

SECTION J.

ADOPTION BY BOARD OF DIRECTORS OF THE BROOKESMITH SPECIAL UTILITY DISTRICT OF A CODE OF ETHICS AND POLICIES RELATING TO TRAVEL EXPENDITURES, DISTRICT INVESTMENTS, PROFESSIONAL SERVICES, AND FISCAL MANAGEMENT

DEFINITIONS

As used in these guidelines:

“District” means the Brookesmith Special Utility District.

“Board” means the governing body of the district, the board of directors.

“Commission” means the Texas Commission of Environmental Quality on any successor agency.

“Director” means a person appointed to serve on the board of directors of the district.

“District Official” means district directors, officers, employees, and persons and business entities engaged in handling investments for the district as representatives of the district.

“Employee” means any person employed by the district, but does not include independent contractors and professional hired by the district as outside consultants.

“Substantial Interest” means that as defined by current State law as of the date of adoption of this code of ethics, Chapter 171 of the Local Government Code regulating conflicts of interest of district officials.

ARTICLE I

Code of Ethics

1.01. Purpose. This code of ethics has been adopted by the District for the following purposes:

- (a) to comply with section 49.199 of the Texas Water Code, as amended; (b) to encourage high ethical standards in official conduct by district officials; and (c) to establish guidelines for such ethical standards of conduct.

1.02. Policy. It is the policy of the district that district officials shall conduct themselves in a manner consistent with sound business and ethical practices; that the public interest shall always be considered in conducting district business; that the appearance of impropriety shall be avoided to ensure and maintain public confidence in the district and that the board shall control and manage the affairs of the district fairly, impartially, and without discrimination, and in accordance with stated purpose of the district.

1.03. Qualification of Directors.

(a) A person shall not serve as a director if he or she is not qualified to do so under the provisions of the district's enabling legislation (if applicable), and Section 49.052.

(b) Within 60 days after the board determines that any director is not qualified to serve on the board, it shall take steps to replace such director with a person who is qualified.

(c) Any director not qualified to serve on the board, who willfully occupies an office and exercise the duties and powers of that office, may be subject to penalties under the Texas Water Code, including possible conviction of a misdemeanor and imposition of a fine.

1.04. Conflicts of Interest.

(a) A district official is prohibited by Chapter 171 of the Local Government Code from participating, directly or indirectly, in a vote or decision or from acting as a surety on any matter involving a business entity in which the official has substantial interest, if it is reasonably foreseeable that an action on the matter would confer an economic or any other benefit on the business entity.

(b) In cases of conflicts of interest, district officials shall disclose such conflicts and shall file with board secretary and affidavit stating the nature and extent of the conflict of interest. Thereafter, that district official shall abstain for the participation in the matter as provided by law.

(c) District officials shall not disclose, without written legal authorization, confidential information to advance the financial or other private interests of himself or others regarding and contract or transaction which is or may be the subject of a official action of the district.

(d) The district maybe not contract for the purchase of services of personal property directly with a district official or with a business entity in which a district official has a substantial interest except as permitted by law.

(e) The board shall take a separate vote on any budget item specifically dedicated to a contract with a business entity in which a director has a substantial interest. The director having the substantial interest may not participate in that separate vote, but may vote on a final budget if the separate budget item voted on does not exceed 10% of the total budget.

1.05. Nepotism. The board shall not confirm the appointment to any position, nor award a contract, to a person related to a member of the board within the second degree of affinity (marriage) or within the third degree by consanguinity (ancestry) when _____ salary or other compensation of such appointee is paid, directly or indirectly, from district funds, except as provided by Chapter 573 of the Government Code.

1.06. Acceptance of Gifts.

- (a) A district official shall not solicit, accept, or agree to accept any benefit of value from a person or business entity the district official knows is interested in or likely to become interested in any contract, purchase, payment, claim, or other transaction involving the exercise of their discretion as public servant, or any matter before the board, or likely to come before the board for any decision, opinion, recommendation, or vote.
- (b) The prohibition against gifts or favors in section 1.06(a) shall not apply to:
 - (1) an occasional non-pecuniary gift, valued at less than \$25.00; or
 - (2) an award publicly presented in recognition of public services.

