

RIVER ACRES WATER SUPPLY CORPORATION
CONFLICT-OF-INTEREST POLICY

Adopted April 1, 1993

Definitions:

- "Immediate family" includes spouses, parents, children and their spouses, grandchildren and their spouses, stepparents, brothers and sisters and their spouses.
- As used in this policy, the term "developer" of property with the service area of the Corporation refers to any person who owns land located within an area served by the Corporation, or obligated to be served by the Corporation under a Certificate of Convenience and Necessity, and who has divided or purposes to divide the land into two or more parts for the purpose of laying out a subdivision, or any tract of land or any addition to any subdivision, or for laying out residential lots or commercial lots, or any lots intended for any uses which require, or may require, water service from the Corporation.

1. A person is disqualified from serving as a Director on the Board for the Corporation if that person:
 - a. Is a developer of property within the service area of the Corporation;
 - b. Is an employee of any developer of property within the service area of the Corporation;
 - c. Is an employee of any director, manager, engineer, or attorney for the Corporation;
 - d. Is serving as a consultant, engineer, attorney, manager, or in any other professional capacity for the Corporation or for a developer of property within the service area of the Corporation;
 - e. Is a party to a contract with the Corporation, except a contract for the purchase of water services furnished by the Corporation to the Corporation's members generally, or;
 - f. Is a party to a contract with any developer of property within the service area of the Corporation, other than a contract limited solely to the purpose of purchasing or conveying real property within the service area of the Corporation for the purpose of establishing a

residence or establishing a commercial business within the service area of the Corporation;

- g. Is serving as a decision-maker, managerial employee, or in some professional capacity representing a municipality, district, or utility which is currently contracting with the Corporation for water utility or other service or other conditions or considerations;
 - h. Is a member of the immediate family of any Director of the Corporation or of any other person serving in a managerial capacity, as attorney, accountant, or as engineer on behalf of the Corporation, or if that person serves as a director or as an officer for any bank or savings and loan association retained as a depository for the funds of the Corporation, or any bank or savings and loan association which holds any indebtedness of the Corporation.
2. A person is disqualified from employment by the Corporation if that person is a member of the immediate family of any Director of the Corporation or of any other person serving in a managerial capacity on behalf of the Corporation.
 3. Any relationship or employment which constitutes a disqualification as set forth herein shall be considered grounds for removal or for termination of employment.
 4. No officer or Director of the Corporation shall be entitled to any compensation for or in consideration of the execution of his duties as such Officer or Director, provided, however, that the actual, reasonable expenses of an Officer or Director incurred on the business of the Corporation may, with the approval of the Board of Directors, be paid to them.
 5. No Officer or Director of the Corporation shall:
 - a. Solicit or accept or agree to accept a financial benefit, other than from the Corporation, that might reasonably tend to influence his or her performance of duties for the Corporation or that person knows or should know is offered with the intent to influence the Officer's or Director's performance of duties;
 - b. Accept employment or compensation that might reasonably induce that person to disclose confidential information acquired in the performance of duties;
 - c. Accept outside employment or compensation that might reasonably be expected to create a substantial conflict between the Officer's and Director's private interest and the duties of the Corporation; or

