

BOLIVAR PENINSULA SPECIAL UTILITY DISTRICT
CODE OF ETHICS AND MANAGEMENT POLICIES

This Code of Ethics and Management Policies incorporates the adoption by the Bolivar Peninsula Special Utility District (the "District") of a Code of Ethics, policies relating to travel expenditures, policies relating to District investments, policies relating to the engagement and review of professional services and management policies of the District (the "Policies"). The Policies are adopted by the Board of Directors District pursuant to the Texas Water Code §49.199.

DEFINITIONS

Unless the context requires otherwise, the following terms and phrases used in the Code of Ethics and the Policies shall mean the following:

- (a) The term "**Board**" means the Board of Directors of the District.
- (b) The term "**Director**" means a person elected or appointed to serve on the Board of Directors of the District.
- (c) The term "**District Manager**" means any person employed directly by the District or employed by the District under any form of written or oral agreement whereby such person or business operates the utility system of the District.
- (d) The term "**District Officials**" means District Directors, officers, the District Manager, employees, and persons and business entities engaged in handling investments for the District.
- (e) The term "**Employee**" means any person employed by the District, but does not include independent contractors or professionals hired by the District as outside consultants.
- (f) The term "**Substantial Interest**" means that as defined by Local Government Code, Chapter 171 which regulate conflicts of interest of the District's Directors.
- (g) The term "**TWC**" means the acronym to mean the Texas Water Code.

ARTICLE I
CODE OF ETHICS

Section 1.01. Purpose.

The following Code of Ethics has been adopted by the District to (a) comply with TWC §49.199, as amended, (b) encourage high ethical standards of official conduct by District Officials and (c) establish guidelines for such ethical standards of conduct.

Section 1.02. Policy.

It is the policy of the District that (a) District Officials shall conduct themselves in a manner consistent with sound business and ethical practices; (b) the public interest shall always be considered in conducting District business; (c) the appearance of impropriety shall be avoided to ensure and maintain public confidence in the District; and (d) the Board of Directors shall control

and manage the affairs of the District fairly, impartially and without discrimination, and according to the District's purpose.

Section 1.03. Qualification of Directors.

A. A person shall not serve as a Director if he is disqualified by law. As of the date of adoption of this Code of Ethics, TWC §49.052, a copy of which is attached as **Appendix "A,"** disqualifies certain persons from serving as directors of special utility districts.

B. Under TWC §49.105, when there is a Board vacancy, you must fill the vacancy within sixty (60) days. Therefore, if the Board determines that a Director is not qualified to serve on the Board, then your Board must replace that Director with a qualified person within sixty (60) days.

C. Any Director who is not qualified to serve on the Board under Section 2.03(a) and who willfully occupies an office and exercises the duties and powers of that office may be subject to penalties under TWC §49.052, including possible conviction of a misdemeanor and imposition of a fine.

Section 1.04. Conflicts of Interest.

A. A District Official is prohibited from participating, directly or indirectly, in a vote or decision or from acting as a surety under circumstances when to do so is prohibited by law (see TWC §49.058). As of the date of adoption of this Code of Ethics, Chapter 171 of the Local Government Code, a copy of which is attached as **Appendix "B,"** regulates conflicts of interest of District Officials ("Conflicts of Interest"). District Officials who violate Conflicts of Interest shall be subject to prosecution under Section 171.003 of the Local Government Code as a Class A misdemeanor.

B. In cases of conflicts of interest, District Officials shall disclose such conflicts and shall file with the Secretary of the Board an affidavit stating the nature and extent of the conflict of interest. Thereafter, the District Official shall abstain from participation in the matter as provided by law. See, Appendix "B."

C. The District may not contract for the purchase of services or personal property with a business entity in which a District Official has a "substantial interest" except as permitted by law. See, Appendix "B."

D. The Board shall take a separate vote on any budget item specifically dedicated to a contract with a business entity in which a District Official has a substantial interest. In the event of a separate vote, the Director may not participate in that separate vote, but may vote on a final budget if the District has complied with the notification requirements required under the Conflicts of Interest.

E. A District Official who is "financially interested" in any contract with the District or a District Official who is an employee of a business entity or person that is financially interested in

any contract with the District shall disclose that fact to the Directors, which fact shall be entered into the minutes of the meeting. An interested Director may not vote on the acceptance of the contract and any interested District Official may not participate in the discussion of the contract. The failure of a Director to disclose his financial interest and to have it entered into the minutes shall invalidate this contract.

F. The District also finds that a Director must not disclose, without written legal authorization, confidential information to advance the financial or other private interests of himself or others on any contract or transaction which is or may be the subject of an official action of the District.

