting. The number of directors may never exceed twenty-one (21). They shall always be divided into near equal numbers so that approximately one-half of the director's terms of office expire each year.

3. VACANCIES

A director may resign at any time during his term. A director may be removed majority vote of the members. If a director is, absent from three (3) or more consecutive regular meetings of which the director was sent mailed written notice, that director may be removed by two-thirds (2/3rds) vote of all other directors in special meeting. The director subject to removal for absenteeism must be sent written notice of the time, date, place and purpose of such meeting by certified United States mail at least ten (10) days before the meeting.

Any vacancy occurring in the board of directors may be filled by the affirmative vote of the remaining directors, though less than a quorum of the board. A director elected to fill a vacancy shall be elected for the remaining term of his predecessor in office. Any directorship to be filled because of an increase in the number of directors shall be filled by election at an annual meeting or at a special meeting of members called for that purpose.

4. QUORUM OF DIRECTORS

A majority of the board of director shall constitute a quorum for the transaction of business. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors.

5. ANNUAL MEETING OF THE DIRECTORS

Within thirty (30) days after each annual meeting of members the board of directors elected at such meeting shall hold an annual meeting at which they shall elect officers and transact such other business as shall come before the meeting. Nothing in these by-laws or any action of the board of directors shall prohibit the holding of the annual meeting of directors immediately following and at the same place as the annual meeting of members except the unavailability of all directors elected at the annual meeting; in which such case, the annual meeting of directors shall be held within thirty (30) days.

6. REGULAR MEETING OF DIRECTORS

A regular meeting of the board of directors may be held at such a time as shall be determined from time to time by resolution of the board of directors. All meetings of the board of directors shall be subject to the Texas Open Meetings Act and all of the notice requirements to that statute.

7. SPECIAL MEETINGS OF DIRECTORS

The secretary shall call a special meeting of the board of directors whenever requested to do so by the president or by two directors. Such special meeting shall be held at the time specified in the notice of meeting. All meetings of the board of directors shall be subject to the Texas Open Meetings Act and all of the notice requirements to that statute.

8. PLACE OF DIRECTORS MEETINGS.

All meetings of the board of directors (annual, regular or special) shall be held either at the principal office of the Corporation or at such other place, either within or without the State of Texas, as shall be specified in the notice of meeting. When possible, meetings shall be held in or near the corporation's utility service area for the convenience of members and affected public who wish to attend.

9. NOTICE OF DIRECTORS MEETINGS

Notice of regular or special meetings of the board of directors shall be given as required by law and shall include posting of the meeting as required by the Texas Open Meetings Act, 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 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. In case of emergency or urgent public necessity, which shall be clearly identified in the notice, it shall be sufficient if the notice is posted four hours before the meeting is convened. Cases of emergency or urgent public necessity are limited to situations requiring immediate action by the Board. In the event of an emergency meeting, it shall be sufficient if notice is posted four hours before the meeting is convened, and the President or two or more directors calling such emergency meeting shall, if the request therefore containing all pertinent information has previously been filed at the headquarters of the Corporation, give notice by telephone or telegraph to any new media requesting such notice and consenting to pay any and all expenses incurred by the Corporation in providing such special notice. All such meetings shall then be conducted in the manner required by the Texas Open Meetings Act.

Unless waived in writing, each director must be given a copy of all meeting notices within no less than the time limits set forth above. Notice of annual and regular meetings must be given at least ten (10) days before the meeting. Notice to directors may be by regular mail or hand delivery.

10. ATTENDANCE AT MEETINGS

As all meetings of directors must be open to the public, unless otherwise allowed by the Texas Open Meetings Act, telephone or other similar meetings shall not be permitted. Directors must attend meetings in person.

11. COMPENSATION

Directors, as such, shall not receive any stated salary for their services, but by resolution of the board of directors, expenses of attendance, if any, may be allowed for attendance at each annual, regular or special meeting of the board, provided, that nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

12. CONFLICT OF INTEREST

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. A director shall not be prohibited from providing goods or services to the Corporation at competitive prices by reason of their directorship, but said director shall

not be authorized to vote on any matter in which they may have a pecuniary interest except as a customer of the Corporation. A director has an affirmative duty to exercise reasonable due diligence to investigate and disclose any real or apparent conflicts of interests or pecuniary interests he/she may have on a matter affecting the Corporation or its members.

