

BYLAWS
OF
SADDLE MOUNTAIN MUTUAL WATER COMPANY

(Approved February 9, 2004)

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**BYLAWS
OF
SADDLE MOUNTAIN MUTUAL WATER COMPANY**

**ARTICLE I
Name, Seal, Office and Agent**

Section 1 – Name. The name of this corporation shall be the Saddle Mountain Mutual Water Company.

Section 2 – Seal. The seal of the corporation shall have inscribed thereon the name of the corporation.

Section 3 – Registered Office and Agent. The corporation shall maintain a registered office and a registered agent.

Section 4 – Change in Office or Agent. The registered office and registered agent may be changed by the Board of Directors by delivering to the Secretary of State for filing a statement of change that sets forth the following information:

- A. The corporation's corporate name;
- B. The street address of its current registered office;
- C. If the registered office is to be changed, the street address of the new registered office;
- D. The name of its current registered agent;
- E. If the registered agent is to be changed, the name of the new registered agent and the new registered agent's written consent to the appointment; and
- F. That after the changes are made, the street addresses of its registered office and the business office of its registered agent will be identical.

ARTICLE II

Objects, Purposes and Service Area

The purposes for which this nonprofit corporation has been organized and its powers are fully set forth in the Articles of Incorporation, which are hereby incorporated herein by this reference. Without limiting said Articles of Incorporation, the general objects and purposes of the corporation are to conduct its business and affairs and to administer, operate and manage all of its property and property rights, including but not limited to water rights, as a mutual not-for-profit water company, for the purpose of furnishing and distributing augmentation water exclusively to its shareholders, and not for profit or hire, as provided and fully set forth in the Articles of Incorporation. The service area of the corporation initially shall consist of lot(s) or other lands located within the following approved and platted subdivisions in Park County, Colorado: Saddle Mountain Heights Subdivision Filing Nos. 1 through 3; Saddle Mountain Ranch Subdivision Filing No. 4, Units 1 and 2; and Deerview Subdivision Filing No. 1.

ARTICLE III

Shareholders

Section 1 – Eligibility. In order to qualify for stock ownership in this corporation, a person or entity must own a lot(s) or other lands within the service area of the corporation. A person must be at least eighteen (18) years of age, or represented by a legal guardian, to acquire stock in the corporation. Any person or entity who acquires through purchase, gift, foreclosure or otherwise, shares of stock from a shareholder of the corporation and whose transfer of stock has been approved by the Board of Directors as provided hereinafter, shall become a shareholder.

The Board of Directors may approve a new shareholder of the corporation upon the following conditions:

- A. Submission of a written application, upon a form approved by the Board of Directors, showing that the applicant owns a lot(s) or other lands within the area to be served by the corporation, including proof of title to and the legal description of such lands. If the applicant owns a well or other structure on such lands requiring augmentation water under the corporation's plan or plans for augmentation (hereinafter referred to as a "well"), this fact shall be noted on the application.
- B. Proof of a valid, written assignment of shares of stock to the applicant from an existing shareholder, in an amount sufficient to fully augment any existing or prospective well depletions on the applicant's lot(s) or other lands located within the corporation's service area. All stock certificates issued by the corporation

shall have printed on the back of each certificate provisions for the transfer of the certificate from one shareholder to another shareholder or prospective shareholder, the execution of which by the transferor and transferee in the manner specified in the certificate shall constitute the proof of a valid, written assignment required by this section. The stock certificates assigned to the applicant must be surrendered to the corporation prior to approval of the transfer by the Board of Directors and the issuance of new stock certificates to the applicant.

- C. If applicable, the applicant may also be required to pay the additional administrative costs, including legal and engineering costs, if any, incurred by the corporation to add the applicant to the corporation's plan or plans for augmentation including, without limitation, the costs associated with amendment of said augmentation plan and review of the applicant's replacement, substitute supply or augmentation needs, and for the preparation, review or amendment of any lease, contract or any other such document required in connection with becoming a shareholder in the corporation. The shareholder may also be required, if applicable, to pay a *pro rata* share of the incremental costs or all of the costs, as the case may be, for the construction of any additional augmentation reservoir and any other necessary augmentation facilities or the contracting for any additional augmentation storage capacity and any other necessary augmentation facilities required to replace the shareholder's well depletions under the corporation's plan or plans for augmentation, which augmentation reservoir or storage capacity and facilities is in addition to any augmentation reservoir or storage capacity and facilities already provided for by this corporation; and a *pro rata* share of the expenses or all the expenses, as the case may be, incurred in the operation and maintenance of such additional augmentation reservoir, storage capacity and/or facilities.
- D. Applicants who have a permitted well on their lands shall submit their application along with proof of a valid well permit issued by the Colorado State Engineer, upon receipt of which the corporation shall designate the applicant's share certificates as "active" shares on the books of the corporation, as defined below. For those applicants who do not yet have a permitted well on their lands, the Board of Directors' approval of such applicant shall entitle that person to share certificates designated as "inactive" shares on the books of the corporation, as defined below, with the right of such applicant to have such shares designated as "active" on the books of the corporation upon subsequent proof of issuance of a valid well permit to the applicant by the Colorado State Engineer.

Section 2 – Shareholder Classes. There shall be one class of shareholders in the corporation. In order to qualify as a shareholder, ownership of stock in the corporation must be approved by the Board of Directors in accordance with these Bylaws. The Board of Directors may add, delete, or revise shareholder classes and the rights and obligations associated therewith from time to time by the amendment of these Bylaws.

Section 3 – Active and Inactive Shares. All shares of stock issued by the corporation shall be numbered sequentially and shall be designated as either “active” or “inactive” shares on the books of the corporation. The books of the corporation shall reflect the legal description of the lot(s) or other lands of the shareholder to whom each active share of stock was issued or has been transferred with the express approval of the Board of Directors. All shares of stock, whether designated active or inactive on the books of the corporation, shall be subject to annual assessments by the corporation for the provision of augmentation water including, but not limited to, the administrative costs of providing such water; provided, however, that the Board of Directors, in its discretion, may choose to levy proportionately greater annual assessments on active shares than on inactive shares of stock of the corporation.

