

BYLAWS
OF THE SOUTHERN TRINITY
GROUNDWATER CONSERVATION DISTRICT
(includes bylaws adopted through August 29, 2013)

TABLE OF CONTENTS

ARTICLE I	DEFINITIONS	1
1.01	Definitions.....	1
ARTICLE II	DIRECTORS AND OFFICERS.....	2
2.01	Board of Directors.....	2
2.03	Notice of Appointment; Sworn Statement; Oath of Office; Bond.....	2
2.05	Officers; Election of Officers; Terms of Office.....	3
2.07	Fees of Office.....	3
2.09	Ex Parte Communications.....	3
2.11	Board Vacancies	3
ARTICLE III	DUTIES OF OFFICERS.....	5
3.01	President.....	5
3.03	Vice President	5
3.05	Secretary	5
3.07	Treasurer	5
ARTICLE IV	MANAGEMENT OF THE DISTRICT.....	6
4.01	Management of the District	6
4.03	Legal Consultant Services.....	6
4.05	Guidelines for Selecting and Managing Auditor Consultants	6
4.07	Consultant Services.....	6
4.09	Bond Required	7
4.11	Annual Report.....	7
4.13	Minutes and Records of the District	7
4.15	General Manager and Employees	8
ARTICLE V	MEETINGS OF THE BOARD	9
5.01	Meetings.....	9
5.03	Notice of Meetings.....	9
5.05	Agenda of Meeting	9
5.07	Quorum	10
5.09	Voting	10
5.11	Conduct of Meetings.....	10
5.13	Public Participation at Board Meetings	10
5.15	Board Action.....	10
5.17	Minutes	10
ARTICLE VI	FISCAL POLICY	12
6.01	Fiscal Year	12
6.03	Annual Budget	12
6.05	Contracts; Instruments; Documents	12
6.07	Loans.....	13
6.09	Checks, Drafts, etc.	13
6.11	Depositories	13

6.13	Annual Audit.....	13
ARTICLE VII	INVESTMENT POLICY AND INVESTMENT STRATEGY STATEMENT	14
7.01	Introduction.....	14
7.03	Objectives	14
7.05	Investment Strategy	14
7.07	Investment Officer	15
7.09	Authorized Investment Securities.....	16
7.11	Safekeeping and Custodial Agreements	16
7.13	Payment for Investment.....	17
7.15	Investment Reporting.....	17
7.17	Investment Training.....	17
ARTICLE VIII	PURCHASING AND CONTRACTING	19
8.01	Purchasing.....	19
8.03	Procurement Responsibilities and Authorization.....	19
ARTICLE IX	COMMITTEES	20
9.01	Board Committees	20
9.03	Notice of Committee Meetings.....	20
9.05	Financial/Audit Committee.....	20
ARTICLE X	CODE OF ETHICS	21
10.01	Statement of Policy	21
10.03	Purpose.....	21
10.05	Qualification of Directors	21
10.07	Conflict Of Interest	21
10.09	Nepotism	22
10.11	Standards of Conduct.....	22
10.13	Use of District Property	22
ARTICLE XI	REIMBURSEMENT OF DIRECTORS.....	23
11.01	Transportation.....	23
11.03	Meals.....	24
11.05	Lodging.....	24
11.07	Other Expenses; Memberships; District Publications; Reimbursement for Personal Expenses Prohibited.....	24
11.09	Board Discretion	24
ARTICLE XII	GENERAL PROVISIONS.....	25
12.01	Effect of Bylaws	25
12.03	Amendment of Bylaws	25
12.05	Severability	25
12.07	Seal.....	25

ARTICLE I

DEFINITIONS

1.01 Definitions

(a) The “Act” is the enabling legislation for the McLennan County Groundwater Conservation District, SPECIAL DISTRICT LOCAL LAWS CODE Chapter 8821, as may be amended.

(b) The “District” is the Southern Trinity County Groundwater Conservation District.

(c) The “board” is the board of directors of the District.

(d) A “director” is a person appointed to the office of director of the District pursuant to the Act. Unless otherwise indicated, “director” includes temporary directors and initial directors.

(e) The “administrative office” of the District is currently located at 420 N. 6th Street, Waco, Texas 76701. Such address and office may be changed from time to time by the board.

(f) The “Open Meetings Act” is Chapter 551 of the Texas Government Code, as amended.