No director shall be liable to the Corporation or to the Corporation's membership for monetary damages for any act or omission in the director's capacity as a director of the Corporation, except and unless the director shall be found liable for a breach of the director's duty of loyalty to the Corporation or the Corporation's membership; an act or omission not in good faith that constitutes a breach of the director's duty to the Corporation or an act or omission that involves intentional misconduct or knowing violation of the law on the part of the director; a transaction from which the director receives an improper benefit, whether or not the benefit results from an act or omission for which liability of the director is expressly provided by Texas law.

13. GOOD FAITH RELIANCE

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 of 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, registered engineers, 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 and with ordinary care on information, opinions, reports or statements by one or more officers or employees of the Corporation; or by legal counsel, public accountants, registered engineers, or other persons retained by the Corporation provided that said director reasonably believes such matters fall within such person's professional or expert competence. Nevertheless, a director must disclose any knowledge which he/she may have concerning a matter in question that make s reliance otherwise provided herein to be unwarranted.

ARTICLE 9 6 OFFICERS

1. OFFICERS ELECTION

The officers of the Corporation shall consist of a president, a vice-president, and a secretary-treasurer. All such officers shall be elected at the meeting of the board following the annual meeting of the members. Directors may be elected officers. If any office is not filled at such annual directors meeting, it may be filled at any subsequent regular or special meeting of the board. The board of directors at such annual meeting, or at any subsequent regular or special meeting may also elect or appoint such other officers and assistant officers and agents as may be deemed necessary. Any two (2) or more offices may be held by the same person, except the offices of president and secretary/treasurer.

All officers and assistant officers shall be elected to serve until the next annual meeting of directors (following the next annual meeting of members) or until their successors are elected; provided, that any officer or assistant officer elected or appointed by the board of directors may be removed with or without cause at any regular or special meeting of the board whenever in the judgment of the board of directors the best interest of the

Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any agent appointed shall serve for such term, not longer than the next annual meeting of the board of directors, as shall be specified, subject to like right of removal by the board of directors.

2. VACANCIES

If any office becomes vacant for any reason, the board of directors may fill the vacancy.

3. POWER OF OFFICERS

Each officer shall have, in addition to the duties and powers specifically set forth herein, such powers and duties as are commonly incident to his office and such duties and powers as the board of directors shall from time to time designate. All officers shall perform their duties subject to the directions and under the supervision of the board of directors. The president may secure the fidelity of all officers by bond or otherwise.

4. PRESIDENT

The president shall be the chief executive officer of the Corporation. He shall preside at all meetings of the directors and members. He shall see that all orders and resolutions of the board are carried out, subject however, to the right of the directors to delegate specific powers, except such as may be by statute exclusively conferred in the president, to any other officers of the Corporation.

He/she or any vice-president shall execute bonds, mortgages and other instruments requiring a seal, in the name of the Corporation and, when authorized by the board, he/she or any vice-president may affix the seal to any instrument requiring the same, and the seal when so affixed shall be attested by the signature of either the secretary or an assistant secretary. He/she or the secretary/treasurer shall sign certificates of membership.

The president shall be ex-officio a member of all standing committees.

He/she shall submit a report of the operations of the Corporation for the year to the directors at their meeting next preceding the annual meeting of the members and to the members at their annual meeting.

5. VICE-PRESIDENT

The vice-president shall, in the absence or disability of the president, perform the duties and exercise the powers of the president and he/she shall perform such other duties, as the board of directors shall prescribe.

6. SECRETARY/TREASURER OR ASSISTANT SECRETARY/TREASURER

The secretary/treasurer shall attend all meeting of the board and all meetings of the members and shall record all votes and the minutes of all proceedings and shall perform like duties for the standing committees when required. He/she shall give or cause to be given notice of all meetings of the members and all meetings of the board of directors and shall perform such other duties as may be prescribed by the board. He/she shall keep in safe custody the seal of the Corporation, and when authorized by the board, affix the same to any instrument requiring it, and when so affixed, it shall be attested by his/her signature or by the signature of an assistant secretary/treasurer.

