

BYLAWS of HIGH KNOB UTILITIES, INC.

Adopted July 13, 2009

ARTICLE I – NAME, PURPOSE, AND GOVERNANCE

**Section 1. Name** - The name of the corporation shall be High Knob Utilities, Incorporated.

**Section 2. Purpose** - The corporation is formed for the purpose of operating a community water utility serving the High Knob subdivision in Warren County, Virginia.

**Section 3. Governance** – The provision of drinking water to the High Knob community shall be subject to and compliant with:

- (a) The Tariff of Rates, Rules, and Regulations approved by the Virginia State Corporation Commission, Division of Energy Regulation, Commonwealth of Virginia.
- (b) All applicable rules, regulations, and policies of the Virginia Department of Health pertaining to drinking water standards.
- (c) All applicable rules, regulations, and policies of the United States Environment Protection Agency pertaining to drinking water standards.
- (d) All other applicable federal, state, and municipal rules, regulations, and policies that pertain to the operation of a non-profit public utility.
- (e) Any other rules, regulations, and policies that may be adopted by the board of directors.

ARTICLE II – OWNERSHIP

The shares of the corporation shall be owned in full and exclusively by High Knob Owners Association, Incorporated. Transference of shares in the corporation to any other entity or individual shall require approval by a majority vote of the shareholders.

ARTICLE III – VOTING OF SHARES

**Section 1. Terminology** – The term *shareholders*, as used in these bylaws, shall refer to the Association proxies as defined in Section 2 of this Article, except for those meetings where direct voting is instituted as defined in Section 4 of this Article.

**Section 2. Appointment of Proxy** - The Board of Directors of High Knob Owner’s Association, Inc. is appointed by these bylaws to serve as joint proxies for the membership of the Association for the purpose of voting on issues requiring a shareholder vote.

**Section 3. Quorum of Proxies** - When voting as proxies on issues requiring a shareholder vote, a quorum of the Association board, as defined in the Association’s bylaws, must be present.

**Section 4. Representation** - The shares of the corporation shall be considered to be equally divided among the Association board directors voting as proxies; that is, each voting director shall represent an equal number of shares.

**Section 5. Direct Voting by Shareholders** - Association members may exercise the right to directly vote on issues requiring a shareholder vote as follows:

- (a) A quorum of Association members, as specified by the Association bylaws, must be present at any meeting where a direct shareholder vote is to take place.
- (b) Prior to any shareholder votes, a declaration of the intent to vote directly shall be submitted, in writing, to the Association board.
- (c) After receiving such written declaration for direct voting, the Association board shall ask the presiding officer to immediately conduct a vote to determine support for direct voting of shares.
- (d) Direct voting of shares shall be instituted by a majority vote of the Association members present at the meeting, and shall apply to all shareholder votes taken during the meeting.
- (e) When support for direct voting of shares is established, each Association member present shall represent an equal number of shares, and the joint proxy status of the Association board established in Article III, Section 2, shall be suspended for duration of the meeting.
- (f) When direct voting has been successfully instituted; voting is limited to those physically present.
- (g) If a quorum of Association members cannot be established, voting shall revert to the Association board members as described in Sections 2-4 of this Article.

#### ARTICLE IV – SHAREHOLDER MEETINGS

**Section I. Place Of Meetings** - Meetings of shareholders shall be held in the County of Warren, Commonwealth of Virginia. The specific date, time, and location shall be stated in the notice of the meeting.

**Section 2. Annual Meeting** – The corporation shall hold annually, on the first Saturday in October of each year, a meeting of shareholders. If, for any reason, the corporation shall not hold the meeting of shareholders on such day, it shall call a meeting in accordance with the provisions of Section 3 of this Article, and the meeting so called shall be designated specifically as the annual meeting.