ARTICLE 2

Travel Expenditures Policy

2.01. Purpose. To comply with Section 49.199 of the Texas Water Code, the board hereby establishes policies for reimbursing district directors, officers, and employees for necessary and reasonable travel expenses incurred while conducting business or performing official duties or assignments.

(a) Authorized expenses include cost of meals, lodging, commercial travel, in some cases personal automobile mileage, and other necessary and reasonable costs incurred while on official business away from designated headquarters.

(b) Reimbursement for travel expenses shall be subject to approval by the board. The reimbursement request shall include a statement of the business purpose of the business purpose of the travel, date, time, and place, and shall be accompanied by supporting receipts and invoices as required by the board.

2.02. Per Diem. Until further consideration by the board, district directors shall not be entitled to compensation for days spent on official business. However, directors shall be entitled to reimbursement of actual expenses for meals, lodging, and transportation.

- 2.03. Transportation.** Directors or employees who use personal vehicles while on district business travel may be reimbursed for actual miles driven at the current rate allowed by the Internal Revenue Service. Directors or employees traveling by commercial transportation are entitled to reimbursement of the actual cost of necessary transportation for performing official business.

ARTICLE 3

Investments

- 3.01. Purpose.** To comply with Section 49.199 of the Texas Water Code, this policy with respect of district investments has been adopted to establish the principles and criteria by which the funds of the district should be invested and secured (a) to preserve the principal, (b) to earn interest, and (c) comply with various provisions of Texas law relating to the investment and security of funds of districts (“Investment Laws”).

3.02. Policy of Investment.

(a) The preservation of the district’s principal shall be the primary concern of the district officials who are responsible for the investment of district funds. To the extent that the principal is protected, district funds shall be invested to yield the highest possible rate of return, taking into consideration the strength of the financial institution, and complying with any Internal Revenue Code laws or regulations and procedures set forth in any bond resolutions or orders, adopted from time to time by the Board, requiring yield restrictions. Funds of the district shall be invested by the district’s officials in accordance with the districts policy.

(b) District funds shall be invested and reinvested by the district’s investment officer only in national or state banking associations or savings and loan associations within the State of Texas (“Texas financial institutions”), or in federal treasury bills. The principal, plus accrued interest, invested in financial institutions in accordance with this policy shall not exceed the FDIC or FSLIC insurance limits or exceed the collateral (as such term is hereinafter defined) pledged as security for the district’s investments.

(c) It shall be the responsibility of the district’s investments officer to invest and reinvest the district funds in accordance with this policy to meet the needs and requirements of the district. The board, by separate resolution, may provide that the investment officer may withdraw or transfer funds from and to accounts of the district on such terms as the board considers advisable.

3.03. Security of District Funds.

(a) It shall be the policy of the district that all funds shall be insured by the FDIC, FSLIC, or by collateral pledged to the extent of the fair market value of the amount not insured. The district officials recognize that FDIC and FSLIC insurance is only available up to a maximum of \$100,000 (including accrued interest) and that the amount of funds at any one Texas financial institution (including branch banks located within the same county) will be cumulated to determine the maximum amount of insurance coverage.

(b) To the extent district funds are not insured by the FDIC or FSLIC, there shall be pledged as collateral, to the extent of the fair market value thereof, any of the following securities: (1) government securities or obligations issued by the State of Texas, its agencies or political subdivisions, and approved by the Attorney General of Texas payable from taxes or revenues, approved by the investment committee; or, (2) direct obligations of the United States of America backed by the full Faith and credit of the government; or, (3) any other obligations or securities authorized to be collateral securing funds of the districts under the laws of the State of Texas, approved by the investments committee (collectively, the “collateral”).