(g) The “Public Information Act” is Chapter 552 of the Texas Government Code, as amended.

(h) As provided by Section 36.053, Texas Water Code, a “quorum” with respect to meetings of the board means the presence of three (3) or more directors at a duly called meeting of the board.

(i) A “vacancy” on the board occurs when the person appointed to the board or elected as an officer fails to take office as soon as practicable after being elected or appointed, or resigns or abandons the office, or under other circumstances where the position becomes vacant in accordance with Texas law.

ARTICLE II

DIRECTORS AND OFFICERS

2.01 Board of Directors

(a) The board of directors is the governing body of the District and is responsible for all affairs of the District. The board's rights, powers, duties, and responsibilities are provided in the Act and Chapter 36 of the Texas Water Code. The board is composed of five directors, appointed according to the provisions of the Act.

(b) The temporary directors, whose terms began on July 26, 2007, are the initial directors.

(c) The initial directors representing McLennan County Commissioner Precincts 2 and 4 shall each serve a term expiring on December 31, 2011, or until appointment as permanent directors. The initial directors representing McLennan County Commissioner Precincts 1 and 3 and the at-large director shall each serve a term expiring on December 31, 2013, or until appointment as permanent directors.

(d) The directors serving after the initial directors shall be referred to simply as "directors." The directors will each serve four-year terms expiring December 31 of an even-numbered year, except for the directors first appointed to be permanent directors for Precincts 2 and 4, who shall serve until the end of 2014.

2.03 Notice of Appointment; Sworn Statement; Oath of Office; Bond

(a) Within 30 days after the appointment of any director, the District shall notify the Executive Director of the Texas Commission on Environmental Quality of the name and mailing address of the director chosen and the date the director's term of office expires. The Executive Director shall provide forms to the district for such purposes.

(b) As soon as practicable after a director is appointed, that director shall make the sworn statement prescribed for public officers in Section 1, Article XVI, of the Texas Constitution.

(c) As soon as practicable after a director has made the sworn statement, and before beginning to perform the duties of office, the director shall take the oath of office prescribed for public officers in Section I, Article XVI of the Texas Constitution.

(d) Before beginning to perform the duties of office, each director shall execute a bond for \$10,000 payable to the District and conditioned on the faithful performance of that director's duties. All bonds of the directors shall be approved by the board and paid for by the District.

(e) The sworn statement, oath, and bond shall be filed with the District and retained in its records. A duplicate of the original oath shall also be filed with the Texas Secretary of State within 10 days after its execution, but need not be filed before the new director begins to

perform the duties of office.

2.05 Officers; Election of Officers; Terms of Office

At the regular board meeting in December of every odd-numbered year, the following officers shall be elected by the board: President, Vice President, Secretary, and Treasurer. Officers shall serve two-year terms commencing on January 1st of the year following the date of the board meeting at which the officer election occurred and continuing until December 31st of the following year or until their successors have been elected.

2.07 Fees of Office

Pursuant to Section 36.060(a) of the Texas Water Code, each director of the District may receive fees of office of not more than \$150 a day for each day the director spends performing the duties of a director, not to exceed \$9,000 a year. However, the directors of the District hereby waive their right to these fees of office. Accordingly, the directors of the District shall receive no fees of office for each day that they spend performing the duties of a director. The directors shall, on the other hand, be entitled to reimbursement of actual expenses reasonably and necessarily incurred while engaging in activities on behalf of the District. The process for obtaining such reimbursement is set forth in Article XI of these Bylaws.

2.09 Ex Parte Communications

A board member may not communicate ex parte with another member of the board if such communication would violate state law.

2.11 Board Vacancies

(a) The filling of vacancies of directors on the board is within the jurisdiction of the McLennan County Commissioners Court. If a director's position becomes vacant, the McLennan County Commissioners Court shall appoint a qualified person to serve for the unexpired portion of the term.

(b) The board will fill vacancies for directors in accordance with the following procedure:

(1) The board shall accept a duly-filed written notice of resignation from a director at its next regularly scheduled meeting and declare a director vacancy by majority vote of the quorum. For all other resignations, the declaration of vacancy shall be made by the board at the meeting at which the general manager or the President of the board presents facts to the board reasonably supporting a declaration of vacancy.

(2) After a declaration of vacancy by the board, the general manager or the President of the board will correspond with the McLennan County Commissioners Court and request a new appointment to fill the unexpired portion of the term. This request will be renewed each 30 days until a new director is appointed and has fully performed all acts required by law to

be duly qualified to be seated as a member of the board.

