

EXHIBIT “A”

BYLAWS

OF

FANNIN COUNTY WATER SUPPLY AGENCY

(14 pages)

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OF
FANNIN COUNTY WATER SUPPLY AGENCY**

**ARTICLE I
DEFINITIONS**

Section 1.01 Definitions. The following words and terms, when used in these bylaws, shall have the following meanings unless the context clearly indicates otherwise:

- (a) AGENCY: The Fannin County Water Supply Agency
- (b) BOARD OF DIRECTORS or board: The board of directors of the Agency.
- (c) DIRECTOR: An individual appointed by the governing body of a Member to represent that Member on the board of the Agency.
- (d) MEMBER: A public entity that has entered into a Membership Contract with the Agency and has participated in the creation of the Agency by adoption of a concurrent ordinance or resolution pursuant to Subchapter C, Chapter 572 of the Texas Local Government Code.
- (e) MEMBERSHIP CONTRACT: A contract between a Member and the Agency specifying the terms and conditions under which the Member will participate in Agency activities, whether or not the Member executes a Participation Contract.
- (f) MGD: An abbreviation of million gallons of water per day.
- (g) PARTICIPATION CONTRACT: A contract between a Member and the Agency specifying the terms and conditions under which a Member will participate financially in planning and developing a regional water supply, and/or in constructing, equipping and operating a regional water supply, and/or in contracting for the purchase of capacity or other rights in a regional water supply to be developed or acquired by the Agency and/or another public entity.
- (h) PARTICIPATING MEMBER: A Member that executes a Participation Contract.

ARTICLE II PURPOSE

Section 2.01 Purpose of Agency. As authorized by Subchapter C, Chapter 572 of the Local Government Code (sometimes referred to as the “Act”), the Agency is a public utility agency organized for the purpose of aiding, assisting, and acting on behalf of the Members in the exercise of its powers to and authority to plan, finance, construct, own, operate or maintain facilities necessary or incidental to the development of a regional surface water supply system in Fannin County Texas.

Section 2.02 Additional Powers. The Agency shall have all other powers not prohibited by law that are available to a public utility agency in Texas and which are necessary or useful to enable the Agency to perform the purposes for which it is created, including the power to enter into a contract or lease, the power to own and dispose of property, the power to adopt rules to govern the operation of the Agency and its employees, facilities and service, and the power to issue bonds, notes or other obligations, and otherwise exercise its borrowing power to accomplish the purpose for which it was created; provided, however, all such borrowing and financial activities shall be considered Tier-1 Actions, as described herein below, subject to the appropriate voting requirements.

Section 2.03 Governmental Unit. Pursuant to Section 572.052(c) of the Act, the Agency is a governmental unit within the meaning of Section 101.001(3) of the Texas Civil Practice and Remedies Code (Texas Tort Claims Act).

ARTICLE III BOARD OF DIRECTORS

Section 3.01 Powers; Appointment; Qualifications. The Agency will be governed by a board of directors divided into two classes serving staggered terms. Each class shall be as near as equal in number as possible. The board is responsible for the management, operation, and control of Agency projects and property. The board may adopt rules to govern the operation of the Agency and it’s employees, facilities and service, so long as such rules are not inconsistent with the bylaws of the Agency. The governing body of each Member shall be entitled to appoint one (1) director to the board according to its assigned place. An employee, officer or member of the governing body of a public entity may serve on the board as a director, but may not have a personal interest in any contract executed by the Agency other than as an employee, officer or member of the governing body of the public entity.

Section 3.02 Term of Office; Removal; Vacancy; Number. A director shall serve a term of two (2) years or until a successor is appointed. A director may serve successive terms. A Member may remove its appointed director from office at any time, with or without cause. The office of a director becomes vacant on the death, resignation, or removal of the director. A resignation must be made or presented to the board's presiding officer. The term of a director appointed to fill a vacancy occurring in the board of directors, including the initial directors, is the unexpired term of the director's predecessor in office.

Section 3.03 Compensation and Expenses. A director is entitled to \$50 for each day spent in attending meetings of the board, a per diem of \$50 if authorized by resolution of the board, plus actual expenses incurred in attending meetings. Except as otherwise provided by this section, directors serve without compensation.

Section 3.04 Regular Office; Records. The board may designate from time to time, by formal resolution, the regular office of the Agency suitable for conducting business and maintaining records of the Agency. The regular office shall be located in Fannin County, Texas. In the absence of any such designation, the Fannin County Courthouse at 101 E Sam Rayburn Dr., Suite 103, Bonham, Texas 75418 shall serve this purpose. Records of the Agency shall be kept, preserved and made available to the public in accordance with Chapter 552 of the Texas Government Code (Public Information Act).