Section 1.05. Vendor Disclosure.

Amendments to Chapter 176 of the Texas Local Government Code require a person or agent of a person who contracts or seeks to contract for the sale or purchase of property, goods or services with the District to submit a Conflict of Interest Questionnaire which is attached hereto as **Appendix “C”** to the District not later than the 7th business day after the date the person begins contract discussions or negotiations with the District, or submits to the District an application, response to a request for proposal or bid, correspondence or other writing related to a potential agreement with the District. Each vendor is responsible for verifying they are using most current disclosure form available by contacting the Texas Ethics Commission or going online to www.ethics.state.tx.us. Each vendor should consult their own attorney regarding their disclosure obligations. The Conflict of Interest Questionnaire requires disclosures describing certain business and gift giving relationships, if any, filers may have with District Board of Directors or the District Manager. This new law applies to (i) businesses and individuals who contract with the District, (ii) businesses or individuals who seek to contract with the District (regardless of whether a bidder is awarded the contract or not) and (iii) agents who represent such businesses in business dealings with the Districts. Directors or managers may also be required to provide a Conflict of Interest Questionnaire in accordance with Chapter 176 of the Local Government Code in accordance with Local Government Officer Conflicts Disclosure Statement attached hereto as **Appendix “D”**.

Section 1.06. 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 by affinity (marriage) or within the third degree by consanguinity (blood) when the salary or other compensation of such appointee is paid, directly or indirectly, from District funds, except as provided by Chapter 573, Texas Government Code, a copy of which is attached as **Appendix “E”**.

Section 1.07. 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 transaction involving the exercise of the District Official's discretion, 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 1.07(A) shall not apply to:

1. an occasional non-monetary gift, valued at less than \$25.00; or
2. an award publicly presented in recognition of public service.

C. As of the date of adoption of this Code of Ethics, §36.08 of the Texas Penal Code, a copy of which is attached as **Appendix “F,”** prohibits gifts to public servants such as the Directors. Violations of penal laws may subject District Officials to criminal prosecution.

Section 1.08. Use of District Property.

No Board member, officer or employee shall permit any personal or unauthorized use of District-owned or District-controlled equipment, materials, supplies or property.

Section 1.09. Bribery.

A District Official shall not intentionally or knowingly offer, confer, or agree to confer on another, or solicit, accept, or agree to accept from another, any benefit as consideration when to do so is prohibited by law. As of the date of adoption of this Code of Ethics, Section 36.02 of the Texas Penal Code, a copy of which is attached as **Appendix “G,”** lists the offenses that are considered bribery when committed by District Officials. Violations of penal laws may subject a District Official to criminal prosecution.

ARTICLE II
TRAVEL EXPENDITURES POLICY

Section 2.01. Purpose.

According to the limitations in TWC §49.060, the Board hereby establishes a policy for travel expenditures and for the reimbursement of expenses to Directors for attendance at meetings, conferences, seminars, and other educational gatherings relating to the purposes and functions of the District, including but not limited to conferences and functions of the Texas Rural Water Association and the Association of Water Board Directors.

Section 2.02. Registration, Hotel Expenses and Meals.

Registration expenses for all Board authorized conferences, seminars, and other education gathers ("Conferences") shall be reimbursed in full to Directors. Costs of a hotel room at Conferences, not exceeding the official Conference rate, shall be reimbursed, including the cost of the room the night before the commencement of the Conference and the night of the final meeting day of the Conference. Reasonable costs of meals for travel dates and meals that are not provided by the Conference shall be reimbursed for the Director only. Other reasonable expenses will be allowed, subject to approval by the Board.

Section 2.03. Per Diem.

Notwithstanding any other policy of the Board, per diem expenses shall not exceed the maximum amount allowed for state legislators.

Section 2.04. Transportation.

Use of personal vehicles for District travel must be approved by Board action in advance of travel event, and mileage shall be computed on the most direct route to and from an authorized business travel event. Transportation costs to and from Conferences shall be reimbursed at the per mile rate allowed for vehicles by the Internal Revenue Service, or for the actual airfare for the Director only. Reasonable costs of transportation to and from the airport shall be reimbursed for the Director only, or the cost of car rental shall be reimbursed, provided that mileage costs charged to the District shall include only mileage related to travel for District and Conference functions. Costs of parking at the hotel or Conference shall be reimbursed, including the day before and the morning after same. Reasonable costs of parking at the airport for the days of the Conference also may be reimbursed.

Section 2.05. Verified Statement of Expenditures.