(c) The board shall accept a duly-filed written notice of resignation from an officer from his or her position as an officer at its next regularly scheduled meeting and elect a new director to fill the unexpired portion of the officer's term.

ARTICLE III

DUTIES OF OFFICERS

3.01 President

The President shall preside at all meetings of the board. The President is the chief executive officer of the District and shall execute contracts, obligations, undertakings, conveyances and other instruments on behalf of the board when so authorized and when directed by the board. The President may appoint committees of the board, and shall exercise such other powers and duties as may from time to time be prescribed by action of the board. The President may appoint a Parliamentarian from among the directors, who shall serve at the pleasure of the President. The board may, by resolution, authorize the District's General Manager or other employee to execute documents on behalf of the District.

3.03 Vice President

The Vice President will perform the duties of the President if the President becomes incapacitated or otherwise unable or unavailable. The Vice President will perform such other duties and exercise such other authority and powers as the board may from time to time prescribe, or as the President may from time to time delegate.

3.05 Secretary

The Secretary shall attest to the President's signature on all contracts, obligations, undertakings, conveyances and other instruments, including the minutes of meetings of the board, after such instruments have been approved by the board, and shall perform such other duties as may be prescribed by the board. The Secretary is also responsible for seeing that all records and books of the District are properly kept.

3.07 Treasurer

The Treasurer shall be responsible for submitting a proposed budget to the board. The Treasurer shall be responsible for reporting financial and administrative matters to the board. The Treasurer shall also serve as the District's Investment Officer.

ARTICLE IV

MANAGEMENT OF THE DISTRICT

4.01 Management of the District

(a) The board shall be responsible for overseeing the affairs of the District. The District shall employ or contract with all persons, firms, partnerships, corporations, or other entities, public or private, deemed necessary by the board for the conduct of the affairs of the District, including, but not limited to, engineers, attorneys, financial advisors, operators, bookkeepers, tax assessors and collectors, auditors, and administrative staff.

(b) The board shall have the right to purchase all materials, supplies, equipment, vehicles, and machinery needed by the District to perform its purposes.

4.03 Legal Consultant Services

(a) The board shall hire all legal consultants for the District. It is the policy of the board not to engage the services of any attorney or firm which has a conflict of interest with the District. The selected individual/firm shall serve at the pleasure of the board and shall agree to conduct all activities in accordance with the guidelines established in this policy. Legal consultants shall only perform work which has been authorized by one or more members of the board, or the District's General Manager.

(b) With regard to matters discussed in closed session, materials distributed to directors labeled "Privileged and Confidential Communication between Attorney and Client" or similar verbiage will be collected at the end of the closed session to preserve the confidential nature of the material and to protect the interests of the District.

4.05 Guidelines for Selecting and Managing Auditor Consultants

The board will set the compensation and terms for auditor consultants. The scope of auditor consulting services and the compensation to be paid will be specified by written contract. It is the policy of the board not to engage the services of any individual or firm that has a conflict of interest with the District. The selected individual/firm serves at the pleasure of the board and must agree to conduct all activities in accordance with these guidelines. The auditor consultants will only perform work that has been expressly authorized by the board.

4.07 Consultant Services

The board shall set the compensation and terms for consultants. In selecting, attorneys, engineers, auditors, financial advisors, or other listed professional consultants, the District shall comply with the Professional Services Procurement Act, Chapter 2254, Subchapter A, Texas Government Code. The scope of consulting services and the compensation to be paid therefore shall be specified by written contract.

4.09 Bond Required

The board shall require any officer, employee, or consultant who collects, pays, or handles any funds of the District to furnish good and sufficient bond, payable to the District, in an amount determined by the board to be sufficient to safeguard the District. The bond shall be conditioned on the faithful performance of that person's duties and on accounting for all funds and property of the District. Such bond shall be signed or endorsed by a surety company authorized to do business in the state. The board shall pay the premium on surety bonds required of officials, employees, or consultants of the District out of any available funds of the District.

4.11 Annual Report

(a) Following each calendar year, the General Manager shall report to the board on the status of the District and its programs. The report shall include at least the following:

(1) the status of the groundwater in the District and the District's programs to protect and conserve same;

(2) a report on the annual review of investments and District management of investments performed by the Financial/Audit Committee;

(3) a review and evaluation of professional services rendered to the District during the year;

(4) a report on the status of any capital projects of the District; and

(5) an evaluation of the District's performance in light of long-range plans developed pursuant to Section 36.1071 of the Texas Water Code.