- d. Solicit or accept or agree to accept a financial benefit from another person in exchange for having performed duties as an Officer or Director of the Corporation in favor of that person.
- 6. The Board of Directors may accept on behalf of the Corporation any contribution, gift, bequest, or devise for the general purpose or for any special purpose of the Corporation, provided, however, that the Board of Directors may reject any donation made upon a condition or restriction if in the discretion of the Board of Directors the acceptance of the donation as so conditioned or restricted will not be in the best interest of the Corporation.
- 7. The removal of any Director of the Corporation because of disqualification under this policy shall not affect the validity of any action taken by the Corporation through its Board of Directors during the time of service by that Director, even though the Director may have been acting under the disqualification at the time of such service.
- 8. If at any time any Officer or Director is required to vote in that person's capacity as a Director on an issue which may create a conflict of interest, which may be deemed a conflict of interest by the Board, or which may be interpreted by the membership as a conflict of interest, the Officer or Director shall abstain from voting, as a matter of record, on that issue.
- 9. Except as otherwise provided by the laws of the state or federal government, the Corporation shall adhere to the following policy for awarding contracts:
 - a. The Board shall advertise for bids for contracts for the purchase of materials, machinery, and all things to constitute the plant, works, facilities, and improvements of the Corporation or for construction.
 - b. A contract may cover all the improvements to be provided by the Corporation, or the various elements of the improvements may be segregated for the purpose of receiving bids and awarding contracts. A contract may provide that the improvements will be constructed in stages over a period of years.
 - c. A contract may provide for the payment of a total sum that is the completed cost of the improvement or may be based on bids to cover cost of units of the various elements entering into the work as estimated and approximately specified by the Corporation's engineers, or a contract may be let and awarded in any other form or composite of forms and to any responsible person or persons that, in the Board's

judgment, will be most advantageous to the Corporation and result in the best and most economical completion of the Corporation's proposed plants, improvements, facilities, works, equipment, and appliances.

- d. For contracts of \$25,000 or more, the Board shall advertise the letting of the contract, including the general conditions, time, and place of opening of sealed bids. The notice shall be published in one or more newspapers with general circulation in the state, and one or more newspapers published in each county in which part of the Corporation is located. If there are more than four counties in the Corporation's area, notice may be published in any newspaper with general circulation in the area. If no newspaper is published in the county or counties in which the Corporation is located, publication in one or more newspapers with general circulation in the state is sufficient. The notice shall be published once a week for three consecutive weeks before the date that the bids are opened, and the first publication shall be not later than the 21st day before the date of the opening of the sealed bids. Engineering specifications may be required at the Board's discretion.
- e. For contracts of \$15,000 or more but less than \$25,000, the Board shall solicit written competitive bids on uniform written specifications from at least three bidders. Engineering specifications may be required at the Board's discretion.
- f. For contracts of less than \$15,000, the Board is not required to advertise or seek competitive bids.
- g. The Board may not subdivide work to avoid the advertising requirements specified in this policy.
- h. The Board may not accept bids that include substituted items, either before or after the Corporation enters into a construction contract, unless the substituted items were included in the original bid proposal and all bidders had the opportunity to bid on the substituted items.
- i. Change orders to contracts may be issued only as a result of anticipated conditions encountered during construction or changes in regulatory criteria, or to facilitate project coordination with other political entities.
- j. The policy provisions do not apply to contracts for personal or professional services or for a utility service operator.

Statutory Provisions Relating of Conflict of Interest

Art. 1396-2.25. Loans to Directors Prohibited.

- A. No loans shall be made by a corporation to its directors.
- B. The directors of a corporation who vote for or assent to the making of a loan to a director of the corporation, and any officer or officers participating in the making of such loan, shall be jointly and severally liable to the corporation for the amount of such loan until repayment thereof.

Acts 1959, 56th Leg., p. 286, ch. 162, art. 2.25. Amended by Acts 1989, 71st Leg., ch. 1199, Sec. 3, eff. Aug. 28, 1989.

Art. 1396-2.26. Liability of Directors in Certain Cases.

A. In addition to any other liabilities imposed by law upon directors of a corporation, the directors who vote for or assent to any distribution of assets other than in payment of its debts, when the corporation is insolvent or when such distribution would render the corporation insolvent, or during the liquidation of the corporation without the payment and discharge of or making adequate provisions for all known debts, obligations and liabilities of the corporation, shall be jointly and severally liable to the corporation for the value of such assets which are thus distributed, to the extent that such debts, obligations and liabilities of the corporation are not thereafter paid and discharged.

B. A director of a corporation who is present at a meeting of its board of directors at which action was taken on such corporate matter shall be presumed to have assented to such action unless his dissent shall be entered in the minutes of the meeting or unless he shall file his 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 corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of the action.