**Section 3. Special Meetings** - The corporation shall hold a special meeting of shareholders as follows:

- (a) By call of the president of the board of directors.
- (b) By call of a majority of the board of directors.
- (c) By call of a majority of the High Knob Owners' Association board of directors.
- (d) By the written demand of a quorum of Association members, as defined in the Association bylaws.

**Section 4. Notice of Meetings** – Shareholders shall be notified of shareholder meetings as follows:

- (a) Shareholders shall be informed of the date, time, and place of each annual and special shareholders meeting. Such notice shall be given no less than ten or more than fifty days before the meeting date,
- (b) Unless otherwise required by statute, notice of an annual meeting need not state the purpose or purposes for which the meeting is called. Notice of any other special meeting shall state the purpose or purposes for which the meeting is called.
- (c) The posting of the notice on the official bulletin boards of the High Knob Owner's Association, Inc. shall constitute written notice under this section.

**Section 5. Meeting Minutes** – Copies of shareholder meeting minutes that have been approved by the board shall be available at the corporation office during regular business hours.

## ARTICLE V - DIRECTORS

**Section 1. Duties**- All powers of the corporation, as well as the business and affairs of the corporation, shall be exercised by, and under the authority of, the High Knob Utility, Inc. board of directors.

**Section 2. Qualification** – At the time of election, directors shall be qualified as follows:

- (a) Must be at least 21 years of age.
- (b) Must be a member in good standing of the High Knob Owners' Association, Inc. as defined by the Association bylaws.
- (c) Must provide consent prior to being elected.

**Section 3. Number of Directors** - The number of directors shall be established as follows:

- (a) The board of directors shall consist of no less than three and no more than five directors.
- (b) This number may be increased or decreased by a majority vote of the board of directors or the shareholders. In this case, the increase or decrease in the number of directors applies only until the next election of directors, at which time the number of directors shall revert to the number specified in Section 3 (a) above.
- (c) Otherwise, the number of directors can be changed by amendment to these bylaws as described in Article IX, Section 1.
- (d) For both (a) and (b) above, the board of directors shall not increase or decrease the number of directors by more than one position during the period between annual elections of directors. The shareholders may increase or decrease the number by any number.

**Section 4. Term of Office** - The term of a director's office shall start immediately upon election and shall continue until the conclusion of the election at the next annual meeting.

**Section 5. Dual Representation** – A member of the High Knob Owner's Association board of directors may be elected as a director. No more than two directors shall serve on both boards.

**Section 6. Election** - Directors are elected at the annual shareholders meeting, as follows:

- (a) The current board shall present a written slate of candidates to the shareholders at the annual meeting prior to the election.
- (b) Nomination of additional qualified candidates shall be accepted from the floor.
- (c) Each shareholder shall be provided a ballot listing all nominees.
- (d) The shareholders shall mark their ballots.
- (e) Ballots shall be collected and tabulated by the Secretary of the corporation.
- (f) The results of the voting shall be announced immediately at the annual meeting.

**Section 7. Conflict of Interest** – Any member of the board who has a financial, personal, or official interest in, or conflict (or appearance of a conflict) with any matter pending before the board, of such nature that it prevents or may prevent that member from acting on the matter in an impartial manner, will offer to the board to voluntarily excuse him/herself and will vacate his seat and refrain from discussion and voting on said item.

**Section 8. Removal** – A director can be removed in the following ways:

- (a) The shareholders may remove any director for cause by a majority vote held during a special meeting called in accordance with Article IV, Section 3.
- (b) The board of directors may remove any director for cause during a board meeting called in accordance with Article IV, Section 3. The removal shall require a majority vote of the remaining board members.

**Section 9. Vacancies** - When a vacancy occurs on the board of directors, for whatever reason, the vacancy shall be filled as follows:

- (a) The shareholders may fill the vacancy by calling a special meeting as defined in Article IV, Section 3 and electing a qualified candidate as specified in Section 3 of this article.
- (b) The board of directors may fill the vacancy by electing a qualified candidate at any board of directors meeting.