4.13 Minutes and Records of the District

(a) The board shall keep a complete account of all its meetings and proceedings and shall preserve its minutes, contracts, records, notices, accounts, receipts, and other records in a safe place.

(b) The records of the District are the property of the District and are subject to the Public Information Act. Persons who are furnished copies of District records pursuant to the Public Information Act may be assessed a copying charge, pursuant to policies established by the board or General Manager.

(c) The preservation, storage, destruction, or other disposition of the records of the District is subject to the requirements of Chapter 201, Local Government Code, and rules adopted thereunder.

4.15 General Manager and Employees

The Board may employ a General Manager and set his or her salary. The Board may delegate any of its powers and duties (except those of adopting rules, a dissolution resolution, a dissolution order, and those orders or resolutions relating to hearings, taxation, and bonds) to the General Manager who shall carry out the powers and duties delegated to him or her by the Board. The General Manager, with the approval of the Board, may hire employees of the District and set their salaries. The General Manager may delegate his or her administrative duties as may be necessary to effectively and expeditiously accomplish his or her duties, provided however, that no such delegation shall ever relieve the General Manager of his or her responsibilities under the District Rules and Bylaws or board orders.

ARTICLE V

MEETINGS OF THE BOARD

5.01 Meetings

Regular meetings of the board shall be held at such time and at such public locations as determined by the board. Regular meetings shall be held at least quarterly. Special meetings of the board may be called by the President or by the joint action of at least three directors. Special meetings must be called at such times and at such locations as are convenient to the directors. From time to time and as may be necessary, the board may hold work sessions to discuss and evaluate issues in such detail as to require open and free discussion not normally possible in regular board meetings. During work sessions of the board, no public comment will be heard, unless specifically requested by a director and recognized by the board President. Public comment may be made at the time the item(s) is up for discussion at a regular or special board meeting. All board meetings shall be held in accordance with the Open Meetings Act.

5.03 Notice of Meetings

Written notice of all regular meetings, special meetings, and board work sessions, stating the place, day and hour of the meeting and the agenda therefor will be transmitted to each director no less than 72 hours prior to the meeting.

5.05 Agenda of Meeting

(a) Notices of meetings will contain an agenda stating the matters to be considered or acted upon at such meetings, and matters not stated in the agenda or properly added to the agenda shall not be deliberated or acted upon.

(b) The agenda will be set by the President, with input from other board members. Items may be added to the agenda upon the written request of any two directors if the request is received by the Secretary within a reasonable time prior to posting of the meeting notice.

(c) Items the President determines require action by the board, but which do not normally require briefing by the staff or public discussion, may be placed on a "consent agenda."

(1) Any board member shall have the right to remove an item from the consent agenda during consideration of the consent agenda.

(2) All items removed from the consent agenda shall be considered individually in the order in which they were removed, immediately following consideration of the consent agenda.

(3) The consent agenda shall be introduced by a motion to approve the consent agenda.

(4) Approval of a motion to approve the consent agenda shall be equivalent to approving each item as if it had been acted on individually.

5.07 Quorum

If a quorum of the board is not present at a meeting, the directors present may postpone or recess the meeting for a reasonable time until a quorum is present. At the reconvened meeting when a quorum is present, any business may be transacted which may have been transacted had a quorum been present at the initial convening of the meeting.

5.09 Voting

An act of the board is not valid unless adopted by the affirmative vote of a majority of the entire membership of the board. There shall be no voting by proxy.

5.11 Conduct of Meetings

(a) Meetings of the board shall be presided over by the President, or in the President's absence, the Vice President, or in the absence of both the President and the Vice President, the Secretary.

(b) To the extent necessary for the orderly conduct of proceedings, the guidelines of *Parliamentary Procedure at a Glance*, by O. Garfield Jones (1971 revised edition or as amended), may be followed. The directors may also, to the extent permitted by applicable law, suspend by a majority vote any such guidelines.