- A. **Inactive Shares.** Inactive shares shall be defined as shares of stock issued by the corporation but not specifically associated on the books of the corporation with a valid permitted well located on the shareholder’s lot(s) or other lands within the service area of the corporation. The Board of Directors of the corporation may adopt rules and regulations in the future to provide further guidance on shares deemed inactive, but under no circumstances shall the owner of any inactive shares be entitled to augmentation water from the corporation under its plan or plans for augmentation.
- B. **Active Shares.** Once a share becomes associated with a particular valid well permit of a shareholder on the books of the corporation, upon proof of such well permit, said share shall be deemed an active share on the books of the corporation, entitling the holder thereof to augmentation water under the corporation’s plan or plans for augmentation. When providing proof of a valid well permit, the shareholder shall also produce his or her inactive share(s) to the corporation and the corporation shall stamp on the face of said share(s) the designation “ACTIVE” and designate the share(s) as active on the books of the corporation; except that the corporation may withhold such designation if the shareholder has any unpaid assessments or is otherwise not complying with the provisions of these Bylaws or the Articles of Incorporation of the corporation.

Upon designation of an inactive share as an active share of the corporation, the corporation shall file in the appropriate county real property records a notice

providing the following information: the legal description of the lot(s) or other lands with which said active share is associated; the particular well permit number associated with such lands; a statement that the share entitles the owner to augmentation water from the corporation; and a statement that the provision of such augmentation water shall be discontinued if assessments are not timely paid to the corporation and the stock shall be forfeited to the corporation and may be sold. Once designated as an active share on the books of the corporation, said share shall be deemed to run with the lot(s) or other lands with which the share is associated and transfer of such active share by the shareholder to a third party shall only be made in conjunction with a transfer of title to the underlying lot(s) or other lands owned by the shareholder; provided, however, that the share may be severed from the underlying land in the event that assessments are not kept current and, as a result, the share is forfeited to the corporation.

Section 4 – Shareholder Agreements and Covenants. Each shareholder expressly promises, covenants and agrees to abide by the following terms and conditions of being a shareholder in the corporation:

- A. The shareholder shall be subject to and bound by all of the terms and conditions of the corporation's plan or plans for augmentation under which the shareholder receives augmentation water from the corporation. Because the shareholders' lands are all located within platted subdivisions, each shareholder shall be subject, in particular, to the provisions of any subdivision declaration of covenants incorporated into the corporation's water court decrees specifying the conditions upon which a shareholder may obtain a well permit from the Colorado State Engineer and drill an on-site well or central municipal-type well to supply water for the shareholder's own use and upon which a shareholder may install and use any type of sewage disposal system (except for evapotranspiration-type systems) that is acceptable to the State of Colorado Health Department and, if applicable, to any county health department.
- B. The shareholder shall furnish the groundwater supply to meet the annual water requirements for the shareholder's lot(s) or other lands through the diversion of water from an on-site well or central municipal-type well under a permit approved by the Colorado State Engineer. Each shareholder shall be solely responsible for paying all costs associated with the drilling (or redrilling), equipping and maintaining of the well(s) which provides that shareholder's water supply, and shall also be solely responsible for paying all costs and expenses incurred in obtaining and/or renewing any well permits required to operate the well(s).

- C. The use of evapotranspiration-type sewage disposal systems shall be expressly prohibited, and the corporation shall not provide augmentation water to any such use by a shareholder. The shareholder shall pay all costs for the approval and construction of any other type of sewage disposal system on the shareholder's land, and shall also pay all expenses incurred in the operation and maintenance of such sewage disposal system.
- D. The shareholder shall not waste water or use it for any purposes other than those permitted by the shareholder's well permit and, if the shareholder commits waste or uses the water for any other purpose, said shareholder agrees that the corporation may withhold augmentation water.
- E. The shareholder also agrees that the corporation may withhold augmentation water from delivery to the shareholder if all dues, fees, charges and assessments are not paid when due and payable. All dues, fees, charges and assessments provided for in these Bylaws shall become, as they are made and levied, a lien on the shareholder's shares of stock and the water rights represented by said stock, which liens shall be binding, as applicable, upon the shareholder's heirs, personal representatives, successors and assigns. The shareholder agrees that the corporation may enforce such lien by foreclosure and sale of shares of stock and the water rights represented by said stock in accordance with the provisions of Article VIII below.
- F. The use of active shares of stock shall be restricted to the shareholder's lot(s) or other lands and the well covered by the shareholder's well permit, as identified on the books of the corporation. Failure of a shareholder to restrict use of shares of stock to the lands and the well identified on the books of the corporation shall result in the corporation notifying the Colorado State Engineer or other appropriate State officials that the well is no longer augmented under the corporation's plan or plans for augmentation. The Board of Directors may also take other actions in accordance with these Bylaws and rules and regulations enacted from time to time to redress such misuse of stock shares.
- G. Each shareholder shall give notice to the Secretary of the corporation of every lien or encumbrance on the shareholder's shares of stock, other than for taxes, and of every suit or other proceeding which may affect title to said shares, the notice to be given in writing within fourteen (14) days after the stockholder has knowledge of the same. The Secretary of the corporation, or such other officer or employee

designated by the Board of Directors, whenever so requested in writing by the mortgagee or holder of deed of trust who provides a photostatic or machine copy of the recorded mortgage or deed of trust encumbering a shareholder's shares of stock in the corporation, shall promptly report to the lienholder any then-unpaid annual or special assessment due from the shareholder.