The secretary/treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all

moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the board of directors.

The secretary/treasurer shall disburse the funds of the Corporation as may be ordered by the board of directors, taking proper vouchers for such disbursements. He/she shall keep and maintain the Corporation's books of account and shall render to the president and directors an account of all of his/her transactions as treasurer and of the financial condition of the Corporation and exhibit his books, records and accounts to the president or directors at any time. He/she shall disburse funds for capital expenditures as authorized by the board of directors and in accordance with the orders of the president, and present to the president for his attention any requests for disbursing funds if in the judgment of the secretary/treasurer any such request is not properly authorized. He/she shall perform such other duties as may be directed by the board of directors or by the president.

The secretary/treasurer shall give the Corporation a bond in an amount of not less than \$25,000 or such other amount set by the board of directors and with such surety or sureties as shall be satisfactory to the board for the faithful performance of the duties of his/her office and for the restoration to Corporation, in case of his/her death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his/her possession or under his/her control belonging to the Corporation. All assistant secretary-treasurers shall provide bonds in an equal amount. The cost of these bonds shall be borne by the Corporation.

The assistant secretary/treasurer shall, in the absence or disability of the secretary/treasurer, perform the duties and exercise the powers of the secretary/treasurer and he/she shall perform such other duties as the board of directors shall prescribe.

In the absence of the secretary/treasurer or an assistant secretary/treasurer, the minutes of all meetings of the board and members shall be recorded by such persons as shall be designated by the president or by the board of directors.

7. GENERAL MANAGER

The Corporation shall not be required to have a general manager; however, a general manager to be elected by a majority vote of the board may handle the business of the Corporation under the direction of the board of directors. The general manager shall be employed at a salary to be fixed by the board of directors. The general manager shall perform such duties and for such term or office as shall be fixed by majority vote of the board of directors.

The general manager shall not have authority to expend the funds of the Corporation in excess of \$5,000.00 without prior approval of the board of directors.

Excepting potable water sold in the ordinary course of business, the general manager shall not have authority to sell or dispose of the assets of the Corporation in excess of \$5,000.00 without prior approval of the board of directors.

8. COMPENSATION

The corporation shall not be obligated to pay salaries to any officer; however, if approved by the board of directors, salaries of all officers of the Corporation, except the secretary/treasurer and general manager, shall not exceed \$5000.00 per annum. The salary of the secretary/treasurer shall be fixed by the board of directors at a sum commensurate with the duties required of him/her.

9. CONFLICT OF INTEREST

An officer shall not be prohibited from providing goods or services to the Corporation at competitive prices by reason of the office. An officer has an affirmative duty to exercise reasonable due diligence to investigate and disclose to the board of directors any real or apparent conflicts of interests or pecuniary interests he/she may have on a matter affecting the Corporation or its members.

10. GOOD FAITH RELIANCE

In conducting their duties as officers, each officer (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 of the Corporations affairs that have been prepared or presented by one or more officers or employees of the Corporation; or by legal counsel, public accountants, registered engineers, 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 and with ordinary care on information, opinions, reports or statements by one or more officers or employees of the Corporation; or by legal counsel, public accountants, registered engineers, or other persons retained by the Corporation provided that said officer reasonable believes such matters fall within such person's professional or expert competence. Nevertheless, an officer must disclose any knowledge which he/she may have concerning a mater in question that makes reliance otherwise provided herein to be unwarranted.

ARTICLE 10 6 CERTIFICATES OF MEMBERSHIP, ETC.

1. CERTIFICATES OF MEMBERSHIP

The certificates for memberships of memberships of the Corporation shall be numbered and shall be entered in the Corporation as they are issued. They shall exhibit the holder's name and shall be signed by the president or secretary/treasurer and shall be sealed with the seal of the Corporation or a facsimile thereof. In case any officer of officers who shall have signed or whose facsimile signature or signatures shall have been used on any such certificate or certificates shall cease to be such officer or officers of the Corporation, wherever because of death, resignation or otherwise, before said certificate or certificates shall have been issued, such certificate may nevertheless be issued by the Corporation with the same effect as though the person or persons who signed such certificates or whose facsimile signature or signatures shall have been used thereon had been such officer or officers at the date of its issuance. Certificates shall be in such form as shall in conformity to law prescribed from time to time by the board of directors. The Corporation may appoint from time to time agents and registrars, who shall perform their duties under supervision of the secretary.

