

**BY-LAWS
OF
HOLIDAY BEACH WATER SUPPLY CORPORATION**

IN ORDER TO HAVE CONSISTENCY BETWEEN THE PURPOSE OF THE CORPORATION AS STATED IN ITS ARTICLES OF INCORPORATION AND IN ORDER TO HAVE BY-LAWS MORE REFLECTIVE OF THE OPERATION OF A MODERN WATER SUPPLY CORPORATION THAN ITS ORIGINAL FmHA MODEL BY-LAWS, THE BOARD OF DIRECTORS OF HOLIDAY BEACH WATER SUPPLY CORPORATION DO CHANGE, AMEND, RESTATE AND ADOPT THE FOLLOWING AS THE PERMANENT BY-LAWS OF THE CORPORATION:

ARTICLE 1 - NAME

The name of the Corporation is Holiday Beach Water Supply Corporation.

ARTICLE 2 - NONPROFIT CORPORATION

The Corporation is a non-profit, member-owned, member controlled water supply corporation incorporated under the provisions and definitions of TEX. REV. CIV. STAT. ANN. art. 1434a and the Texas Non-Profit Business Corporation Act.

ARTICLE 3 - PURPOSES

The purpose of the Corporation is to furnish a water supply, to towns, cities, private corporations, individuals, and military camps and bases in and around Aransas County, Texas. It is the purpose of the Corporation to be a "member-owned, member-controlled" art. 1434a 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 public 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 an art. 1434a water supply corporation exempt from state ad valorem taxes under Texas Tax Code, Section 11.30.

PERMANENT BY-LAW PROVISIONS TO ACCOMPLISH PURPOSES:

In order that the Corporation may attain and achieve these stated purposes for the mutual benefit of all its member/customers, notwithstanding any provision in the Corporation's by-laws to the contrary, the following provisions shall be permanent, superseding and controlling by-laws of the Corporation and shall not be subject to modification or revocation so long as the same may required under state or federal law to accomplish these purposes:

1. All members of the Corporation must meet all requirements and standards of the definition of "member" in Chapter 13 of the Texas Water Code and the corresponding Chapter 291 Rules of the Texas Natural Resource Conservation Commission, as the same may be amended.
2. Each member shall be entitled to only one (1) vote in corporate matters specified by the Corporation's article and by-laws regardless of the number of memberships owned by that member. This shall not prohibit a member from voting the properly executed voting proxy of another member as may be provided by these by-laws.
3. A majority of the directors and officers of the corporation must always be members. This shall not prohibit the Corporation from requiring that all directors and/or officers be members.

ARTICLE 4 - 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 1434a, the Texas Non-Profit Corporation Act, 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 regulations, rulings, and procedures.

ARTICLE 5 - 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. All profits arising from the operations of the business of the

Corporation shall be annually paid out to cities, towns, counties, other political subdivisions, private corporations, and other persons who have during the past year transacted business with the Corporation, in direct proportion to the amount of business so 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 such sinking fund(s) such amount of profits as they deem necessary for maintenance, upkeep, operation, and replacements.

2. TRANSFER OF ASSETS UPON DISSOLUTION

Upon discontinuance of the Corporation by dissolution or 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 service, 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 1434a and Internal Revenue Code 501(c)(12)(A).

ARTICLE 6 - OFFICES

1. REGISTERED OFFICE AND AGENT

The registered office of the Corporation shall be maintained at No. 8 St. Charles Loop, Rockport, Texas 78382 in the State of Texas. The registered agent is David Gill. The registered office or the registered agent, or both, 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 No. 8 St. Charles Loop, Rockport, Texas 78382 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 - 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.

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 third (3rd) Saturday of February in each year (if not a legal holiday and, if a legal holiday, then on the next business day 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

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 Texas Water Code, Section 13.002(11), as it may be amended or interpreted by authorized court or state agency decision.

All customers of the Corporation must hold a membership or obtain their service through a membership. 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 or that only builds on or develops the property for sale to others and seeks only temporary service or other persons exempt from membership by statute and/or court or state agency decision. Every person (which includes any legal entity) owning or having a legal right to the control, possession or occupancy of property served or which may reasonably be served by the Corporation, shall have the right to become a member of the Corporation upon payment of the membership provided herein and upon compliance with the Corporation's conditions of water 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 non-discriminatory basis to all persons desiring service to the extent that the capabilities of the system reasonable permit.

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 person may hold more than one membership and shall hold a separate membership for each distinct consuming facility at which they are receiving service.

No member shall be eligible to participate in any vote of the membership if that member has an outstanding utility account balance owed to the Corporation for utility services rendered, membership fees, 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, 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 fifteenth (15th) day of the month preceding the month of the date upon which the require action requiring such determination is to be taken.