- H. The shareholder understands and agrees that the water supply available from the exercise of the water rights held in trust by the corporation for the shareholder's benefit is dependent upon the legal and physical availability of water under those water rights. No liability shall be incurred by the corporation, or its officers or employees, on account of any failure to deliver augmentation water due to the legal and physical unavailability of water. Additionally, no liability shall be incurred by the corporation, or its officers or employees, on account of any failure to meet the augmentation requirements of any shareholder's lot or other lands, in the event the corporation's water rights, reservoirs, storage accounts or any facilities related thereto should become inoperable because of flood or other "act of God" occurrence beyond the control of the corporation.
- I. Each shareholder shall be bound by and subject to all of the provisions, terms and conditions set forth in the Bylaws and the Articles of Incorporation of this corporation.

Section 5 – Transfer of Shares. Any shares of stock in the corporation may be transferred, along with the rights associated with such shares to a *pro rata* share of augmentation water, upon approval of the Board of Directors in accordance with these Bylaws and any rules and regulations as may be enacted from time to time by the Board of Directors; provided, however, that any share designated as an active share on the books of the corporation must be transferred along with the title to the lot(s) or other land with which such active share is associated. Any person who has obtained an assignment of shares of stock to his or her ownership shall promptly furnish to the Secretary of the corporation the stock certificate(s) from the prior owner(s) thereof showing a valid, mutual assignment of said certificate(s) and, in the case of a transfer of active shares of the corporation, shall furnish a photostatic or machine copy of the recorded instrument vesting the new shareholder with ownership of land located within the service area of the corporation. Upon presentation of this evidence, transfer of stock to such new shareholder shall be made on the books of the corporation, as approved by the Board of Directors, in accordance with these Bylaws. A person or entity shall cease to be a shareholder upon approval of the transfer of all shares of stock to another person or entity; provided, however, that such cessation of shareholder status shall not release the person or entity from any liability or obligation incurred as a shareholder and not discharged or satisfied as of the date of cessation, including, without limitation, any unpaid fees and assessments, the

satisfaction or payment of which shall be a pre-condition to approval of the transfer of any shares by the Board of Directors.

Section 6 – Suspension and Termination of Shareholder Status. Any shareholder in this corporation may be suspended or terminated for non-payment of assessments and fees or non-compliance with the terms and conditions of stock ownership and/or the corporation's plan or plans for augmentation. Assessments and fees not paid within ninety (90) days of the date on which they were due will result in suspension of that shareholder's rights attendant to ownership of stock in the corporation, including but not limited to any right to receive augmentation water for the shareholder's well, unless the Board of Directors, in its sole discretion, approves an extension of time upon a showing of extenuating circumstances by the delinquent shareholder, pursuant to the provisions of Article VIII below. Renewal of a suspended shareholder shall require the payment of the applicable penalty, as set forth in Article VIII below, in addition to payment of past and current dues and fees. The procedure for termination shall include, at a minimum:

- A. Not less than thirty (30) days prior written notice to the shareholder of the termination and the reasons therefor, including a demand for payment of unpaid dues and fees, if applicable, which notice shall be mailed by first class or certified mail to the shareholder's address on the books of the corporation;
- B. An opportunity for the shareholder to be heard, orally or in writing, not less than ten (10) days before the effective date of the termination; and
- C. The non-payment of dues and fees for one year shall result in termination of shareholder status and forfeiture of the delinquent shareholder's shares of stock to the corporation. If the dues and fees for the delinquent year are paid together with the applicable penalty and interest, if any, and the dues and fees for the next year, that shareholder shall be reinstated. If a shareholder is not reinstated prior to March 1 of the year following the original non-payment, that shareholder shall be terminated and any application for that shareholder's well shall be treated as a new application for shareholder status.
- D. Upon termination of shareholder status, the delinquent shareholder's share of stock shall be forfeited to the corporation and the Board of Directors may sell such stock in accordance with the provisions of Article VIII below.

ARTICLE IV

Shareholders' Meetings and Voting

Section 1 – Annual Meetings. A meeting of the corporation's shareholders shall be held annually at a place and time designated or fixed in accordance with a resolution of the Board of Directors of the corporation. If the day fixed for the annual meeting shall be a legal holiday, such meeting shall be held on the next succeeding business day. If the election of Directors shall not be held on the day designated for any annual meeting, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the shareholders as soon thereafter as may be convenient. Failure to hold the annual meeting at the designated place and time shall not work a forfeiture or dissolution of the corporation.

Section 2 – Regular Meetings. Regular meetings of the corporation's shareholders may be held at a place and time designated or fixed in accordance with a resolution of the Board of Directors.

Section 3 – Special Meetings. Special meetings of the corporation's shareholders may be called at any time by the President, or by a majority of the Board of Directors. The President, or in the absence thereof, the Vice President, shall call a special meeting upon the written petition of one-third ($\frac{1}{3}$) of the shareholders of the corporation. Notice of said meeting shall specify the business to be transacted and shall be provided in the manner set forth in this Article.

Section 4 – Meeting of All Shareholders. If all of the corporation's shareholders shall meet at any time and place within the State of Colorado, and consent to the holding of a meeting, such meeting shall be valid without call or notice, and at such meeting any corporate action may be taken.

Section 5 – Place of Meeting. The Board of Directors may designate any place within the State of Colorado as the place of meeting for any annual meeting or for any special meeting called by the Board of Directors. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be the principal office of the corporation in the State of Colorado.

Section 6 - Notice of Meeting. Written notice of each annual, regular, and special meeting shall be given by mailing a copy of such notice to each shareholder, properly addressed and first class postage prepaid, not less than thirty (30) days prior to the date of said meeting. The record date for determining the shareholders entitled to notice of a shareholders' meeting and those entitled to vote at a shareholders' meeting shall be the date on which the written notice is mailed to shareholders or thirty (30) days prior to the date of said meeting, whichever occurs first. Transferees of shares of stock in the corporation which are transferred after the record date shall not be entitled to notice of, or to vote, at such meeting. A list of shareholders who are entitled to notice of, and to vote at, the meeting shall be prepared and made available for inspection in accordance with the provisions of the Colorado Revised Nonprofit Corporation Act, as amended. Notice shall be mailed to each shareholder's last known address according to the corporate records. Notice shall be deemed delivered when deposited in the United States mail addressed to the shareholder at the appropriate address as it appears on the records of the corporation,

with postage prepaid thereon. The notice shall state the place, date, and time of the meeting, the purpose of the meeting, and a description of any matter or matters that must be approved by the shareholders or for which the shareholders' approval is needed.