Any Director receiving a travel advance or reimbursement for travel expenditures shall present a verified statement thereof to the Board, together with all supporting receipts and invoices within thirty (30) days upon returning. The receipts and invoices and the verified statement shall be submitted to the District Manager. If a Director is entitled to reimbursement, a check for payment of same shall be approved by the Board at the next regularly scheduled Board meeting.

ARTICLE III
INVESTMENTS

Section 3.01. Purpose.

This policy with respect to District investments has been adopted to establish the principles and criteria by which the funds of the District should be invested and secured to:

- (a) preserve the principal;
- (b) earn interest;
- (c) provide required liquidity; and
- (d) comply with all loss for investment and security of District funds as required by the Texas Local Government Code and Public Funds Investment Act, Chapter 2256, Government Code, as amended (the "Investment Laws").

It is the policy of the Bolivar Peninsula Special Utility District to invest public funds in a manner which will ensure that the investments are duly authorized, properly managed, adequately protected and fully collateralized. The District shall seek the highest investment return with the maximum security while meeting daily cash needs and conforming to the State law including but

not limited to the Investment Laws and all other state and local statutes governing the investment of public funds.

Section 3.02. Scope.

This investment policy applies to all financial assets of the District as accounted for in the District's Annual Financial Report. This shall include all funds of the District. All are pooled for investment purposes except debt service and debt service reserve funds. Interest is allocated monthly to each fund based on its individual cash balance.

Section 3.03. Prudence.

Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. The "prudent person" standard shall be applied in the context of managing the total portfolio rather than a single investment providing that the decision was consistent with this investment policy. (§2256.006, Government Code)

Investment officials acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of responsibility for an individual security's credit risk or market price changes provided that deviations from exceptions are reported in a timely fashion and appropriate action is taken to control adverse developments.

Section 3.04. Objectives.

The primary objectives, in priority order, of the District's investment activities shall be preservation and safety of principal, liquidity and yield. (Section 2256.006, Government Code)

- (a) Safety of principal. The Bolivar Peninsula Special Utility District has as its foremost objective to ensure the safety of principal. Investments of the District shall be undertaken in a manner that seek to ensure the preservation of capital in the overall portfolio. To attain this objective diversification is required in order to eliminate an over-concentration of assets in one institution, maturity or type of securities.
- (b) Liquidity. The District's investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated. The portfolio shall be constructed so that investment maturities are matched with forecasted cash flow requirements and limited by investments in securities with an active secondary market.
- (c) Yield. The District's investment portfolio shall be designed with the objective of attaining a rate of return which is consistent with risk limitations and cash flow characteristics of the District's investments.

Section 3.05. Investment of District Accounts.

Funds in the following District accounts shall be invested by the District Manager as follows:

- (a) Operating or General Accounts. Funds in these accounts shall be invested to meet the operating requirements of the District as determined by the annual operating budget prepared by the District Manager and adopted by the Board.
- (b) Construction or Capital Projects Accounts. Funds in these accounts shall be invested in accordance with any applicable orders of the Texas Water Commission and to meet the construction needs of the District as determined by the District's engineer. The engineer shall submit to the Board and the District Manager semi-annual written reports stating the anticipated construction needs of the District for the next twelve (12) months. Unless otherwise directed by the Board, the written report shall be submitted two (2) months prior to the end of the District's fiscal year and six (6) months thereafter.
- (c) Debt Service Accounts. Funds in these accounts shall be invested to meet the debt service requirements of the District and to comply with the District's bond resolutions or orders.

Section 3.06. Policy of Investments.

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 laws or regulations (including arbitrage provisions) 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 according to this policy. Any resolution or order adopted by the Board on investment policies or procedures shall be in writing and shall be made available to the public.

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 located within the State of Texas ("Texas financial institutions"), or, in federal treasury bills. The principal, plus accrued interest, invested in financial institutions according to this policy shall not exceed the FDIC insurance limits or exceed the collateral pledged as security for the District's investments.

C. It shall be the responsibility of the District's investment officer to invest and reinvest the District funds according to this policy to meet the District's needs and requirements. It shall be the policy of the District that funds shall not remain in any given investment for longer than two years. The Board, by separate resolution, may provide that the investment officer may withdraw or transfer funds from and to the District's accounts on such terms as the Board considers advisable, providing however, that nothing herein above provided shall authorize any transfer, expenditure, or appropriation of District funds, other than for the District's own account, unless by check or draft signed by a majority of the Board or as authorized by separate Board order or resolution.