5.13 Public Participation at Board Meetings

The board is not required to allow public comment at a board meeting, although it shall be the board's general practice to do so. The board may set reasonable limits on the number, frequency, and length of presentations before it, but shall not unfairly discriminate among speakers based on their point of view. Members of the public who wish to provide public comments shall provide the following information to the board at the beginning of the board meeting: name, address, telephone number, county of residence, and agenda item to be addressed, if any. A registration form shall be provided for this purpose. Members of the public who wish to provide general public comment, rather than address a particular agenda item, shall so indicate on the registration form. At the board's discretion, it may seek public comment or ask questions of any member of the public in attendance.

5.15 Board Action

Unless otherwise required by law or these Bylaws, the board may act by motion or by resolution and order adopted by the board.

5.17 Minutes

Actions taken in meetings will be incorporated in written minutes taken by the Secretary or Assistant to the Secretary, and signed by the Secretary or the President. A copy of the minutes will be sent with the agenda and submitted for approval to the members of the board at the next

meeting of the board. The Secretary is responsible for the meeting minutes.

ARTICLE VI

FISCAL POLICY

6.01 Fiscal Year

The fiscal year of the District shall commence on the first day of October.

6.03 Annual Budget

(a) Prior to the commencement of each fiscal year, the board shall prepare and approve an annual budget.

(b) The budget shall contain a complete financial statement, including a statement of:

- (1) the outstanding obligations of the District;
- (2) the amount of cash on hand to the credit of each fund of the District;
- (3) the amount of money received by the District from all sources during the previous year;
- (4) the amount of money available to the District from all sources during the ensuing year;
- (5) balance expected at the end of the year in which the budget is being prepared;
- (6) the estimated amount of revenues and year-end balance available to cover the proposed budget; and
- (7) the estimated tax rate or fee revenues that will be required.

(c) The annual budget may be amended after its adoption on the board's approval at any meeting of the board.

(d) The Treasurer shall have full authority, without further authorization of the board, to expend funds of the District in amounts up to, but not exceeding, the amounts specifically allocated for such purposes in the annual budget, except as otherwise provided in these Bylaws.

6.05 Contracts; Instruments; Documents

The board may authorize the President or the General Manager to enter into any contract or to execute and deliver any instrument or document in the name of and on behalf of the District, and such authority may be general or confined to specific instances. All contracts shall be executed by either the President or the General Manager, attested to by the Secretary, and, if deemed necessary by the board, approved by the District's legal counsel. Any contract not so executed is void and of no effect.

6.07 Loans

No loan shall be contracted on behalf of the District and no evidence of indebtedness shall be issued in its name unless authorized by resolution of the board, executed by the President, and attested to by the Secretary.

6.09 Checks, Drafts, etc.

All checks, drafts, notes, or other orders for the payment of money issued in the name of the District shall be signed by at least two directors unless the board has authorized by resolution certain officers or employees of the District to so sign.

6.11 Depositories

All funds of the District, except petty cash, shall be deposited from time to time to the credit of the District in such banks or accounts as the board may designate and upon such terms and conditions as shall be fixed by the board, unless otherwise required by order or resolution authorizing the issuance of the District's bonds or notes. The board may, from time to time, authorize the opening and maintaining of general and special accounts within any such depository as it may designate, and may make such special rules and regulations with respect thereto as it may deem expedient. Funds in the depository bank or banks must be insured by the Federal Deposit Insurance Corporation or they shall be secured as provided by the Public Funds Collateral Act, Chapter 2257, Texas Government Code. The depository shall be located within McLennan County unless the board determines that a suitable depository cannot be found within the County.

6.13 Annual Audit

The board within one hundred and twenty (120) days after the end of each fiscal year shall have an audit of its affairs prepared by an independent certified public accountant. This audit shall be available for public inspection. Such auditors shall have no personal interest directly or indirectly in the fiscal affairs of the District and shall be experienced and qualified in the accounting and auditing of public bodies. The audit shall be performed in accordance with generally accepted auditing standards and shall satisfy all requirements imposed by Chapter 36, Texas Water Code. The District's auditors may undertake consulting services for the District in addition to their duties in connection with the annual audit.

ARTICLE VII INVESTMENT POLICY AND INVESTMENT STRATEGY STATEMENT

7.01 Introduction

The District has developed this policy to satisfy the statutory requirements of Section 36.156, Texas Water Code and the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code and the Public Funds Collateral Act, Chapter 2257, Texas Government Code, requiring local governments to define and adopt a formal written investment policy and written investment strategies for each fund under its control.