Section 7 – Quorum. Thirty percent (30%) of the votes entitled to be cast on a matter constitutes a quorum of that voting group for action on that matter; provided, however, that assumption of any debt by the corporation shall require approval by a majority of the shareholders entitled to vote and present or represented by proxy. If such a quorum is not present at a meeting at which the matter will be placed to a vote, either in person or by proxy, the meeting may be adjourned by a majority of those present, provided that such meeting may not be adjourned for a period to exceed sixty (60) days for any one adjournment.

Section 8 – Voting. The voting rights of the shareholders of the corporation shall be as set forth below:

- A. **Voting Rights.** Shareholders shall be entitled to cast one vote for each share of stock owned or leased in the shareholder's name on the books of the corporation. The Board of Directors may, in its discretion, temporarily suspend the voting privileges of a shareholder for failure to pay assessments or otherwise comply with these Bylaws or the Articles of Incorporation.
- B. **Voting By Certain Shareholders.**
1. Shares standing in the name of another corporation, domestic or foreign, may be voted by such officer, agent or proxy as the Bylaws of such corporation may prescribe, or, in the absence of such provision, as the Board of Directors of such corporation may determine.
 2. Shares standing in the name of a deceased person may be voted by his administrator or personal representative, either in person or by proxy.
 3. Shares standing in the name of a guardian, conservator or trustee may be voted by such fiduciary, either in person or by proxy, but no guardian, conservator or trustee shall be entitled, as such fiduciary, to vote shares held by him or her without a transfer of such shares into his or her name on the books of the corporation.
 4. Shares held by a minor or incompetent may be voted by the minor or incompetent, either in person or by proxy, and no such vote shall be

subject to disaffirmance or avoidance unless, prior to the vote, the Secretary of the corporation has actual knowledge that the shareholder is a minor or that the shareholder has been adjudicated an incompetent or that judicial proceedings have been started for the appointment of a guardian.

5. As to shares held in the names of two or more persons, whether fiduciaries, members of a partnership, tenants in common, tenants by the entirety, joint tenants or otherwise, or if two or more person have the same fiduciary relationship respecting the same shares, voting with respect to the shares will be limited to one vote for each share of stock owned by such persons, collectively.
6. Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his or her name, if authority to do so be contained in an appropriate order of the court by which such receiver was appointed.
7. A shareholder whose shares are pledged to a transferee shall be entitled to vote such shares until the shares have been transferred into the name of the transferee on the books of the corporation, and thereafter the transferee shall be entitled to vote the shares so transferred.

C. **Voting By Proxy.** Voting by proxy shall be permitted. At all meetings of the shareholders, a shareholder may vote by proxy executed in writing by the shareholder or the shareholder's duly authorized attorney-in-fact. Such proxy shall be filed with the Secretary of the corporation before or at the meeting. Unless otherwise provided in the proxy, a proxy may be revoked at any time before it is voted, either by written notice filed with the Secretary or Acting Secretary of the corporation or by oral notice given by the shareholder to the presiding officer during the meeting. The presence at a meeting of a shareholder who has filed a proxy shall not of itself constitute a revocation of the proxy. No proxy shall be valid eleven (11) months from the date of its execution, unless otherwise expressly provided in the proxy.

D. **Voting By Ballot.** Voting on any question or in any election may be by voice vote unless the presiding officer shall order, or any shareholder shall demand, that voting be by ballot.

E. **Cumulative Voting Prohibited.** Cumulative voting shall be prohibited.

ARTICLE V
Board of Directors

Section 1 – Number, Tenure and Qualifications of Directors. The Board of Directors may determine the number of directors of the corporation from time to time by resolution, provided that the number of directors on the Board shall never be less than three (3) nor more than seven (7). The Board of Directors shall be comprised of shareholders of the corporation to be elected at the shareholders' annual meeting or adjourned annual meeting, and shall be those individuals receiving the highest number of votes cast in favor of their election to the Board. The initial Board of Directors of the corporation shall consist of those individuals specified in the Articles of Incorporation, who shall serve for a term of three (3) years or until successor(s) shall be duly elected and qualified to serve. Thereafter, directors shall be elected for terms of three (3) years or until successors shall be duly elected and qualified to serve as directors. Each director shall be elected by the shareholders of the corporation and shall cease to be a director when his or her shareholder status in the corporation shall be terminated for any reason whatsoever. Directors shall be shareholders of the corporation, natural persons, and eighteen (18) years of age or older. There shall be no prohibition on serving several or consecutive terms as a director of the corporation.

Section 2 – Compensation. The Board of Directors and the officers of this corporation, other than the Secretary or Treasurer, shall serve without compensation as such directors or officers; provided, however, that any such director or officer may be reimbursed for actual expenses incurred in the performance of official duties for the corporation or in the attendance at any regular or special meetings of the Board of Directors.

Section 3 – Meetings. Regular meetings of the Board of Directors shall be held at such a time and place as the Board of Directors shall determine. Special meetings of the Board of Directors may be called by the President or by two (2) or more directors. Oral or written notice to the Board of Directors of special meetings provided by the Secretary, at least two (2) days prior to the special meeting, shall be deemed sufficient. Any director or any member of a committee designated by the Board of Directors may participate in a regular or special meeting of such Board by means of telephone conference or similar communications equipment by which all persons participating in the meeting can hear each other at the same time. Such participation shall constitute presence in person at the meeting. In lieu of any meeting in person, the Board of Directors may, upon proper notice, elect to distribute by mail for approval a resolution of the directors which, if so approved, shall be valid to the same extent as if such resolution was approved in person. Any director may waive notice of any meeting. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where the Director attends the meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or

convened. A majority of the number of directors in office immediately before the meeting begins shall constitute a quorum for the conduct of business.