Section 3.05 Meetings of Directors. The board of directors shall designate from time to time, by formal resolution, the date, time and place for conducting regular meetings of the board. In the absence of any such designation, regular meetings of the board shall be held at the Fannin County Courthouse located at 101 E Sam Rayburn Dr., Bonham, Texas 75418. Every regular, special, or called meeting of the board shall be open to the public, except as provided by Chapter 551 of the Texas Government Code (Open Meetings Act). The board shall provide notice of each meeting in the same manner for the same length of time as is required of a district or political subdivision extending into fewer than four counties under Texas Government Code § 551.054, as amended.

Section 3.06 Voting. Each director may vote on all issues before the board. A majority of the membership of the board constitutes a quorum for any meeting. While each director has the authority to vote on all issues before the board, in certain instances the directors' vote shall be weighed in accordance with the following:

(a) Tier-1 Actions. When the board intends to vote to approve, authorize, finance, or contract for a capital project, each director will have one (1) vote as a member of the board. Additionally, the appointed director of a Participating Member shall have one (1) extra vote for each one hundred thousand gallons of water per day (0.1 MGD) of service capacity, or portion of that amount of service or capacity, for which the Participating Member has contracted with the Agency. No one director may obtain through this provision a number of votes that would exceed 49% of the total votes that may be cast on the project being considered. A concurrence of a majority of the weighted vote of all directors eligible to vote is required to approve a Tier-1 Action.

(b) Tier-2 Actions. When the board intends to vote on a matter unrelated to approving, authorizing, financing, or contracting for a capital project, each director will have one or more votes according to the number of active water meters in the director's place as follows:

0 to 1,500 active meters.....	1 vote
1,501 to 3,000 active meters.....	1 additional vote
3,001 to 4,500 active meters.....	1 additional vote

By way of example, a director representing a place having 3,750 active meters may cast 3 votes for or against a Tier-2 Action. A concurrence of at least 60 percent of the entire membership of the board is required to approve a Tier-2 Action.

A director who is present at a meeting of the board at which any corporate action is taken shall be presented to have assented to such action, unless his or her dissent shall be entered in the minutes of the meeting or unless he or she 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 Agency immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of the action.

Section 3.07 Conduct of Business.

(a) Presiding Officer. At the meetings of the board, matters pertaining to the purpose of the Agency shall be considered in such order as from time to time the board may determine. At all meetings of the board, the president shall preside, and in the absence of the president, the vice president shall preside. In

the absence of the president and the vice president, an acting presiding officer shall be chosen by the board from among the directors present.

(b) Minutes. The secretary of the Agency shall act as secretary of all meetings of the board, but in the absence of the secretary, the presiding officer may appoint any person to act as secretary of the meeting. Minutes of each meeting shall be prepared and kept on file by the secretary or any other person designated by the secretary for that purpose.

Section 3.08 Committees. The board may adopt a resolution to establish one or more committees and to specify the authority delegated to a committee, establish qualifications for membership on a committee, and provide for the appointment or removal of committee members. A committee will include three or more directors and may not include persons who are not directors. The board is prohibited from delegating any of its management authority to a committee. Each committee so designated shall keep regular minutes of the transactions of its meetings and shall cause such minutes to be kept in the official records of the Agency, and shall report the same to the board from time to time. Committees shall give notice of any meeting in the manner required for a meeting of the board.

Section 3.09 Director's Reliance on Consultant Information. A director shall not be liable if, while acting in good faith and with ordinary care, the director relies on information, opinions, reports, or statements, including financial statements and data, concerning the Agency or another person that is prepared or presented by:

- (a) one or more other officers or employees of the Agency;
- (b) legal counsel, professional engineers, public accountants, or other persons as to matters the officer reasonably believes are within the person's professional or expert competence; or
- (c) a committee of the board of which the director is not a member.

ARTICLE IV OFFICERS

Section 4.01 Titles and Terms of Office. The officers of the Agency shall be the president, vice president, secretary and treasurer, and such other officers as the board may from time to time elect or appoint. One person may not hold more than one

office. The term of office for each officer shall be one (1) year with the term of office expiring on September 30 of each year. Officers may be re-elected.