2. TERMINATION OF MEMBERSHIPS

Membership in the Corporation shall be tied to fee simple ownership to property with the Corporation's utility service are; however, a fee simple owner of real property within the utility service area may hold a membership so that tenants or occupants of his/her property may receive utility service from the Corporation. The membership rights of any subscriber to utility service from the Corporation shall automatically terminate upon the occurrence of any event or change of circumstances which would disqualify the person from membership as provided by these by-laws, including but not limited to, the sale of the membership real property to which

his/her membership is tied. The board of directors, by affirmative vote of a majority of all directors, may suspend or expel any member who is, or whose tenant or other occupier of the member's fee simple real property is, in default of the payment of scheduled rates and charges for a period of sixty (60) days after the same become lawfully due and payable or who violates the prescribed terms and conditions of service applicable to all customers for so long as such violations occur.

3. TRANSFER OF MEMBERSHIP

- (a) A person who owns a membership in the Corporation may not sell or transfer that membership to another person or entity except:
- (1) by will to a transferee who is a person related to the testator within the second degree of consanguinity;
 - (2) by transfer without compensation to a transferee who is a person related to the owner of the membership within the second degree of 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 to another person as part of the conveyance of real estate from which the membership arose. In such cases the transferee must still qualify for membership as provided herein and pay all applicable membership fees.
- (c) The transfer of membership 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.
- (d) The Corporation may, consistent with the limitations prescribed by subsection (a) of this section, reassign a canceled membership to any person or entity that has legal title to the real estate from which the canceled membership arose and for which water is requested, subject to compliance with the conditions for the water service in the Corporation's published rates, charges, and conditions of service.

4. REGISTERED MEMBERS

The Corporation shall be entitled to treat the holder of record of any membership or certificate of membership as the holder in fact thereof, and accordingly shall not be bound to recognize any equitable or other claim to or interest in such membership on the part of any other person, whether or not it shall have given express or other notice thereof, except as otherwise provided by law.

5. LOST CERTIFICATE

The board of directors may direct a new certificate or certificates to be issued in place of any certificate or certificates therefore issued by the Corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate to be lost. When authorizing such issue of a new certificate or certificates, the board of directors in its discretion and as a condition precedent to the issuance thereof, may require the owner of such lost or destroyed certificate or certificates or his legal representative to advertise to advertise the same in such manner as it shall require to give the Corporation a bond with surety in form satisfactory to the Corporation (which bond shall also name the Corporation's agents and registrars, if any, as obligees) in such sum as it may direct as indemnity against any claim that may be made against the Corporation or other obligees with respect to the certificate alleged to have been lost or destroyed, or to advertise and also give such bond.

6. MEMBERSHIP FEES

All persons lawfully receiving public utility service from the Corporation's predecessor-in-interest to the utility system, The Belin Corporation, shall be "grandfathered" as members of the Corporation subject to the restrictions on membership provided in these by-laws. One membership shall be granted for each service connection held by such customer. Only one membership fee shall be required of a customer receiving both water and sewer utility service at a single point of service. The date of grandfathering for any individual customer shall be the date of the letter from or order of the Texas Natural Resource Conservation Commission authorizing the Corporation to acquire the utility system assets from the Belin Corporation. After that date, all applicants for utility service shall pay a membership fee of \$100.00. All applicants for restored service whose membership has been forfeited to the Corporation shall pay a membership fee of \$100.00 in addition to any applicable reconnection charges. All transferees of memberships as provided by these by-laws shall pay a membership fee of \$100.00. A membership fee and service application shall be required for each service connection requested regardless of whether the applicant already holds a membership. Membership fees will be refundable at the time the service customer leaves the system unless the customer has any unpaid debts or obligations to the Corporation. The board of directors shall establish deferred payment plans for the payment of initial membership fees for new service applicants upon whom a one-time payment of the membership fee creates a financial hardship. These plans shall require the payment of not less than one-fourth (1/4) of the membership fee plus the customer's normal monthly utility service bill. Deferred payment plans shall be applied equally to all persons regardless of age, race, color, creed, sex or other federally protected status.