Section 4 – General Powers and Duties. The Board of Directors shall exercise the following powers and have the following duties:

- A. To act for and on behalf of the corporation in any manner not prohibited by law or by the Articles of Incorporation.
- B. To control and supervise the business affairs and management of the corporation, and to hire, employ and pay such labor and other employees as may be necessary and advisable to carry out the purposes of the corporation.
- C. To elect the officers of the corporation, and to adopt and procure a corporate seal for the corporation.
- D. To make rules and regulations and set policies for the transaction of the business of the corporation, and for the control, management, and distribution of augmentation water by the corporation.
- E. To prescribe the form of applications to become a shareholder of the corporation and to approve or reject all such applications.
- F. To levy assessments on stock, dues and fees at such times and in such amounts as the Board of Directors shall deem necessary, and to provide for the manner of receiving and collecting such assessments, dues and fees, and to enforce the collection thereof.
- G. To approve or reject any transfer of shareholder status and the stock shares and rights associated therewith.
- H. To provide for the maintenance of accurate records and books of account for the affairs and business of the corporation, and to cause regular audits to be made at least once each year, with reports thereof to be made directly to the Board of Directors.
- I. To approve and direct all disbursements out of the funds of the corporation and to borrow money as may be necessary upon the credit and for the benefit of the

corporation, said indebtedness to be approved in the form of a resolution duly recorded in the minutes of the Board of Directors' meeting.

- J. To prescribe the form of stock certificates.
- K. To keep the corporation's property and property rights, including but not limited to its water rights and related facilities, properly functioning and in good repair.
- L. To keep the corporation's shareholders fully informed of the corporation's business, and to study the requirements and needs of the shareholders for purposes of promoting good relations among shareholders and with others.
- M. To exercise any lawful powers and engage in any lawful activities for the purpose of providing augmentation water for the exclusive benefit of the corporation's shareholders.

Section 5 – Executive Committees. The Board of Directors may adopt a resolution designating from among the corporation's shareholders an Executive Committee and one or more other committees, each of which, to the extent provided in the resolution, shall have all the authority of the Board of Directors so designated in writing. The designation of such committees and the delegation thereto of authority shall not operate to relieve the Board of Directors of any responsibility imposed by law or these Bylaws or the Articles of Incorporation.

Section 6 – Vacancies. Vacancies among the Board of Directors and the officers of the corporation shall be filled for the remainder of the unexpired term by a majority vote of the Board of Directors.

Section 7 – Resignations. Any director of the corporation may resign at any time by giving written notice to the President or the Secretary of the corporation. The resignation of any director shall take effect upon receipt of notice thereof or at such later time as may be specified in said notice; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. When one or more directors resign from the Board, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies by majority vote, the results of the vote thereon to take effect when such resignation or resignations shall become effective.

Section 8 – Removal of Directors. Any director or officer of the corporation may be removed from office in the following manner: Any shareholder may bring charges against any director or officer by filing them in writing with the Secretary of the corporation, together with a petition signed by at

least twenty-five percent (25%) of the remaining shareholders, requesting the removal of the director or officer in question. Such removal shall be voted upon at the next regular or special meeting of the shareholders and shall be effective if approved by a vote of a majority of the shareholders present at such meeting. The director or officer against whom such charges have been brought shall be informed in writing of such charges at least five (5) days prior to the meeting and shall have the opportunity at such meeting to be heard in person or by counsel and to present witnesses; and the person or persons bringing such charges against the director or officer shall have the same opportunity. If the removal of a director is approved, such action shall also vacate any other office held by the removed director in the corporation. A vacancy in the Board of Directors thus created shall immediately be filled by a vote of a majority of the shareholders present and voting at such meeting. A vacancy in any office thus created shall be filled by the Board of Directors from among their number so constituted after the vacancy in such Board has been filled.

Section 9 – Presumption of Assent. Any director of the corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken, shall be presumed to have assented to the action taken, unless said director's dissent shall be entered in the minutes of the meeting, or unless said director shall file a written dissent to such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to any director who already voted in favor of such action.

ARTICLE VI **Officers**

Section 1 – Types of Officers. With the exception of the Secretary, the Treasurer and, if applicable, the Manager of the corporation, all other officers shall be shareholders of the corporation. The officers of this corporation shall be a President, Vice President, Secretary and Treasurer, and may also include a Manager of the corporation. The Secretary and the Treasurer may be the same person. The President and Vice President shall not be the same person and shall be elected from the Board of Directors. The Secretary and Treasurer need not be directors of this corporation. All officers shall serve for a term of one (1) year or until successors are duly elected and qualified. Election of officers of the corporation shall be held immediately after each annual meeting or adjourned annual meeting of the corporation's shareholders.

Section 2 – Duties and Powers of the President. The President shall be the principal executive officer of the corporation, and shall in general supervise and control all of the business and affairs of the corporation. The President shall preside at all meetings of the directors and shareholders. The President shall sign, along with the Secretary or any other proper officer of the corporation thereunto authorized by the Board of Directors, all stock certificates, bonds, deeds, leases, encumbrances, notes, contracts, or other instruments of writing made or entered into by or on behalf of the corporation. The

President shall exercise general supervision over the business of the corporation and over all other officers, employees and agents of the corporation, including such supervision where the duties of the officers, employees and agents of the corporation are not specifically prescribed by the Bylaws or by resolution of the Board of Directors. The President shall have the power to perform all of the duties usually incident to the office of President of similar corporations, and such other duties as may be prescribed by the Board of Directors from time to time.

Section 3 – Duties and Powers of the Vice President. The Vice President shall perform all of the functions and duties associated with the office of the President in the absence of the President, including death, or in the case of the President's inability or refusal to act. The Vice President shall perform such additional duties as the Board of Directors may prescribe from time to time.