ARTICLE 4

Professional Services Policy

- 4.01. Purpose.** To comply with Section 49.199 of the Texas Water Code, this professional services policy has been adopted to provide for the selection, monitoring, review, and evaluation of the district’s professional services contracts. Consultants retained by the district to provide professional services include, but not limited to, legal, engineering, financial advisor, management, bookkeeping, auditing, and tax collecting. Selection of such consultants shall be based upon their qualifications and experience as prescribed by Chapter 2254, of the Texas Government Code.
- 4.02. Periodic Review.** The performance of the consultants providing professional services to the district shall be regularly monitored and reviewed by the board, and the board may appoint a professional services committee to provide such monitoring and review to the board.

ARTICLE 5

Management Policy

- 5.01. Purpose.** To comply with Section 49.199 of the Texas Water Code, the board desires to adopt a policy to ensure better use of management information, including the use of budgets in planning and controlling costs, the establishment of a functioning audit committee, and the use of uniform reporting requirements.

5.02. Accounting Records. District accounting records shall be prepared on a timely basis and maintained in an orderly manner, in conformity with generally accepted accounting principles and the requirements of the Texas Commission of Environmental Quality. Such records shall be available for public inspection during regular business hours at the district's office.

5.03. Audit Requirements.

(a) Unless otherwise exempted by the rules of the Texas Commission of Environmental Quality as described in Section 5.03(C), the district's fiscal accounts and records shall be audited annually in accordance with State law governing the audits of water districts, at the expense of the district, by a certified public accountant familiar with the Texas Commission of Environmental Quality's rules, regulations, standards, and guidelines applicable to water district audits.

(b) The audit shall be completed and filed within the time limits established by the Audit Laws. Copies shall be filed with the Texas Commission of Environmental Quality together with an annual filing affidavit in the form prescribed by the Audit Laws. In the event the board refuses to approve the annual audited report, the district shall file a statement with the audit which explains the reasons for disapproval of the audit.

(c) If the district does not have sufficient revenues or activity so that it meets the requirements of the Audit Laws for financially dormant or inactive districts, it may prepare and submit an annual financial dormancy affidavit or an annual financial report described in the Audit Laws.

5.04. Audit Committee. The board shall establish an audit committee comprised of at least two directors and such persons as the board may deem appropriate. The persons selected should not be directly responsible for work subject to the audit. The audit committee shall conduct, at a minimum, an annual review of the district's financial status. The committee shall monitor variances from the district's budget, and shall make recommendations thereon to the board. The committee shall also review the annual district audit, and make recommendations thereon to the board.

5.05. Budget. The district shall annually adopt a budget in accordance with Section 293.97(b) of the Commission's Rules (30 TAC), for use in planning and controlling district costs. Such budget shall take into consideration all district revenues, including, but not limited to, utility fees, taxes and surcharges, if any, and all projected district obligations and expenditures. The budget may be amended at any time but such amendment shall be approved by the board.

ARTICLE 6

Miscellaneous

6.01. Gender. Any references herein to the masculine gender shall also refer to the feminine gender in all appropriate cases.

6.02. Open Meeting. The board officially finds, determines, and declares that these code of ethics and policies were reviewed, carefully considered, and adopted at a regular meeting of the board on the date set forth below and that a sufficient written notice of the date, hour, place, and subject to this meeting was posted at a place readily accessible and convenient to the public within the district and on a bulletin board located at a place convenient to the public in the Brown County Courthouse for the time required by law preceding this meeting, as required by the Open Meetings Law, Section 551.001, et seq., TEXAS GOV'T CODE, as amended, and that this meeting had been open to the public as required by law at all times during which these code of ethics and policies were discussed, considered, and acted upon. The board further ratifies, approves and confirms such written notice and the contents and posting thereof.

PASSED AND APPROVED this _____ day of _____, 200__.

_____DISTRICT

President, Board of Directors

ATTEST:

Secretary, Board of Directors