C. A director shall not be liable under Section A of this Article if, in voting for or assenting to a distribution, the director:

(1) relied in good faith and with ordinary care on information, opinions, reports, or statements, including financial statements and other financial data, concerning the corporation or another person that were prepared or presented by:

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

(2) acting in good faith and with ordinary care, considered the assets of the corporation to be at least that of their book value; or

(3) in determining whether the corporation made adequate provision for payment, satisfaction, or discharge of all of its liabilities and obligations as provided in Article 6.03 of this Act, relied in good faith and with ordinary care on financial statements of, or other information concerning, a person who was or became contractually obligated to pay, satisfy, or discharge some or all of those liabilities or obligations.

D. A director shall not be liable under this Article if, in the exercise of ordinary care, he acted in good faith and in reliance upon the written opinion of an attorney for the corporation.

E. A director against whom a claim shall be asserted under this Article and who shall be held liable thereon shall be entitled to contribution from persons who accepted or received such distribution knowing such distribution to have been made in violation of this Article, in proportion to the amounts received by them respectively.

Acts 1959, 56th Leg., p. 286, ch. 162, art. 2.26. Amended by Acts 1993, 73rd Leg., ch. 733, Sec. 14, eff. Jan. 1, 1994.

Art. 1396-2.28. General Standards for Directors.

A. A director shall discharge the director's duties, including the director's duties as a member of a committee, in good faith, with ordinary care, and in a manner the director reasonably believes to be in the best interest of the corporation.

B. In the discharge of any duty imposed or power conferred on a director, including as a member of a committee, the director may in good faith rely on information, opinions, reports, or statements, including financial statements and other financial data, concerning the corporation or another person that were prepared or presented by:

- (1) one or more officers or employees of the corporation;
- (2) legal counsel, public accountants, or other persons as to matters the director reasonably believes are within the person's professional or expert competence;
- (3) a committee of the board of directors of which the director is not a member; or
- (4) in the case of religious corporations, religious authorities and ministers, priests, rabbis, or other persons whose position or duties in the religious organization the director believes justify reliance and confidence and whom the director believes to be reliable and competent in the matters presented.

C. A director is not relying in good faith, within the meaning of this article, if the director has knowledge concerning a matter in question that makes reliance otherwise permitted by this article unwarranted.

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D. A director is not liable to the corporation, any member, or any other person for any action taken or not taken as a director if the director acted in compliance with this article. A person seeking to establish liability of a director must prove that the director has not acted:

- (1) in good faith;
- (2) with ordinary care; and
- (3) in a manner the director reasonably believes to be in the best interest of the corporation.

E. A director is not deemed to have the duties of a trustee of a trust with respect to the corporation or with respect to any property held or administered by the corporation, including property that may be subject to restrictions imposed by the donor or transferor of the property.

Added by Acts 1993, 73rd Leg., ch. 733, Sec. 16, eff. Jan. 1, 1994.

Art. 1396-2.30. Interested Directors.

A. A contract or transaction between a corporation and one or more of its directors, officers, or members, or between a corporation and any other corporation, partnership, association, or other organization in which one or more of its directors, officers, or members are directors, officers, or members, or have a financial interest, is not void or voidable solely for that reason, solely because the director, officer, or member is present at or participates in the meeting of the board or committee of the board or of the members that authorizes the contract or transaction, or solely because the director's, officer's, or member's votes are counted for that purpose, if:

(1) the material facts as to the relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors, the committee, or the members, and the board, committee, or members in good faith and with ordinary care authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors or members, even though the disinterested directors or members are less than a quorum;