Section 4.02 President. The president shall be a member of the board of directors and shall preside at all meetings of the board. The president shall be the principal executive officer of the Agency and shall be in general charge of the properties and affairs of the Agency. In furtherance of the purposes of the Agency and subject to the limitations contained in the Articles of Incorporation, the president or any vice president may sign and execute all bonds, notes, deeds, conveyances, franchises, assignments, mortgages, notes, contracts and other obligations in the name of the Agency. The president shall have such other duties as are assigned by the board. The president may call meetings of the board.

Section 4.03 Vice President. The vice president shall be a member of the board of directors. The vice president shall perform the duties and exercise the powers of the president upon the president's death, absence, disability, or resignation, or upon the president's inability to perform the duties of his or her office. Any action taken by the vice president in the performance of the duties of the president shall be conclusive evidence of the absence or inability to act of the president at the time such action was taken. A vice president shall have such other powers and duties as may be assigned to him or her by the board or the president.

Section 4.04 Treasurer. The treasurer shall be a member of the board and shall have custody of all the funds and securities of the Agency which come into his or her hands. When necessary or proper, the treasurer may endorse, on behalf of the Agency, for collection, checks, notes and other obligations and shall deposit the same to the credit of the Agency in such bank or banks or depositories as shall be designated in the manner prescribed by the board. The treasurer may sign all receipts and vouchers for payments made to the Agency, either alone or jointly with such other officer or Agency employee as is designated by the board. Whenever required by the board, the treasurer shall render a statement of his or her cash account. The treasurer shall enter or cause to be entered regularly in the books of the Agency to be kept by him or her for that purpose full and accurate accounts of all moneys received and paid out on account of the Agency. The treasurer shall perform all acts incident to the position of treasurer subject to the control of the board and shall, if required by the board, give such bond for the faithful discharge of his or her duties in such form as the board may require.

Section 4.05 Secretary. The secretary shall keep or cause to be kept the minutes of all meetings of the board in the official records of the Agency, The secretary shall give, post and deliver all notices. The secretary may sign with the president in the name of the Agency and/or attest the signatures thereof, all contracts, conveyances, franchises, bonds, deeds, assignments, mortgages, notes and other instruments of the Agency. The secretary shall have charge of the Agency's books, records, documents and instruments in accordance with the Public Information Act and shall in general perform all duties incident to the office of the secretary subject to the control of the board. The secretary need not be a member of the board.

Section 4.06 Compensation of Officers. Officers shall not receive any salary or compensation for their services as officers.

Section 4.07 Officer's Reliance on Consultant Information. In the discharge of a duty imposed or power conferred on an officer of the Agency, the officer may in good faith and with ordinary care rely on information, opinions, reports, or statements, including financial statements and other financial data, concerning the Agency or another person, that were prepared or presented by:

- (a) one or more other officers or employees of the Agency, including members of the board; or
- (b) legal counsel, public accountants, or other persons as to matters the officer reasonably believes are within the person's professional or expert competence.

ARTICLE V CONTRACTS, PROJECTS AND MEMBERSHIP

Section 5.01 Contracts Between the Agency and Members.

- (a) Membership Contracts. Each Member will enter into a Membership Contract with the Agency.
- (b) Participation Contracts. In order to participate in a particular Agency project, Members must enter into a separate Participation Contract with the Agency.

Section 5.02 Projects. All projects of the Agency will be open to all Members, sharing costs on a pro-rata basis, according to relative capacity or benefit. Cost of water for any Project will be determined on a common basis, uniform among all Participating Members for that project, subject to Chapter 572 of the Texas Local Government Code. Costs associated with transmission and delivery of water from any supplier or by the Agency shall be addressed by each Participating member on a pro-rata basis. Oversizing of Agency facilities or facilities of others supplying the water to the Agency shall be funded by the Participants on a pro-rata basis, according to the capacity demanded by the Participating Members. In order to have access to oversize capacity or to participate in any project of the Agency, a Member shall enter into a Participation Contract with the Agency.

Section 5.03 Water Reuse. In recognition of the costs inherent in developing and transporting new water supplies to meet the existing and future needs of the Agency and its Members, the Members agree that to the extent a Member desires to reuse or reclaim water developed by or through the Agency for the Member, other Members will support the reuse of such water by the initiating Member to the extent reuse is authorized by the State.

Section 5.04 Agency Administration and Management. Members agree to share all general overhead costs of the Agency (e.g. office staff, supplies, other costs common to all Members) based on each Member's pro-rata share of the total number of active meters of all Members. The number of active connections of each Member shall be established annually at the October meeting of the board according to TCEQ records. The method for allocating general overhead costs of the Agency may be established on an alternative basis upon the unanimous approval of the board.