**Section 10. Compensation** - Directors shall receive no compensation for their services.

**Section 11. Expenses** - Directors shall be reimbursed for all reasonable and customary out-of-pocket expenses incurred in carrying out the duties of their office. Requests for reimbursement in excess of two hundred and fifty dollars (\$250.00) must be approved by the board.

## ARTICLE VI - DIRECTORS' MEETINGS

**Section 1. Meetings** - All Board meetings shall be conducted as described below:

- (a) At least one regular board meeting shall be held in each calendar year quarter, at such time and place as shall be determined by the board.
- (b) Special meetings of the board may be called as follows:
  - The President may call a special meeting of the board.

- The President or Secretary shall call a special meeting of the board on written or verbal request of at least two directors.
- (c) An organization meeting shall be held immediately following the annual meeting. The primary purpose of this meeting is the election of officers, as defined in Article VII. Other organizational issues, such as the time, date and location of meetings, may also be decided.
- (d) Members of the board may participate in any meeting of the board by means of a telephone or video conference providing all persons participating can communicate with each other, and providing all persons attending the meeting can hear all of the participants.
- (e) Any action by the board required or permitted at any meeting may occur without a meeting if the action is taken by a majority of the board. The action shall be evidenced by one or more written consents stating the action taken and signed by each voting director and included in the minutes of the following meeting or filed with the corporate records reflecting the action taken. Action taken is effective when the last director signs the consent unless the consent specifies a different effective date, in which event the action taken is effective as of the date specified therein provided the consent states the date of execution by each director. A consent so signed has the effect of a meeting vote and may be described as such in any document.

**Section 2. Notice to Directors** – Directors shall be notified of board of directors meetings with notice to each director in person, or by mail, telephone, fax, or e-mail, as follows:

- (a) Directors shall be informed of the date, time, and place of each regular board meeting. Such notice shall be given no less than ten business days before the meeting date.
- (b) Notice of a special meeting of the board shall be given to the directors with as much advance notice as practicable.

**Section 3. Notification to Members** - Whenever possible, notices of regular and special board meetings shall be given to shareholders at least seventy-two hours before the meeting, either orally or in writing, except as noted in Article VIII, Section 1(b). Posting the notice on the official bulletin boards of the High Knob Owner’s Association, Inc. shall constitute written notice.

**Section 4. Quorum and Voting** - A quorum of the board of directors consists of a majority of the number of directors. If a quorum is present when a vote is taken, the affirmative vote of a majority of the directors present is the act of the board of directors.

**Section 5. Committees** - The board of directors may create one or more committees and appoint members of the board of directors or other Association members to serve on them. The scope, authority, and responsibilities of the committee are delegated to it by the board of directors except as limited by law. The board may dissolve a committee at any time. The membership of each committee must include at least one board member.

**Section 6. Executive Session** - The board may convene in executive (closed) session upon the affirmative vote of a majority of the board members present in open session.

- (a) Executive sessions of the board are limited to legal issues, personnel matters, violations of the tariff or corporate policies, or to discuss the personal liability of an individual customer to the corporation.
- (b) No action agreed upon in executive session shall become effective until the board votes on it in open meeting. The requirements of this section shall not require the disclosure of information in violation of any statute or law.

**Section 7. Work Session** - The board may, from time to time, convene in work sessions for activities requiring a level of effort outside the scope of time available during board meetings. No formal actions shall be taken at any work session. Such work sessions are open to shareholders, but to maximize the board's productivity in these sessions, participation of shareholders may be limited at the pleasure of the board.

**Section 8. Meeting Minutes** – The Secretary shall record accurate and complete minutes of all regular and special board meetings, as well as the organizational meeting. In the absence of the Secretary, the presiding officer shall appoint an individual to record the minutes. Copies of board meeting minutes that have been approved by the board shall be available at the corporation office during regular business hours. Minutes of work sessions may be recorded as determined by the board.