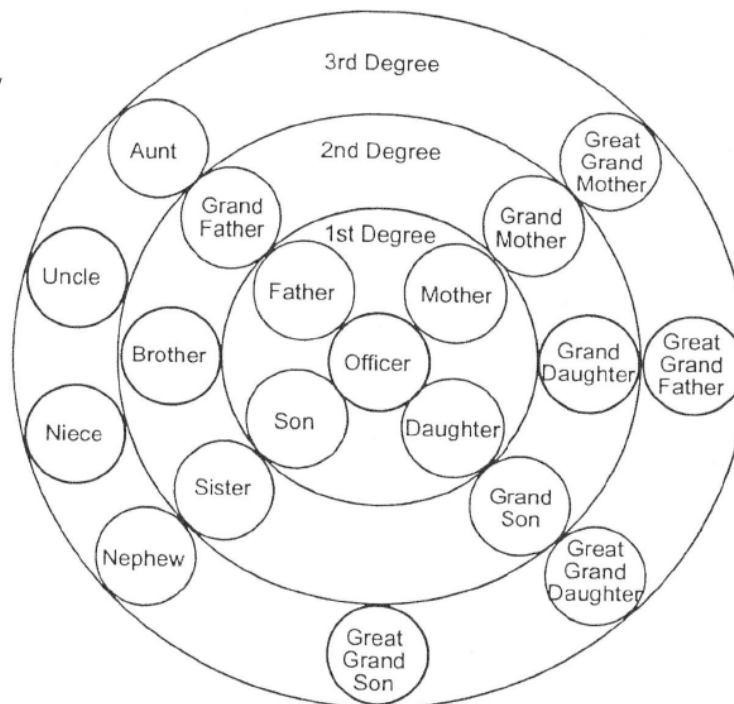
(2) the material facts as to the relationship or interest and as to the contract or transaction are disclosed or are known to the members entitled to vote on the contract or transaction, and the contract or transaction is specifically approved in good faith and with ordinary care by vote of the disinterested members; or

(3) the contract or transaction is fair to the corporation when it is authorized, approved, or ratified by the board of directors, a committee of the board, or the members.

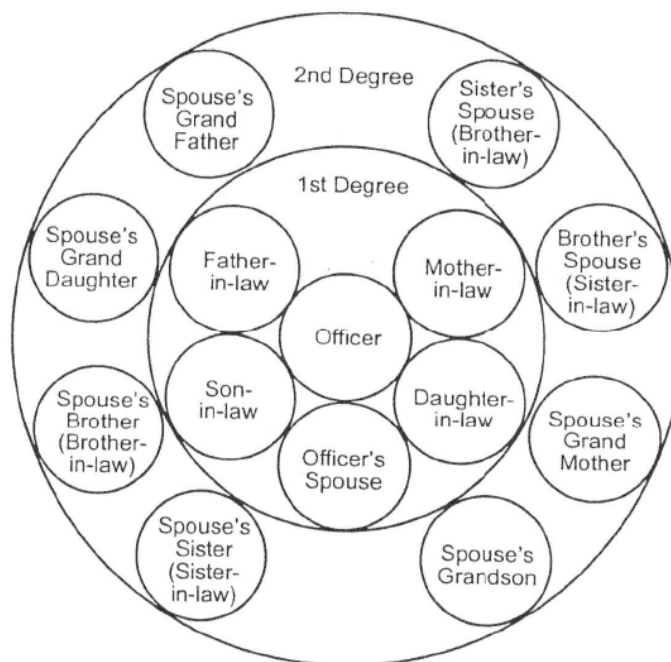
B. Common or interested directors or members may be counted in determining the presence of a quorum at a meeting of the board of directors, of a committee, or of the members that authorizes the contract or transaction.

Added by Acts 1993, 73rd Leg., ch. 733, Sec. 16, eff. Jan. 1, 1994.