Section 4 – Duties and Powers of the Secretary. The Secretary shall perform all duties usually incident to the office of Secretary of a corporation. The Secretary shall keep the minutes of all shareholders' and directors' meetings, and shall have the custody of all minutes, records, and other papers and documents of the corporation. The Secretary shall keep a register of the addresses and contact information of the corporation's shareholders, and shall provide notice of members' and directors' meetings as provided by these Bylaws. The Secretary shall provide written notice of proposed annual assessments to shareholders as provided hereinafter. The Secretary shall attest by his or her signature all documents signed on behalf of the corporation by the President or Vice President, and shall affix the corporate seal to all stock certificates, contracts, and conveyances requiring the same. The Secretary shall prepare and keep an accurate stock ledger, stock transfer book and all other proper books of record and accounts of the business of the corporation, and such other books and records as the Board of Directors may prescribe from time to time. The Secretary shall make such reports to the Board of Directors of all his or her accounts and doings as may be required by the Board of Directors. Said reports may also be made to the shareholders, if required by the Board of Directors. In the event that the Secretary of the corporation also serves as the Treasurer, and if required by the Board of Directors, then the Secretary-Treasurer shall be required to furnish a bond for the satisfactory performance of his or her duties as Treasurer, as specified below, the cost of which shall be borne solely by the corporation.

Section 5 – Duties and Powers of the Treasurer. The Treasurer shall perform all duties usually incident to the office of treasurer of a corporation. The Treasurer shall collect assessments and other sums due to the corporation. The Treasurer shall safely keep all money and funds of the corporation and disburse the same only on orders approved by the Board of Directors and signed by the President. The Treasurer shall keep such financial records and accounts as will accurately reflect the finances and assets of the corporation, and shall report the same to the corporation's shareholders at each annual meeting, and to the Board of Directors upon request. The Treasurer will prepare and file all county, state and federal financial, tax or other such reports required to be filed to maintain the corporation in good standing. If required by the Board of Directors, the Treasurer shall provide a bond in the amount

determined by the Board of Directors, to ensure satisfactory performance of his or her duties, at the sole cost of the corporation.

Section 6 – Manager. In addition to the above-named officers, the Board of Directors may authorize the appointment of a Manager, who may or may not be a shareholder of this corporation. The duties, authority, and compensation of such Manager, if any, shall be as determined by the Board of Directors by resolution.

ARTICLE VII **Finances and Dividends**

Section 1 – Not For Profit Corporation. This corporation is not organized for any pecuniary profit, and in no event shall any part of the funds or assets of the corporation be paid as a salary or compensation or inure to the benefit of any director, officer or shareholder, except that:

- A. Reasonable compensation may be paid to any director, officer or shareholder while that person is acting as an employee or agent of the corporation for services performed in effecting one or more of the purposes of the corporation;
- B. Any director, officer or shareholder may be reimbursed for actual and reasonable out-of-pocket expenses incurred in connection with the administration of the affairs of the corporation; and
- C. The Board of Directors may hire employees of the corporation who may be paid reasonable compensation for their services, including but not limited to reimbursement for any out-of-pocket expenses incurred by said employees in the course of their duties for the corporation.

Section 2 – Loans. No loans shall be contracted by or on behalf of the corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

Section 3 – Checks. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the corporation, shall be signed by such officer or officers, agent or agents of the corporation and in such manner as specified in these Bylaws and the Articles of Incorporation, and if not so specified therein, in such manner as shall from time to time be determined by resolution of the Board of Directors.

Section 4 – Deposits. All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in such banks, trust companies or other depositories as the Board of Directors may specify by resolution. Other or additional depositories may be designated from time to time by an appropriate resolution of the Board of Directors.

Section 5 – Fiscal Year. The fiscal year for management of this corporation shall be as designated by resolution of the Board of Directors.

Section 6 – Dividends. No dividends of any kind or character shall ever be declared on any stock of the corporation, except in accordance with a plan for dissolution of the corporation under the provisions of the Colorado Revised Nonprofit Corporation Act.

ARTICLE VIII

Transfers, Assessments and Stock Certificates

Section 1 – Approval of Transfer Required. No transfer of shares of stock in the corporation shall be allowed without the express approval of the Board of Directors. The Board of Directors may adopt rules and regulations governing approval of said transfers which are consistent with these Bylaws. A shareholder proposing to transfer his or her stock in this corporation, whether to another shareholder or to a non-shareholder of this corporation, shall make a written request for approval of the transfer to the Board of Directors on such application forms as may be prescribed by the Board of Directors by resolution. The decision of the Board of Directors on any requested transfer of shares of stock shall be final and shall be transmitted to the requesting shareholder in writing.

If, in the determination of the Board of Directors, the proposed transferee is eligible to own stock in the corporation and the proposed transfer may be made without injury to the corporation or to other shareholders, or to the legality, integrity or administrability of the corporation's plan or plans for augmentation, then the Board of Directors shall approve the transfer. Provided that the proposed transferee owns or holds an interest in a lot or other lands located within the corporation's service area, the Board of Directors may employ a presumption that the proposed transfer will not be injurious to the corporation or its shareholders, which presumption shall be rebuttable by other shareholders having evidence of such injury. The proposed transferee may be required by the Board of Directors to pay engineering and legal costs associated with evaluating the proposed transfer. It is the policy of the corporation to encourage the free transferability of stock to the extent consistent with the foregoing principles.

In the event of a transfer of shares by any person, bank or institution which is a creditor of a shareholder, as part of a foreclosure or exercise of a security interest on a loan or financing where the bank or institution does not use the services of the corporation, such transfer will be presumed to be without

injury unless rebutted on the facts of any particular circumstance. The subsequent assignment and transfer of such share to an eligible person or entity shall require Board approval as required by these Bylaws.

Section 2 – Transfer on the Books. All transfers of stock shares shall be made on the books of the corporation; provided, however, that no transfer of stock certificates shall be made on the books of the corporation except upon surrender of the duly endorsed original, duplicate or temporary duplicate stock certificate, along with the written assignment of the shareholder to whom the same was issued or, in the case of death, the written assignment of said shareholder's personal representative.

Section 3 – Assessments. The Board of Directors may, in its discretion, determine to levy lower annual assessments on inactive shares of stock than the assessments levied on active shares of stock in the corporation. The Board of Directors shall determine the assessment proposed to be levied on active and inactive shares of stock in the corporation for the ensuing year and shall present the question of making the assessment to the corporation's shareholders at the annual meeting or a special meeting called for that purpose, subject to the following conditions:

- A. If the shareholders vote in favor of making such assessment, the Board of Directors shall levy the same.
- B. If the shareholders fail to hold such a meeting or fail to make or authorize any assessment within ninety (90) days after the close of the corporation's fiscal year, the Board of Directors shall have the power to make any such assessment at any regular or special meeting called for that purpose.

Assessments shall become due thirty (30) days after the date of billing. Assessments paid later than sixty (60) days after the date of billing shall require the additional payment of a penalty as established by the Board of Directors and approved by the shareholders at the annual meeting or at any special meeting called for that purpose. Unless and until the amount of penalty is established at such meeting, the penalty shall be set at 20% of the delinquent shareholder's then unpaid assessments or at a flat fee of \$15.00, whichever amount is greater. The Secretary of the corporation shall give written notice to each shareholder of the amount of each assessment and the time when payment of the same will be due, which notice shall be given by delivering the same personally to each shareholder or by mailing the same to the address of the shareholder as shown by the books of the corporation.

The corporation shall have a perpetual lien upon a delinquent shareholder's shares of stock and water rights represented thereby for any and all unpaid assessments and penalty charges until the same are fully paid, and the shares of stock shall not be transferred on the books of the corporation until such indebtedness is paid in full. The corporation shall have the right at any time after default in the payment of any assessments to bring any appropriate suit or action for the collection of the same, together with any

penalty or interest thereon, and the enforcement of the corporation's perpetual lien. If any assessments are not paid in full within one (1) year after the date they are due, then in such case and without any waiver of the right to bring such collection suit or action, the Board of Directors shall have the right to forfeit and sell such shares of stock in accordance with the provisions of this Article below.

Section 4 – Special Assessments. Special assessments shall be first submitted to the corporation's shareholders at an annual meeting or at a special meeting called for that purpose. A majority of the stock issued and outstanding, represented by either the owner in person or by proxy at such meeting, can approve or modify the special assessment. If the shareholders fail to make and levy any special assessment needed by the corporation, the Board of Directors shall have the power to make and levy the special assessment.

Section 5 – Curtailment of Augmentation Water for Non-Payment of Assessments. If any shareholder fails to pay any assessments and applicable penalty charges within ninety (90) days after the assessment is due, the Board of Directors shall notify the shareholder in writing that the provision of augmentation water to the shareholder's lot or other lands shall be discontinued within thirty (30) days of the date of said notice, unless the Board of Directors, in its sole discretion, finds that the delinquent shareholder has demonstrated extenuating circumstances which justify an extension of time to allow the shareholder to repay the unpaid assessments and penalty. "Extenuating circumstances" shall include situations involving emergency circumstances beyond the reasonable control of the delinquent shareholder which have made timely payment of assessments impossible.

If the delinquent shareholder submits a request in writing within the prescribed 30-day period following notice, the delinquent shareholder shall be afforded the opportunity to present evidence, in writing or orally to the Board of Directors, of such extenuating circumstances and request an extension of time to repay unpaid assessments and penalty charges. Under no circumstances shall the Board of Directors grant such extension that exceeds one hundred eighty (180) days from the date of the Board's decision; and no additional extensions of time shall be granted.

The Board of Directors' decision on any request for extension by a delinquent shareholder shall be final. If an extension is granted, the Board of Directors may condition such extension on the posting of a bond by the shareholder as indemnification for the costs of continuing to provide augmentation water to the shareholder's lot or other lands and shall require that interest begin to accrue on the unpaid balance at a monthly rate as established by the Board of Directors from time to time.

Section 6 – Forfeiture and Sale of Stock Shares for Non-Payment of Assessments. If any shareholder fails to pay assessments and the applicable penalty and interest thereon, if any, within one (1) year after the assessment is due, the delinquent shareholder's shares of stock shall be forfeited to

the corporation pursuant to the procedure for termination of shareholder status set forth in Article III above, and said shares may be sold by the Board of Directors in accordance with the following procedures:

- A. In its discretion, the Board of Directors may elect to sell the forfeited shares by entering an order directing the Secretary to sell the forfeited shares at public auction to the highest bidder for cash in hand for the purpose of paying the amount due thereon, together with the costs and expenses of such sale, and shall in such order designate the time and place at which said sale shall be held, which shall take place at the next annual meeting of the shareholders of the corporation or at a special meeting of the shareholders called for that purpose.
- B. Upon issuance of such order, the Secretary shall issue a written notice in duplicate to the delinquent shareholder informing said shareholder of the amount due and of the order of the Board of Directors with respect to the sale of the shareholder's shares of stock, including the time and place of said sale, which notice shall be served personally on the shareholder or sent by registered mail to the shareholder's address on the books of the corporation, not less than thirty (30) days prior to the day fixed for sale; provided, however, that if the Secretary knows that the then correct address of the shareholder is other than that shown on the books of the corporation, and the notice is served by mail, then said notice shall be mailed to such correct address.
- C. The Secretary shall also provide written notice of said sale to all shareholders on the books of the corporation at least thirty (30) days prior to the sale, which notice shall state:
 1. The time and place of said sale by public auction to the highest bidder with cash in hand;
 2. The certificate number(s) of the shares of stock to be sold;
 3. The shareholder's name in which said shares are registered; and
 4. The amount of past due assessments and penalty charges and interest, if any, and the costs and expenses of sale, which are intended to be recouped by said sale. The Secretary shall file in the corporation's records a duplicate copy of the 30-day notice of the sale.