ARTICLE 11 - DEPOSITORY

The board of directors shall select as depository for the funds of the Corporation, a bank within the State of Texas which is insured with the Federal Deposit Insurance Corporation and shall require of said depository such bond as the board deems necessary for the protection of the Corporation; and such funds as the board of directors may from time to time allocate to a sinking fund for replacement, amortization of debts and the payment of interest which shall not be required to be expended within the year in which the same is deposited shall be invested in bonds or other evidence of indebtedness of the United States of America or deposited at interest with the Federal Deposit Insurance Corporation in a savings account.

ARTICLE 12 - MISCELLANEOUS

1. INFORMAL ACTION

No action required to be taken or which may be taken at a meeting of the members, directors or members of committees, may be taken without a meeting. All actions and votes taken shall be duly recorded in the books and records of the Corporation.

2. SEAL

The board of directors shall provide a corporate seal, which shall be in the form of a circle and shall have inscribed thereon the name of the Corporation and words "Corporate Seal of Hilltop Lakes Water Supply Corporation"

3. BOOKS AND RECORDS

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 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. To the extent permitted by law, any customer's billing history and payment records

shall be deemed to be confidential and not subject to public disclosure without authorization from the customer. This right of privacy does not apply to disclosures to local, state or federal regulatory agencies. All books and records of the Corporation may be inspected by any member or his agent or attorney for any proper purpose at any reasonable time when so requested in writing. The books and records of the corporation shall be subject to the Texas Open Records Act and the Exemptions from disclosure provided therein and by any other applicable statute or governmental regulation. They shall be available for public inspection and copying by the public or their duly authorized representatives during normal business hours subject to reasonable charge for the preparation of copies,

In the event of any conflict between the provision of the Texas Open Records Act and provisions of these by-laws, the provisions of the Texas Open Records Act shall prevail.

4. CHECKS

All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the board of directors may from time to time designate.

5. FISCAL YEAR

The fiscal year of the Corporation shall begin on the 1st day of January in each and every year.

6. DIRECTORS' ANNUAL STATEMENT

The board of directors shall present at each annual meeting of members a full and clear statement of the business and condition of the Corporation.

7. AMENDMENTS

These by-laws may be altered, amended or repealed in whole or part by the affirmative vote of a majority of the board of directors.

If and for so long as the Corporation is indebted for a loan or loans made by or through the Texas Water Development Board, these by-laws shall not be altered, amended or repealed without the prior written consent of the Development Fund Manager of the Texas Water Development Board. An equal right of review and approval of by-law amendments shall apply to any other state or federal agency providing loans or grants to the Corporation and such oversight powers are a condition of that financing.

8. OBLIGATIONS INCIDENTAL TO INDEBTEDNESS

The board of directors may establish and operate such financial reserves, sinking funds, or debt service accounts as may be reasonable necessary to comply with loan or bond covenants entered into between the Corporation and its creditors.

Subject to such restrictions as may exist under the laws of Texas or of the United States, the board of directors may encumber the assets of the Corporation by reasonable liens or security interests as provided by the loan or bond covenants entered into between the Corporation and its Creditors. When encumbered, the assets of the Corporation may not be sold, conveyed or disposed of without notice to and permission from the creditors holding such liens or security interests as provide in the loan or bond covenants, except as may otherwise be provided by law and/ or the sale and distribution of potable water in the ordinary course of business.

Should the Corporation become indebted to the Texas Water Development Board and such indebtedness is evidenced by bonds, the board of directors shall be expressly empowered to adopt such standard and customary water supply corporation bond resolutions as may be required by the Texas Water Development Board as a condition of such indebtedness. An equal authorization to adopt bond or similar resolutions shall apply to any other state or federal loan or grant programs.

Adopted by a majority vote in a publicly noticed meeting of the board of directors

On the _____ day of _____, 2001.

President

Secretary/Treasurer

Attested: