

By Laws Of
Lion's Head Water User's Association
ARTICLE I.

The name of the association is Lion's Head Water User's Association (hereinafter referred to as "Association"). The purpose of the Association is to furnish domestic water to owners of Lots 10 through 16 inclusive in Elk Stream Ranch Phase 3 and Lot 8 in Elk Springs Ranch in Montezuma County and La Plata County, Colorado. The principal office of the Association is 600 Main Ave. Suite 111, Durango, CO 81301.

ARTICLE II.

Membership

The members of this Association shall be the owners of Lots 10 through 16, Elk Stream Ranch Phase 3 and Lot 8 in Elk Springs Ranch in Montezuma County and La Plata County, Colorado.

ARTICLE III.

Membership Meetings

Section 1. Annual Meetings.

The annual meeting of the membership shall be held on the second Saturday in August of each year at the hour of 10:00 o'clock A.M. and shall be held at such place in the State of Colorado as the directors may direct. At the meeting, the members shall elect directors for the ensuing year and conduct such business as may have been included in the notice of the meeting as well as business that may be brought up from the floor. Written notice of the meeting shall be given at least 30 days prior to the meeting by delivering a copy of such notice by United States First Class Mail addressed to the member at the mailing address to be furnished by the member to the Association. Any member shall be permitted to waive service of notice. Such waiver shall be in writing and signed by the member before, at or after the meeting and shall be delivered to the secretary of the Association in a timely manner. Any member may attend by proxy, which proxy shall also be in writing and signed by the member.

Section 2. Special Meetings.

Special meetings of the members may be held in the same manner as the annual meeting and with the same notice except that notice shall be given at least 20 days prior to the date set for any special meeting. Special meetings may be called at any time by the President or shall be called if a majority of the members petition for such a meeting. The purpose of the meeting shall be set forth in the notice of such meeting and no business may come before the meeting unless such business be set forth in the notice. Any member may attend by proxy, which proxy shall also be in writing and signed by the member.

Section 3. Quorum.

The members attending a meeting in person and by proxy, annual or special, shall constitute a quorum. Cumulative voting shall not be permitted.

Section 4. Order of business.

All meetings shall be conducted according to Robert's Rules of Order. All meetings of the members of the Association shall include, wherever applicable:

1. Roll call.
2. Proof of due notice.
3. Reading and disposal of any unapproved minutes.
4. Nominations for vacancies on the Board of Directors.
5. Report of Board of Directors by President or Vice-President.
6. Report of Secretary.
7. Report of Treasurer.
8. Unfinished business.
9. New business.
10. Election.
11. From the floor.
12. Adjournment.

Section 5. Voting rights.

The members owning a lot or lots shall be entitled to one vote for each lot whether single or multiple owners.

ARTICLE IV.

Directors

Section 1. Number and functions of the Board of Directors.

The number of directors shall be three who shall be elected directors at the first meeting and shall be members of the Association. Until the first meeting of members, the directors shall be Alan Scott, Ron Trujillo and John Aylsworth. The management of the Association is vested in the Board of Directors. Its function shall be to (a) elect officers (b) delegate authority as provided herein (c) control the budget and expenditures (d) keep members fully informed of the affairs of the Association (e) conduct audits at the Board's discretion (f) establish water rates and levy assessments and enforce the collection thereof in accordance with these by-laws. When a director or officer is no longer a member of the Association, he/she also must give up his/her directorship and/or office.

Section 2. Election and term of office of the Board of Directors.

There shall be elected three directors at the first meeting of the Association who shall be members of the Association and shall serve until the next annual meeting or until their successors have been chosen and have qualified.

Section 3. Election of officers.

The Board shall elect, by ballot, one of its members as President, one as Vice President and one as Secretary-Treasurer.

Section 4. Term of officers.

The officers shall serve from the time of their election until the next annual meeting at which time there shall be an election of officers, the term of officers shall be for one year; PROVIDED that any officer may serve for additional periods if elected.

Section 5. Compensation of directors and officers.

The directors and officers shall serve without compensation.

Section 6. Meetings of the Board of Directors.

Meetings of the Board of Directors shall be at the call of the President and may be held by telephone or other electronic means. The Board of Directors shall meet immediately following the annual meeting of the members and shall at that meeting elect officers and conduct such other business as may properly come before the Board. A majority of the directors present at any meeting of the directors shall constitute a quorum. Any question shall be determined by a majority vote of the directors.

Section 7. Powers of the Board of Directors.

The Board of Directors shall have the power to act on behalf of the Association in any manner not prohibited by the laws of the State of Colorado, including, but not limited to, borrowing money; PROVIDED that the directors shall not borrow money unless authorized to do so at any regular or special meeting of the members. In addition to the foregoing, the directors shall have the power to establish such rules, fees, rates, assessments and regulations as they deem necessary for the orderly operation of the Association's business.

Section 8. Removal of a Director.

A director may be removed from a directorship by a vote of the membership at any duly called meeting. In order to be removed, 65% or more of those voting must vote for said removal. Proxy voting shall be allowed.

Section 9. Vacancies.

Whenever a vacancy in the Board of Directors shall occur for any reason, the vacancy shall be filled by the remaining members of the Board from the membership of the Association and the person so selected shall serve until the next annual meeting.

Section 10. Emergencies.

In the event of an emergency where it is impractical or impossible for the directors to meet in person, a meeting may be held by use of e-mail or telephone. If by telephone, written confirmation of the vote shall be made by e-mail or fax. Until such vote be so confirmed, it shall not be counted and recorded in the minutes of the meeting.

ARTICLE V.

Officers

Section 1. Duties of the President.

The President shall preside at all meetings of the Board of Directors or of the members. He shall execute all documents required to be executed by the Association. He shall also perform such acts as may be required of him by the Board of Directors.

Section 2. Duties of the Vice-President.

The Vice-President shall act in the absence or disability of the President and in the event of a vacancy in the office of the President, shall discharge the duties and assume the powers of the President until such time as the vacancy in the office of President shall be filled.

Section 3. Duties of the Secretary-Treasurer.

- A. When acting as Secretary, he shall keep a record of the proceedings of the Association and, where required, attest to the signature of the President on all documents.
- B. When acting as Treasurer, he shall keep the books and financial records of the Association and shall collect all monies due to the Association and deposit them in a depository to be designated by the Board of Directors and shall disburse all funds of the Association on the order of the Board. He shall also annually make a report of the business transacted by him on behalf of the Corporation and perform such other duties as may be required of him by the Board of Directors.
- C. The Secretary-Treasurer shall, if required by the Board of Directors, furnish a corporate surety bond for the faithful performance of his duties and for the accounting of all funds and monies handled by him in such amount as may be set by the Board of Directors. The premium for such bond shall be paid from the funds of the Association.

Section 5. Appointment of a system's operator.

The Board may appoint or hire a person to be the system's operator who will be in charge of the operation and maintenance of the water system of the Association. If such person is appointed or hired, he shall be responsible to the Board of Directors and shall serve at the pleasure of the Board. He shall, at all times, keep the directors informed as to the condition of the system and its workings and shall report to the Board as he may be required by the Board to do.

Article VI.

Indemnification of Officials and Agents

Section 1. Certain Definitions.

A "Corporate Official" shall mean any Director or Officer, and any former Director or Officer, of the Association. A "Corporate Employee" shall mean any employee, and any former employee, of the Association. "Corporate Official" and "Corporate Employee" shall not include any officer, director, agent or employee of any managing agent employed by the Association, and no such person shall have right of indemnification hereunder. "Expenses" shall mean all costs and expenses including attorneys' fees, liabilities, obligations, judgments and any amounts paid in reasonable settlement of a Proceeding. "Proceeding" shall mean any claim, action, suit or proceeding, civil or criminal, whether threatened, pending or completed, and shall include appeals.

Section 2. Right of Indemnification.

The Association shall indemnify any Corporate Official and may, in the discretion of the Board of Directors, indemnify any Corporate Employee, against any and all Expenses actually and reasonably incurred by or imposed upon it in connection with, arising out of, or resulting from, any Proceeding in which it is or may be made a party by reason of (a) actual or alleged error or misstatement or misleading statement or act or omission or neglect or breach of duty while acting in an official capacity as a Corporate Official or Corporate Employee, or (b) any matter claimed against it solely by reason of being a Corporate Official or Corporate Employee. The right of indemnification shall extend to all matters as to which a majority of directors of the Association by resolution, or independent legal counsel in a written opinion, shall determine that the Corporate Official or Corporate Employee acted in good faith and such person reasonably believed that the conduct was in the Association's best interests and had no reasonable cause to believe that its conduct was improper or unlawful. The right of indemnification shall not extend to matters as to which the Corporate Officer or Corporate Employee is finally adjudged in an action, suit or proceeding to have been liable for gross negligence or willful misconduct in the performance of its duty except to the extent that a court may determine, upon application, that despite such adjudication of liability, but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity. The right of indemnification shall not extend to any matter as to which said indemnification would not be lawful under the laws of the State of Colorado.