## ARTICLE VII – OFFICERS

**Section 1. Required Officers** - The corporation shall have a President, a Vice-President, and Secretary. The board of directors may elect other officers as it may deem proper.

**Section 2. Election of Officers** - The officers of the corporation shall be elected by the board at an organization meeting immediately following each annual meeting. A director shall not serve in more than one office.

**Section 3. Resignation of Officer** - Any officer may resign an office at any time by giving written notice to the President or Secretary. Such resignation shall take effect on the date of such notice or at any later time specified therein, and does not constitute a resignation from the board, unless specifically stated otherwise.

**Section 4. Removal of an Officer** – Any director who is not a member in good standing of the Association, or who neglects or refuses to perform the duties of that office, may be removed from office as follows:

- (a) The shareholders may do so by calling a special meeting and voting to remove the director from office.
- (b) The board of directors may do so by voting to remove the director from office at any board of directors meeting.

**Section 5. Duties** – The duties of the officers are as follows:

- (a) The President shall be the chief executive officer of the corporation and shall, for the benefit of the shareholders, promote improvements in procedures for managing or regulating the business of the corporation. The President shall preside at all meetings of the board and all official meetings of the shareholders and shall, to the extent practicable, ensure that orders and resolutions of the board are carried out.

- (b) The Vice-President shall act in the place of the president in the event of the President's absence, inability, or refusal to act and shall exercise and discharge such other duties as may be required by the board.
- (c) The Secretary shall have the responsibility for preparing and maintaining custody of minutes of the directors' and shareholders' meetings, for authenticating records of the corporation, and shall perform such other duties as required by the board. The Secretary shall submit minutes to the board for approval in a timely manner.

## ARTICLE VIII – AMENDMENTS

**Section 1. Amendment of Bylaws** - These bylaws may be amended as follows:

- (a) Shareholders may amend these bylaws by calling a special meeting as defined in Article IV, Section 3, for the sole purpose of bylaw amendment.
- (b) The board of directors may amend these bylaws by scheduling a bylaw amendment vote to occur during any board of directors meeting. Shareholders must be given no less than thirty (30) days notice before such vote takes place.
- (c) No bylaw amendment shall remove, modify, or in any way diminish the voting or amendment rights of the shareholders as defined in Section 1 (a) above and in Article III.
- (d) Proposed amendments to these bylaws shall be presented in print to the shareholders and the board of directors not less than thirty (30) days prior to any vote for amendment.
- (e) Notice of the proposal to amend these bylaws shall be posted on the official bulletin boards of the High Knob Owner's Association, Inc. not less than thirty (30) days prior to any vote for amendment.
- (f) After delivery to the shareholders and the board of directors, a printed copy of the proposed amendments shall be available in the High Knob Utilities office during regular business hours.

**Section 2. Legislative Amendment** – In the event that any portion of these bylaws is subsequently rendered invalid by act of the General Assembly of Virginia, those portions hereof which are not affected by such legislation shall remain in full force and effect until and unless altered or repealed in accordance with the term hereof.

**Section 3. Typographical Errors** – Typographical errors found in these bylaws shall be reported to the board of director at any meeting of the board of directors. The board of directors may, at its pleasure, delegate to any employee (or association member who agrees to do so) the duty of correcting the typographical error and republishing these bylaws. The requirements of Article VIII, Section 1 shall not apply to amendments made to correct typographical errors.

## ARTICLE IX - CERTIFICATES EVIDENCING SHARES

**Section 1. Form and Content** - Shares shall be represented by certificates. Each share certificate shall state on its face the name of the corporation and that it is organized under the laws of the commonwealth of Virginia, the name of the individual or entity to whom issued, and the number of shares and the designation of the series, if any, the certificate represents. Each share certificate

shall be signed by the President or a Vice-President and by the Secretary, an assistant Secretary, the Treasurer, if any, or an assistant Treasurer.