6. QUORUM OF MEMBERS

A quorum for the transaction of business at a meeting of the members is a majority of the members present. In determining whether a quorum is present, all members who mailed or delivered ballots to the independent election auditor or the corporation on a matter submitted to a vote at the meeting are counted as present.

7. VOTING LISTS

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 service address of 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 evidence as to who are the members entitled to examine such list or books or to vote at any meeting of members.

8. CONFIDENTIALITY OF CUSTOMER DATA

Members wanting to keep their personal information confidential will have to complete a Confidentiality request form. These forms are included in all new membership packets and can be requested at the office anytime during normal working hours (8am – 4pm Mon-Fri) For purpose of this section, “personal data” shall include name, service address, mailing address, telephone number(s), utility consumption data and billing/payment data. This request for confidentiality may be rescinded by the member in writing at any time.

Confidentiality of customer information shall not apply to voting lists in Article 7, Section 7 or to the release of such information to appropriate governmental regulatory authorities or law enforcement agencies.

9. Open Records Requests

The Corporation will require all persons submitting open records requests to cover some of the Corporation's costs associated with locating, compiling, and producing public information if the amount of time the Corporation has spent on requests by a requester in a 12-month period is equal to or exceeds 36 work hours. This is in accordance with Texas government code 552.275.

ARTICLE 8 – MEMBER ELECTIONS

1. QUALIFICATIONS FOR ELECTION OR APPOINTMENT AS DIRECTOR

- (a) To be qualified for election or appointment as a director, a person must be:
 - (1) 18 years of age or older on the first day of the term to be filled at the election or on the date of appointment, as applicable; and
 - (2) a member of the corporation.
- (b) In addition to the qualifications prescribed by Subsection (a), a person is not qualified to serve as a director if the person:
 - (1) has been determined by a final judgment of a court exercising probate jurisdiction to be:
 - (A) totally mentally incapacitated; or
 - (B) partially mentally incapacitated without the right to vote; or
 - (2) has been finally convicted of a felony from which the person has not been pardoned or otherwise released from the resulting disabilities.
- (c) If the board determines that a person serving as a director does not have the qualifications prescribed by Subsections (a) and (b), the board shall, not later than the 60th day after the date the board makes that determination, remove the director and fill the vacancy by appointing a person who has the qualifications prescribed by those subsections.

2. BALLOT APPLICATION.

- (a) To be listed on the ballot as a candidate for a director's position, a person must file an application with the corporation that includes:
- (1) The director's position sought, including any position number or other distinguishing number;
 - (2) the person's written consent to serve, if elected;
 - (3) biographical information about the person; and
 - (4) a statement of the person's qualifications, including a statement that the person has the qualifications prescribed by Section 67.0051.
- (b) The application must be filed with the corporation not later than the 50th day before the date of the annual meeting. **The credential committee will review the application for completeness notifying applicant of any defects. The applicant will then have until 45 days before the election to resubmit their application.**
- (c) **If there are any unopposed candidates the board will declare candidates elected and certify this in writing by resolution that the candidates are unopposed. This resolution will be posted at the Corporation's main office as soon as practical. The resolution will also be read into the record at the annual meeting.**
- (d) The corporation shall make available director candidate application forms at the corporation's main office and shall provide application forms by mail or electronically on request.

3. BALLOT

- (a) Not later than the 30th day before the date of an annual meeting, the corporation shall mail to each member of record:
- (1) written notice of the meeting;
 - (2) the election ballot; and
 - (3) a statement of each candidate's qualifications, including biographical information as provided in each candidate's application.

- (b) The election ballot must include:
 - (1) the number of directors to be elected; and
 - (2) the names of the candidates for each position.

4. ELECTION PROCEDURES

- (a) A member may vote:
 - (1) in person at the annual meeting;
 - (2) by mailing a completed ballot to the office of the independent election auditor or to the corporation's main office, which ballot must be received by the corporation not later than noon on the business day before the date of the annual meeting; or
 - (3) by delivering a completed ballot to the office of the independent election auditor or to the corporation's main office not later than noon on the business day before the date of the annual meeting.
- (b) The independent election auditor, appointed by majority vote of the Board of Directors, shall receive and count the ballots before the annual meeting is adjourned.
- (c) For position as a director, the candidate who receives the highest number of votes for that position shall be elected.
- (d) If two or more candidates for the same position tie for the highest number of votes for that position, those candidates shall draw lots to determine who is elected.
- (e) The independent election auditor shall provide the board with a written report of the election results.
- (f) The board may adopt necessary rules or bylaws to implement this section, including rules or bylaws to ensure the fairness, integrity, an openness of the voting process.