Section 3. Advances of Expenses and Defense.

The Association may advance Expenses to, or where appropriate, may undertake the defense of, any Corporate Official or Corporate Employee, in a Proceeding provided that the Corporate Official or Corporate Employee shall comply with the requirements of C.R.S. 7-129-104 and C.R.S. 7-129-107.

Section 4. Rights Not Exclusive.

The right of indemnification herein provided shall not be exclusive of other rights to which such Corporate Official or Corporate Employee may be entitled.

Section 5. Authority to Insure.

The Association may purchase and maintain liability insurance on behalf of any Corporate Official or Corporate Employee against any liability asserted against it as a

Corporate Official or Corporate Employee or arising out of its status as such, including liabilities for which a Corporate Official or Corporate Employee might not be entitled to indemnification hereunder.

ARTICLE VII.

Assessments and Charges

Section 1. Water Charges.

The Board of Directors shall establish a rate to be charged for water flowing through the meters on the service line of the members which are to be installed on each service line connected with the system of the Association. The rate shall provide for a minimum monthly charge and shall be uniform throughout the system. The Board may establish "tier" rates to be charged in accordance with the volume of usage in thousands of gallons per month. In establishing the rates to be charged, the Board of Directors shall be guided by the estimated cost of operating and maintaining the system and payment of any indebtedness which the Association may have incurred. Charges for water delivered through the meters shall become due monthly and shall be paid within 10 days after the due date thereof as set forth on the statement. If not paid within 60 days of the due date as stated, the service to the delinquent member shall be shut off by the Association or its agents.

Section 2. Assessments.

The Board shall establish a reserve account by levying a charge of \$100.00 per lot per year beginning April 1, 2002. This assessment shall be changed to \$250.00 per lot per year beginning April 1, 2003. If this reserve account is depleted, the Board may levy a special assessment to replenish this reserve account which shall be paid in the same manner as payment for water charges. This special assessment shall be equal as to all users and shall be in an amount which, in the opinion of the Board, is required to maintain the reserve account for the purposes for which it was intended.

Section 3. Enforcement of payment for fees or assessments.

If payment for water charges, assessments or late fees have not been made within 60 days after billing, the Board of Directors is authorized to and shall refuse to deliver water to the meter of the delinquent user until such time as all delinquencies are paid in full. All delinquencies, whether a water meter has been installed or not, shall be charged a \$10 late fee plus shall bear interest at the rate of 10% per annum from the date of delinquency, until such amounts are paid in full. A member's property may not be transferred or conveyed until all delinquencies are paid in full.

Section 4. Restriction of use of water.

In the event of a shortage of water for any reason, the Board of Directors may restrict the use of water by members in such manner as the Board deems necessary and best. If such restriction is imposed, the Board shall notify each member by the most

expeditious means of such restriction. It shall likewise notify the users of the lifting of the restriction. If any user fails, neglects or refuses to abide by the restriction, the Board of Directors may discontinue service to that user in the same manner as is provided for discontinuance of service in the event of delinquencies.

Section 5. Obligations of members for installation and repair.

The members shall be responsible for the expense of installation and repair of water lines and meters from the water main of the Association to the point of use by the member.

ARTICLE VIII.

Transfer of membership

No membership may be transferred unless it be transferred with the sale of the lot owned by the water user and shall be transferred with such sale and shall run with the land.

ARTICLE IX.

Fiscal Year

The fiscal year of the Association shall begin on April 1 in each year and end on March 31 in the following year.

ARTICLE X.

Amendments

Any or all of the articles in these by-laws may be amended or repealed at any meeting of the members. If the proposed amendment is to be made at the annual meeting of the members, notice of such proposed amendment shall be given along with the notice of the meeting. If the amendment is to be made at a special meeting of the members, notice of such meeting shall be given in the same manner as notice of the annual meeting is given and the proposed amendment shall be set forth in full in such notice. The amendment or other change may be made by a majority vote of the members present at the meeting.