Consanguinity
Kinship Chart
(Blood)

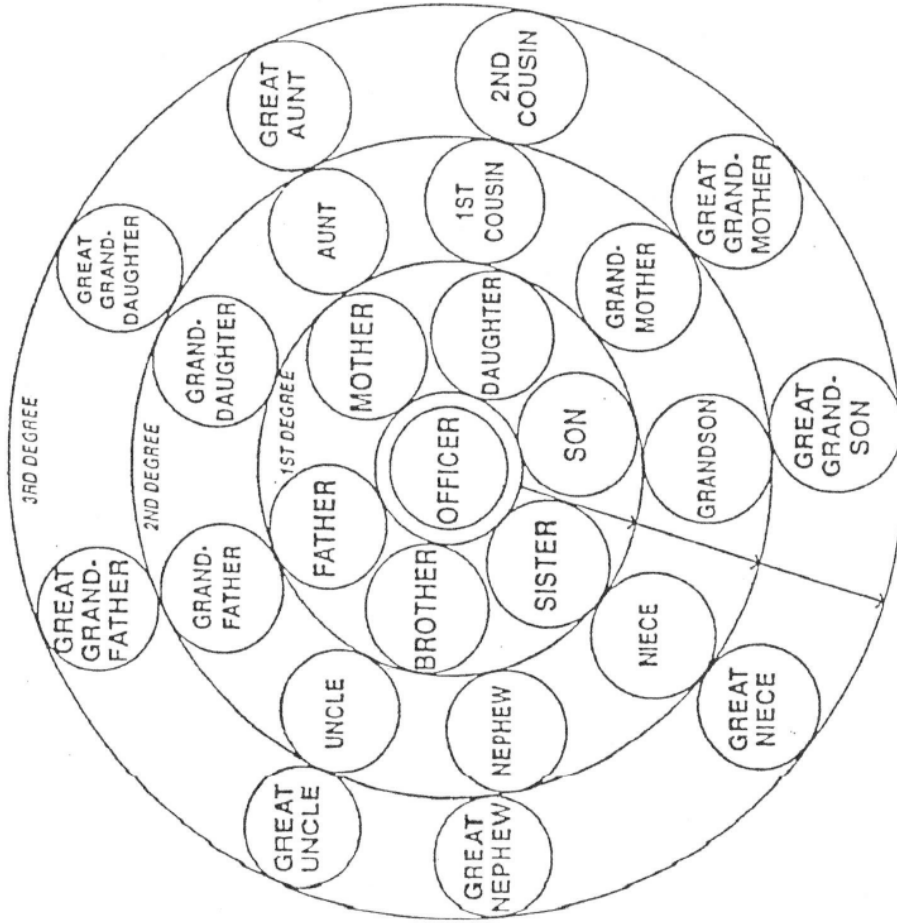


Affinity
Kinship Chart
(Marriage)

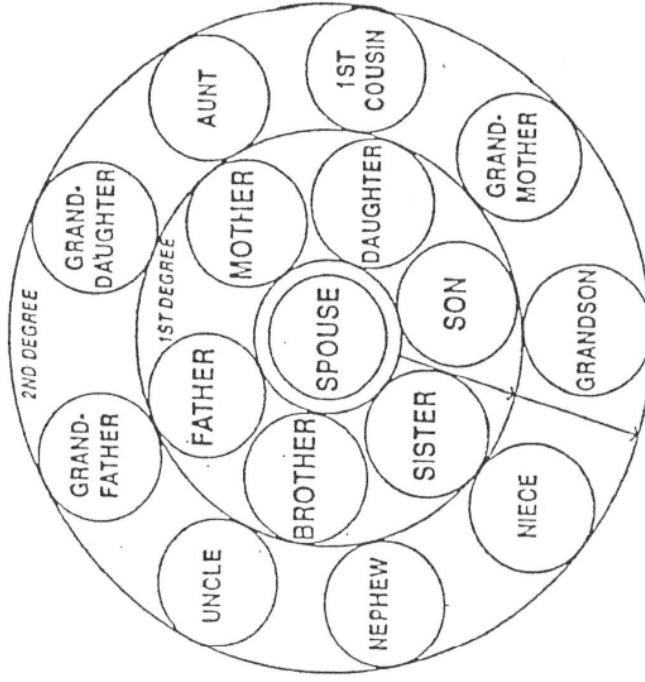


Source: Secretary of State's Office

TEXAS NEOTISM, 1989



CONSANGUINITY KINSHIP CHART
(Blood)



AFFINITY KINSHIP CHART
(Marriage)