5. OFFICIAL BALLOT

The Board shall adopt an official ballot form to be used in conducting the business of the Corporation at any annual or special meeting. No other ballot

form will be valid. Ballots from members are confidential and are exempted from disclosure by the corporation until after the date of the relevant election.

6. INDEPENDENT ELECTION AUDITOR

The Board shall select an independent election auditor not later than the 40th day before the scheduled date of the annual meeting. The independent election auditor is not required to be an experienced election judge or auditor and may serve as an unpaid volunteer. At the time of selection and while serving in the capacity of an independent election auditor, the independent election auditor may not be associated with the corporation as:

- (a) an employee;
- (b) a director or candidate for director; or
- (c) an independent contractor engaged by the corporation as part of the corporation's regular course of business.

ARTICLE 9 - DIRECTORS

1. BOARD OF DIRECTORS

The business and affairs of the Corporation shall be managed by a board of directors. Directors must be: (a) residents of the State of Texas, (b) utility customers of the Corporation and (c) members in the Corporation. A majority of the directors must be residents (full-time or part-time) of the Corporation's lawful service area.

2. NUMBER AND ELECTION OF DIRECTORS

The number of directors shall be seven (7) provided that the number may be increased or decreased from time to time by an amendment to these by-laws approved by vote of the members (rather than the Board of Directors), but no decrease shall have the effect of shortening the term of any incumbent director. At each annual election the members shall elect directors to hold office until the next succeeding annual meeting. The number of directors may never exceed twenty-one (21).

There shall be three (3) classes of directors. The classes shall be such that two (2) of the directors shall stand for election in year one; Two (2) of the directors shall stand for election the following year and the three (3) remaining directors stand for election the next year. Directors shall serve a term of three (3) years.

3. VACANCIES

A director may resign at any time during his term. A director may be removed for cause by majority vote of the members or by two-thirds (2/3rds) vote of all other directors in special meeting. If a director is absent from three (3) or more consecutive regular meetings of which the director was mailed or hand delivered written notice, that director may be removed by two-thirds (2/3rds) vote of all other directors in a regular or special meeting. The director subject to removal for absenteeism or for cause 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 until the next annual meeting of the membership at which a permanent replacement director shall be elected for the unexpired term of his predecessor in office. Any directorship to be filled by reason of an increase in the number of directors shall be filled by election at the next annual meeting or at a special meeting of members called for that purpose.

4. QUORUM OF DIRECTORS

A majority of the board of directors 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 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 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 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.

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.

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.

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, Article 6252-17, Tex. Rev. Civ. Stat., by furnishing the notice to the county clerk or clerks of the county or counties in which the Corporation provides service, and by posting such notice in a place readily convenient to the public in its administrative office at all times 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 imminent threats to public health or safety or reasonably unforeseeable 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 therefor containing all pertinent information has previously been filed at the headquarters of the Corporation, give notice by telephone or telegraph to any news 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.

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 there for. Directors may also be reimbursed for expenses personally incurred in attending meetings, conventions, training seminars, hearings, trials and other public forums or businesses in pursuit of the Corporation's lawful business. Where possible, the Corporation may pay such expenses directly for the affected director(s).

12. CONFLICT OF INTEREST

See Article 15 – Conflict of Interest

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 (s)he may have concerning a matter in question that makes reliance otherwise provided herein to be unwarranted.

ARTICLE 10 - 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 annual meeting of

the board of directors. 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 or more officers 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 interests 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 vacancy may be filled by the board of directors.

3. POWER OF OFFICERS

Each officer shall have, subject to these by-laws and art. 1434a, VATCS, 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 any and 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 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 or any vice-president any 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 or the secretary-treasurer shall sign certificates of membership. The president shall be ex-officio a member of all standing committees. He 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 shall perform such other duties as the board of directors shall prescribe.

6. THE SECRETARY-TREASURER AND ASSISTANT SECRETARIES-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 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 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 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 shall keep and maintain the Corporation's books of account and shall render to the president and directors an account of all of his 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 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 shall perform such other duties as may be directed by the board of directors or by the president.

If required by the board of directors, he shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the board for the

faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to 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 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 person 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, the business of the Corporation may be handled under the direction of the board of directors, by a general manager to be elected by a majority vote of the board. 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 \$2500 per expenditure without prior approval of the board of directors unless otherwise necessary for emergencies to avoid contamination of the water supply, disruption of service or permanent damage or injury to persons or property.

The general manager shall not have authority to sell or dispose of the assets of the Corporation in excess of \$500 without prior approval of the board of directors.