Section 5.05 Adding or Deleting Members. The Agency may add new members or permit the withdrawal of existing Members in the manner authorized by Chapter 572 of the Texas Local Government Code, subject to the continuing obligations of any withdrawing Member that may be contained in a Membership Contract or a Participation Contract.

ARTICLE VI MISCELLANEOUS PROVISIONS

Section 6.01 Fiscal Year. The fiscal year of the District shall begin on the first day of October of each calendar year and shall terminate on the last day of September of the following calendar year, or such other consecutive 12-month period as established by the board by formal resolution.

Section 6.02 Seal. The board shall adopt a seal of the Agency from time to time by formal resolution.

Section 6.03 Notice and Waiver of Notice. Subject to the Open Meetings Act, whenever any notice whatever is required to be given under the provisions of these bylaws, such notice shall be deemed to be sufficient if given by depositing the same in a post office box in a sealed postpaid wrapper addressed to the person entitled thereto at his or her post office address, as it appears on the books of the Agency, and such notice shall be deemed to have been given on the day of such mailing. A waiver of notice, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

Section 6.04 Resignations. Any director or officer may resign at any time. Such resignations shall be made in writing and shall take effect at the time specified therein, or, if no time be specified, at the time of its receipt by the president or secretary. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

Section 6.05 Gender. References herein to the masculine gender shall also refer to the feminine in all appropriate cases, and vice versa.

Section 6.06 Appropriations and Grants. The Agency shall have the power to request and accept any appropriation, grant, contribution, donation, or other form of aid from the federal government, the State of Texas, any political subdivision or municipality in the State of Texas, or from any other source.

ARTICLE VII INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 7.01 Right to Indemnification. Subject to the limitations and conditions as provided in this Article VII, the Agency will indemnify a director or officer of the Agency who was, is, or may be named defendant or respondent in any proceeding as a result of his or her actions or omissions within the scope of his or her official capacity in the Agency to the same extent and subject to the same conditions as set forth in the Texas Non-profit Corporation Act, as the same exists or may hereafter be amended. For purposes of this article, a proceeding means any threatened, pending, or completed action, suit, or proceeding, whether civil, administrative, arbitral, or investigative, any appeal in such an action, suit, or proceeding, and any inquiry or investigation that could lead to such an action, suit, or proceeding. The rights granted

pursuant to this Article VII shall be deemed contract rights, and no amendment or repeal of this Article shall have the effect of limiting or denying any such rights with respect to action taken or a proceeding initiated prior to any such amendment or repeal.

Section 7.02 Advance Payment. Reasonable expenses incurred by a director who was, is, or is threatened to be made a named defendant or respondent in a proceeding may be paid in advance or reimbursed by the Agency to the same extent and subject to the same conditions as set forth in the Texas Non-profit Corporation Act, as the same exists or may hereafter be amended.

Section 7.03 Indemnification of Employees. The Agency, by adoption of a resolution of the board, may indemnify and advance expenses to an employee of the Agency to the same extent and subject to the same conditions under which it may indemnify and advance expenses to directors and officers under this Article VII.

Section 7.04 Appearance as a Witness. Notwithstanding any other provision of this Article VII, the Agency may pay or reimburse expenses incurred by a director or officer in connection with his or her appearance as a witness or other participation in a proceeding involving the Agency at a time when he or she is not a named defendant or respondent in the proceeding.

Section 7.05 Non-exclusivity of Rights. The right to indemnification and the advancement and payment of expenses conferred in this Article VII shall not be exclusive of any other right which a director or officer or other person indemnified pursuant to Section 7.03 may have or hereafter acquire under any law (common or statutory), these bylaws, agreement, or otherwise.

Section 7.06 Insurance. The Agency may purchase and maintain insurance, at its expense, to protect itself and any person who is or was serving as a director, officer, employee or agent of the Agency or is or was serving at the request of the Agency as a director, officer, partner, venture, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic corporation, partnership, joint venture, proprietorship, employee benefit plan, trust or other enterprise against any expense, liability or loss, whether or not the Agency would have the power to indemnify such person against such expense, liability or loss under this Article VII.

Section 7.07 Notification. Any indemnification of or advance of expenses to a director or officer in accordance with this Article VII shall be reported in writing to the members of the board with or before the notice of the next regular meeting of the board.

Section 7.08 Savings Clause. If this Article VII or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Agency shall nevertheless indemnify and hold harmless each director, officer or any other person indemnified pursuant to this Article VII as to costs, charges and expenses (including attorney's fees), judgments, fines and in amounts paid in settlement with respect to any proceeding to the full extent permitted by any applicable portion of this Article VII that shall not have been invalidated and to the fullest extent permitted by applicable law.