D. Should total District funds exceed \$5,000,000.00, we hereby establish an investment committee, composed of the District's investment officer, the District's financial advisor, and at least one Director. The investment committee shall meet quarterly to monitor and review the investments and collateral of the District. The investment officer shall be the chairman of the committee. The committee shall report concerning the District's investments transaction for the preceding year describing the investment position of the District at the end of each fiscal year. The report shall be signed by the members of the committee. The committee also shall report to the Board on its review the month following each quarterly meeting.

Section 3.07. Security of District Funds.

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

B. To the extent District funds are not insured by the FDIC, there shall be pledged as collateral, to the extent of the 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 districts under the laws of the State of Texas, approved by the investment committee (collectively, the "collateral").

C. The investment committee shall review the fair market value of the collateral pledged to secure the District's funds on a quarterly basis to ensure that the District's funds are fully secured. The investment committee shall report to the Board on its review the month following each quarterly meeting.

D. There shall be no sharing or splitting of collateral with other parties or entities. The investment officer shall ensure that the custodian of the collateral shall be an independent third party Texas financial institution and that the collateral shall be pledged only to the District. The investment officer shall obtain safe-keeping receipts from the Texas financial institution.

ARTICLE IV
PROFESSIONAL SERVICES POLICY

Section 4.01. Purpose.

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 are not limited to, legal, engineering, management, bookkeeping, auditing, and tax collecting. Selection of such consultants shall be based upon their qualifications and experience.

Section 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 V
MANAGEMENT POLICY

Section 5.01. Purpose.

The Board desires to adopt a policy to ensure a 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.

Section 5.02. Accounting Records.

District accounting records shall be prepared on a timely basis and maintained in an orderly basis, in conformity with generally accepted accounting principles and the requirements of the State Auditor. Such records shall be available for public inspection during regular business hours at the District's office.

Section 5.03. Audit Requirements.

A. The District's fiscal accounts and records shall be audited annually in accordance with State law governing the audits of water control and improvement districts, at the expense of the District, by a certified public accountant or public accountant holding a permit from the Texas State Board of Public Accountancy familiar with the Texas Water Commission's rules, regulations, standards, and guidelines applicable to water district audits. The audit shall be performed in conformance with Texas Natural Resource Conservation Commission, Water District Accounting Manual (Publication RG-80) and Annual Audit Report Requirements for Texas water districts and authorities (Publication RG-81) which are attached as **Appendix "H"** and 30 Tex. Admin. Code § 293.94 which is attached as **Appendix "I,"** govern the audits of special districts (the "Audit Laws").

B. The audit shall be completed and filed within the time limits established by the Audit Laws. Copies of the district's annual audit report shall be filed with the Texas Water Commission, the Municipal Advisory Council of Texas, together with an annual filing affidavit in the form prescribed by Audit Laws, and any and all other local, state and regulatory authorities as may be required by law. In the event the Board refuses to approve the annual audit 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 annual financial report described in the Audit Laws.

D. If the District violates the Audit Laws, it may be subject to a civil penalty.

Section 5.04. Audit Committee.

The Board shall establish an audit committee comprised of at least three Directors and the District Manager, together with such persons as the Board may deem appropriate and such committee shall conduct, at a minimum, an annual review of the District's financial status. The audit committee shall monitor variances from the District's budget, and shall make recommendations thereon to the Board. The audit committee shall also review the annual District audit, and shall make recommendations thereon to the Board.

Section 5.05. Budget.

The District shall annually adopt a budget for use in planning and controlling District costs. Such budget shall take into consideration all District revenues, including, but not limited to, utility fees, standby fees, impact fees, maintenance taxes and surcharges, if any, and all projected District obligations and expenditures. The budget may be amended at any time.

ARTICLE VI **MISCELLANEOUS**

Section 6.01. Gender.

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

Section 6.02. Open Meeting.

The Board officially finds, determined, and declares that these Code of Ethics and Policies were reviewed, carefully considered, and adopted at the regular meeting of the Board beginning at 6:00 p.m. on November 15, 2007, and that a sufficient written notice of the date, hour, place, and subject of 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 Galveston County Courthouse for the time required by law preceding this meeting, as required by the Open

Meetings Law, Chapter 551, Texas Government Code and that this meeting had been open to the public as required by law at all times during which these Code of Ethics and Management Policies were discussed, considered and acted upon. The Board further ratifies, approves and confirms such written notice and the contents and posting thereof.

Adopted this 15th day of November, 2007.

Bolivar Peninsula Special Utility District

By: _____
President, Board of Directors

ATTEST:

Secretary, Board of Directors