**Section 2. Transactions** - All transactions of shares shall be made upon the books of the corporation upon surrender of the certificate for the shares transferred accompanied by an assignment in writing by the holder or by a duly authorized attorney-in-fact.

**Section 3. Replacements** - In case of the loss, mutilation, or destruction of a certificate, a duplicate, certificate may be issued upon such terms not in conflict with law as the board of directors may prescribe.

#### ARTICLE X - LIABILITY

**Section 1. Indemnification**. The officers and the members of the board, in consideration of their services to the corporation, shall not be liable to shareholders for any mistake of judgment, negligence or otherwise, except for their own individual willful misconduct or gross negligence. The shareholders hereby indemnify and hold harmless each of the officers and directors from and against all liability arising out of contracts made or other action taken or failure to act by the officers or the board of directors on behalf of the shareholders to the full extent permitted under law. This indemnification shall also apply to any person authorized by the board acting in any authorized capacity on behalf of the corporation.

**Section 2. Liability**. The officers and the members of the board of directors shall not be liable for any failure of utility services or any other services provided by the corporation, or for injury or damages to any person or property caused by the elements, equipment failure, by any employee or other agent of the corporation, or by any other person, provided nothing herein shall be deemed to limit the scope of the insurance coverage maintained by the corporation.

#### ARTICLE XI – FISCAL MANAGEMENT

**Section 1. Fiscal Year**. The fiscal year of the corporation shall be a twelve month period commencing January 1 of each year.

**Section 2. Reviews**. Within 90 days of the close of each fiscal year, or as soon thereafter as possible, the corporation shall order an audit of all books and financial records of the corporation by a Certified Public Accountant (CPA) employed by the board. Such CPA shall not be an occupant of any High Knob property or a member of the Association. In addition, any member of the Association, at the sole expense of such member, may cause the books and records of the corporation to be audited, during normal business hours and upon reasonable notice, by an independent CPA. The member shall be liable for any administrative expenses incurred by the corporation.

**Section 3. Budget**. The board of directors shall prepare an annual budget for the operation of the corporation as follows:

- (a) Not less than forty-five (45) days before the commencement of each fiscal year, the corporation shall obtain a report from its Consulting Engineer giving advice and making recommendations as to the proper maintenance, repair, replacement and operation of the water system during such fiscal year and estimating the cost thereof.



- (b) Not less than fifteen (15) days before the first day of each fiscal year, the board shall adopt a proposed budget for such fiscal year containing the information required for the operation of the corporation throughout the upcoming fiscal year.
- (c) The proposed budget shall be available for review at the corporation office during regular business hours.
- (d) A finalized annual budget shall be adopted by the board no more than thirty (30) days following the beginning of the fiscal year.

**Section 4. Checks.** All checks and other instruments of the corporation for expenditures or obligations in excess of five hundred dollars (\$500) shall be executed by any two officers of the corporation, or by such other persons as may be designated by the board. All such instruments for expenditures or obligations of less than five hundred dollars (\$500) may be executed by any officer of the corporation or by such other person as may be designated by the board.

**Section 5. Rate Increase.** Any application to the State Corporation Commission to increase the minimum quarterly billing amount, or the per gallon water rates, shall require a majority vote of the board, and shall be subject to the tariff revision procedures of the SCC.

**Section 6. Non-Profit Status.** The board, its officers, and its agents shall take no action that will cause the corporation to no longer qualify for the existing federal and state certification of the corporation as a non-profit organization.

**Section 7. Capital Improvement Fund.** The board shall maintain a capital improvement fund consisting of set-aside funds invested in interest-bearing instruments or accounts. The nominal amount of the fund shall be forty (40) percent of the average total annual income of the corporation for the past three (3) years, although the board may increase or decrease this amount as necessary. In no case shall the fund balance at the end of the fiscal year be less than ten (10) percent of the average total annual income of the corporation for the past three (3) years.