ARTICLE VIII CODE OF ETHICS

Section 8.01 Policy and Purposes. It is the policy of the Agency that directors and officers conduct themselves in a manner consistent with sound business and ethical practices; that the public interest always be considered in conducting the Agency's business; that the appearance of impropriety be avoided to ensure and maintain public confidence in the Agency; and that the board establish policies to control and manage the affairs of the Agency fairly, impartially, and without discrimination. This Code of Ethics is adopted as part of the Agency's bylaws for the following purposes: (a) to encourage high ethical standards in official conduct by directors and officers; and (b) to establish guidelines for such ethical standards of conduct.

Section 8.02 Conflicts of Interest. Except as provided otherwise in this section, a director or officer is prohibited from participating in a vote, decision, or award of a contract involving a business entity or real property in which the director or the officer has a substantial interest, if it is foreseeable that the business entity or real property will be economically benefitted by the action. A person has a substantial interest in a business (i) if his or her ownership interest is ten percent or more of the voting stock or shares of the business entity or ownership of \$15,000 or more of the fair market value of the business entity, or (ii) if the business entity provides more than ten percent (10%) of the person's gross income. A person has a substantial interest in real property if the interest is an equitable or legal ownership with a fair market value of \$2,500 or more. An interest of a person related in the second degree by affinity (marriage relationship) or the third degree by consanguinity (blood relationship) to a director or officer is considered a substantial interest.

If a director or a person related to a director in the first or second degree by affinity or the first, second, or third degree by consanguinity has a substantial interest in a business entity or real property that would be peculiarly affected by any official action taken by the board, such director, before a vote or decision on the matter, shall file an

affidavit stating the nature and extent of the interest. The affidavit shall be filed with the secretary of the board.

A director who has a substantial interest in a business entity that will receive a pecuniary benefit from an action of the board may vote on that action if a majority of the board has a similar interest in the same action.

Section 8.03 Acceptance of Gifts. No director or officer shall accept any benefit as consideration for any decision, opinion, recommendation, vote or other exercise of discretion in carrying out official acts for the Agency. No director or officer shall solicit, accept, or agree to accept any benefit from a person known to be interested in or likely to become interested in any contract, purchase, payment, claim or transaction involving the exercise of the directors of officer's discretion. As used here, a benefit does not include:

- (a) a fee prescribed by law to be received by a director or officer or any other benefit to which the director or officer is lawfully entitled or for which he or she gives legitimate consideration in a capacity other than as director or officer;

- (b) a gift or other benefit conferred on account of kinship or a personal, professional, or business relationship; independent of the official status of the director or officer;

- (c) an honorarium in consideration for legitimate services rendered above and beyond official duties and responsibilities.

- (1) not more than one honorarium is received from the same person in a calendar year;

- (2) not more than one honorarium is received for the same service; and

- (3) the value of the honorarium does not exceed \$250 exclusive of reimbursement for travel, food, and lodging expenses incurred by the director or officer in performance of these services;

- (d) a benefit consisting of food, lodging, transportation, or entertainment accepted as a guest if reported as may be required by law.

Section 8.04 Bribery. A director or officer shall not intentionally or knowingly offer, confer or agree to confer on another, or solicit, accept, or agree to accept from another:

(a) any benefit as consideration for the director's or officer's decision, opinion, recommendation, vote,

(b) or other exercise of discretion as a director or officer;

(c) any benefit as consideration for the director or officer's decision, vote, recommendation, or other exercise of official discretion in a judicial or administrative proceeding; or

(d) any benefit as consideration for a violation of duty imposed by law on the director or officer.

Section 8.05 Nepotism. No director or officer shall appoint, or vote for, or confirm the appointment to any office, position, clerkship, employment or duty, of any person related within the second degree by affinity or within the third degree of consanguinity to the director or officer so appointing, voting or confirming, or to any other director or officer. This provision shall not prevent the appointment, voting for, or confirmation of any person who shall have been continuously employed in any such office, position, clerkship, employment or duty at least thirty (30) days prior to the appointment of the director or officer so appointing or voting.

ARTICLE IX AMENDMENTS

Section 9.01 Amendments. A proposal to amend or repeal these bylaws shall be made by the affirmative vote of at least two-thirds (2/3) of the membership of the full board at any regular or special meeting. The proposed amendment or repeal of these bylaws must then be approved by the governing bodies of at least two-thirds (2/3) of the Members to be effective.