- D. Any such sale shall operate to cancel the certificate(s) by which said shares of stock are represented on the books of the corporation and, upon approval of said sale by the Board of Directors, a new certificate(s) for the shares of stock shall be issued to the purchaser on the books of the corporation, and any proceeds from the sale over and above the amount due and interest, if any, together with the costs and expenses of said sale, shall be paid to the delinquent shareholder who previously owned the shares of stock.

- E. In the event that there is no buyer for such stock, the corporation shall take possession of the shares of stock and the water rights represented by said stock as payment for all debts owed to the corporation; and a new certificate shall be made out to the corporation and the Board of Directors shall have the authority to determine the use of water from those shares, including but not limited to the authority to resell the stock to an eligible purchaser in the future; provided, however, that if the stock is resold by the Board of Directors, any proceeds from the sale over and above the amount due and interest, if any, together with the costs and expenses of the sale, shall be paid to the previous owner of the stock.

Section 7 – Effects of Non-Use on Stock Forfeiture. Shares of stock shall not be forfeited due to non-use by a shareholder of the corporation, but may be forfeited for non-payment of assessments. Shares of stock owned by a shareholder shall not be forfeited so long as assessments continue to be paid and the shareholder otherwise complies with the law, the terms and conditions of the corporation's decreed plan or plans for augmentation, and these Bylaws and the Articles of Incorporation.

Section 8 – Certificates for Shares. The book of stock certificates shall contain a margin opposite each certificate on which shall be noted the number of the certificate, the date, the number of shares, the name of the shareholder to whom the shares have been issued, the legal description of the shareholder's lot or other lands and, in the case of "active" shares of the corporation, the well permit number associated with said shares and the water court case number for the decreed plan for augmentation under which augmentation water is provided to said shareholder shall also be noted. Certificates representing shares of stock in the corporation shall be respectively numbered serially, as they are issued, shall be impressed with the corporate seal or a facsimile thereof, and shall be signed by the President or a Vice President and attested by the Secretary or an Assistant Secretary appointed by the Board of Directors. Each certificate shall state the name of the corporation, the fact that the corporation is incorporated under the laws of the State of Colorado, the name of the person to whom the shares were issued, the date of issue, the number of shares represented thereby and a statement that such shares are without par value. Each certificate shall be otherwise in such form as may be prescribed by the Board of Directors.

Section 9 – Duplicate Stock Certificates. The Board of Directors may order a duplicate stock certificate to be issued to a shareholder in place of any stock certificate of the corporation alleged to have been lost, mislaid or destroyed, if the shareholder owning such stock certificate or the legal representative or assignee of such shareholder on the books of the corporation, provides proof of such loss or destruction and a bond to the corporation, with security, to be approved by the Board of Directors on such sum as the Board may determine, in its discretion, as indemnity against any loss or claim that the corporation may incur by reason of issuance of the temporary duplicate stock certificate.

Section 10 – Evidence of Ownership. Possession of a stock certificate shall not be regarded as evidence of ownership of the same unless it appears on the stock books of the corporation that said certificate was issued or duly transferred to the holder of the same. The Board of Directors may, in its discretion, refuse to issue a stock certificate or duplicate stock certificate except upon the order of a court of law having jurisdiction over such matter.

Section 11 – Issuance of Shares of Stock. No issuance of shares of stock shall be allowed without the approval of the Board of Directors. The Board of Directors may adopt rules and regulations governing approval of the issuance of shares of stock. If, in the opinion of the Board, the issuance of shares of stock to an eligible person or entity within the corporation's service area may be made without injury to the corporation and its shareholders, or to the legality, integrity or administrability of the corporation's plan or plans for augmentation, the Board of Directors may approve the issuance of shares of stock. The shareholder requesting the issuance of shares of stock may be required to pay all of the legal and engineering costs associated with evaluating and carrying-out the proposed issuance of shares of stock to said shareholder and including the shareholder's well(s) in the corporation's augmentation plan(s). The decision of the Board of Directors as to whether shares of stock will be issued shall be final and shall be transmitted in writing to the person or entity requesting the issuance of shares of stock.

ARTICLE IX **Use of Water**

Section 1 – Authority of Board of Directors. The Board of Directors shall set policies and procedures for and make decisions regarding use of the water rights and facilities owned or controlled by the corporation on behalf of its shareholders, including but not limited to the timing and location of releases of augmentation water, replacement of depletions, and retention of augmentation water in carryover storage, in accordance with applicable state laws and regulations.

Section 2 – Specific Powers Relating to Augmentation. In recognition of the variability in water availability in different years and under different hydrologic conditions, the Board of Directors shall have exclusive authority to determine the allocation of water for augmentation and replacement purposes each year. The Board of Directors shall also have exclusive authority over all aspects of operation of

Section 3 – Metering of Water Use. If required by the Colorado State Engineer, the Board of Directors shall adopt policies and rules and regulations requiring that the corporation's shareholders shall install and maintain, at their sole cost and expense, meters that record the amount of each shareholder's groundwater use by his or her well(s). Shareholders shall report such meter readings to the corporation at intervals as specified by the Board of Directors by resolution. If a shareholder fails to keep meter readings or report them to the corporation at the required times, then the Board of Directors may authorize an officer or employee of the corporation to enter the violating shareholder's property and obtain the meter reading(s). A shareholder's failure to abide by any metering rules and regulations adopted by the Board of Directors may constitute grounds for suspension or termination of shareholder status and any rights attendant therewith.

ARTICLE X
Amendment

These Bylaws may be amended by a majority vote at any meeting of the Board of Directors. These Bylaws may also be amended by a majority vote of the shareholders at any annual meeting or at any special meeting called for that purpose, provided that the notice of such meeting describes the nature and purpose of the proposed amendment and provides the actual wording of any proposed amendment to these Bylaws. If an amendment is adopted by majority vote of the shareholders, it may not thereafter be altered by a majority of the Board of Directors, at least until after the next meeting of the shareholders.