8. COMPENSATION

The Corporation shall not be obligated to pay salaries to any officers or directors.

9. CONFLICT OF INTEREST

See Article 15 – Conflict of Interest

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 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 officer reasonably believes such matters fall within such person's professional or expert competence. Nevertheless, an officer must disclose any knowledge which (s)he may have concerning a matter in question that makes reliance otherwise provided herein to be unwarranted.

ARTICLE 11 - MEMBERSHIPS

1. CERTIFICATES OF MEMBERSHIP

The certificates for memberships of membership 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 or 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, whether 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 the supervision of the secretary.

2. TERMINATION OF MEMBERSHIPS

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 membership is tied or the expiration of the leasehold at which service is received. 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 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.

(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 or sewer service is requested, subject to compliance with the conditions for water or sewer 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 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 theretofore 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 the same in such manner as it shall require to give the Corporation a bond with surety and 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

A membership fee of ONE HUNDRED DOLLARS (\$100.00) shall be charged for all memberships. The sole exception shall be for those memberships previously issued by Copano Water Supply Corporation for which a fifty dollar (\$50.00) membership fee was collected, collected and transferred to the Corporation. Notwithstanding anything herein to the contrary, the Board of Directors shall be authorized to exchange memberships without the payment of the standard membership fee for property of equal or greater value which benefits the Corporation and enhances its ability to serve the public. All applicants for restored service whose memberships have 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 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 protect status.

ARTICLE 12 - DEPOSITORY

The Board of Directors shall select as depository for the funds of the Corporation, a bank(s) 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 13 - FINANCIAL RESERVES

The board of directors may establish and operate such financial reserves, sinking funds, or debt service accounts as may be reasonably 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 creditor holding such liens or security interests as provided 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 or other state or federal financial institution and such indebtedness is evidenced by bonds or loans, the board of directors shall be expressly empowered to adopt such standard and customary water supply or sewer service corporation bond or loan resolutions as may be required by the Texas Water Development Board or other state or federal financial institution as a condition of such indebtedness.

ARTICLE 14 - 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 the words "Corporate Seal of Holiday Beach 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. 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.

With prior written request, corporate records, books, and annual reports, subject to exceptions provided by the Texas Open Records Act, Article 6252-13a, Tex. Rev. Civ. Stat., including any amendments thereto, shall be available for public inspection and copying by the public or their duly authorized representatives during normal business hours subject to reasonable charge for the preparation of copies.

In the event of any conflict between the provision of the Open Records Act and the provisions of these By-laws, the provisions of the 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 in part by the affirmative vote of a majority of the board of directors. No amendment of these by-laws affecting memberships, the voting rights of members, or the number of directors may be made without a majority vote of all members.

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. If the Corporation becomes indebted to another state or federal financial institution and said creditor requires similar limitations on the amendment of these by-laws as a condition precedent to necessary debt financing, amendment of these by-laws shall be restricted as set forth in the loan agreement.

ARTICLE 15 – CONFLICT OF INTEREST

The HBWSC conflict of interest policy is designed to promote the business of the Corporation and serve the interests of the membership. A director, officer or employee shall have a fiduciary duty to act in the best interest of the Corporation to the exclusion of the interest of any other civic group or non-profit organization serving the Corporation's service area. This statement is directed not only to directors and officers, but to all employees who can influence the actions of Holiday Beach Water Supply Corporation. For example, this would include all who make purchasing decisions, all persons who might be described as "management personnel," and anyone who has proprietary information concerning Holiday Beach Water Supply Corporation.

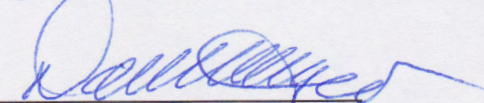
An officer or director shall not be prohibited from providing goods or services to the Corporation at competitive prices by reason of their position, but an officer or director shall not be authorized to vote on any matter in which they may have a pecuniary interest except as a customer of the Corporation. An officer, director or employee has an affirmative duty to exercise reasonable due diligence to investigate and disclose any real or apparent conflicts of interests or pecuniary interests (s)he 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 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 that person 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.

An annual conflict of interest disclosure statement will be completed by all officers, directors, and employees and held on record at the Holiday Beach Water Supply Corporation office.


ADOPTED AND APPROVED IN PUBLICLY NOTICED MEETING OF THE BOARD OF DIRECTORS ON THE 15th DAY OF FEBRUARY, 2014 BY A VOTE OF 4 FOR, 0 AGAINST, AND 0 ABSTAINED.

(2) ABSENT



President

Attested:



Secretary