(a) It is the policy of the board that all available funds are to be invested to the maximum extent possible at the highest possible rates obtainable at the time of the investment in conformance with the legal and administrative guidelines outlined herein for each of the District's funds.

(b) The board shall review its investment policy and investment strategies not less than annually and adopt a written resolution memorializing the review and recording any changes made to the policies and strategies. In conjunction with its annual financial audit, the District shall also perform a compliance audit of management controls on investments and adherence to this policy.

7.03 Objectives

The District recognizes that an effective investment policy is an essential element of sound fiscal management. To achieve this goal, the District states that its primary investment objectives, in the order of priority, are the preservation and safety of the principal, liquidity, investment diversification, reasonable yield, appropriate maturity dates, and the enhanced quality and capability of investment management.

(a) The board and staff shall strive to ensure the preservation of principal in each investment transaction, achieve and maintain liquidity by matching investment maturities with forecasted cash flow requirements, and maximize return on the District's investment portfolio through sound investment management.

7.05 Investment Strategy

For all investments, the District will stagger maturity dates in accordance with cash flow expectations and analysis to meet liquidity and operation requirements.

(a) General Fund:

The General Fund provides monies for the basic operating functions of the District and accounts for all financial resources for which a separate fund has not been established. Investment revenue from this fund shall supplement existing revenues. On General Fund investments, the District will limit the investment to the short term (one year or less). Long term

(one year or more) investments are not appropriate to the District's objectives because of their inability to supplement the current year's operations.

(b) From time to time, additional funds may be created by the District for specific District needs.

7.07 Investment Officer

(a) The board designates the Treasurer as the District's Investment Officer. The board delegates to the Investment Officer of the District the authority and responsibility to manage the District's investment program subject to all applicable laws, the District's written investment policy, including all amendments, and directions, policies and resolutions adopted by the board.

(1) It is understood that implicit in this grant of authority is authorization for the Investment Officer to make further delegations of investment duties as are appropriate and necessary to satisfy the District's and Investment Officer's investment responsibilities.

(2) The Investment Officer shall carry out his or her duties exercising the judgment and care that persons of prudence, discretion, and intelligence would exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

(3) The District retains ultimate responsibility as a fiduciary of the District's assets. The Investment Officer, and his/her designees, acting in accordance with this policy and written strategies, and exercising due diligence shall be relieved of personal responsibility and liability in the management of the portfolio, provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse market effects.

(4) The Investment Officer, if he/she has a personal business relationship with an entity seeking to engage in an investment transaction with the District, shall file a statement disclosing that personal business relationship with the Texas Ethics Commission and the board of the District. A personal business relationship will exist if:

(A) the Investment Officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;

(B) funds received by the Investment Officer from the business organization exceed 10 percent of the Investment Officer's gross income for the previous year; or

(C) the Investment Officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the Investment Officer.

(5) The Investment Officer, if he/she is related to an individual seeking to sell

an investment to the District within the second degree of affinity or consanguinity as determined under Chapter 573 of the Texas Government Code, shall file a statement disclosing the relationship with the Texas Ethics Commission and the board.

7.09 Authorized Investment Securities

The District may invest in investments as authorized by the Public Funds Investment Act, Texas Government Code, Chapter 2256.

7.11 Safekeeping and Custodial Agreements

The District may contract with a bank or banks for the safekeeping of securities either owned by the District as part of its investment portfolio, or held as collateral to secure demand or time deposits. Securities owned by the District shall be held in the District's name as evidenced by safekeeping receipts of the institution holding the securities.

Collateral for deposits will be held by a third party custodian designated by the District and pledged to the District as evidenced by safekeeping receipts of the institution with which the collateral is deposited. Original safekeeping receipts shall be obtained. Collateral may be held by the depository bank's trust department, a Federal Reserve Bank or branch of a Federal Reserve Bank, a Federal Home Loan Bank, or a third party bank approved by the District.

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the District to require full collateralization of all District funds on deposit with a depository bank increased by the amount of any interest accrued, less any amount insured by the Federal Deposit Insurance Corporation or any successor organization. At its discretion, the District reserves the right to accept or reject any specific pledged security as collateral, or to require a higher level of collateralization for certain pledged securities.

Securities pledged as collateral shall be held by an independent third party with whom the District has a current custodial agreement. The Investment Officer is responsible for entering into collateralization agreements with third party custodians in compliance with this policy. The agreements are to specify the acceptable securities for collateral, including provisions relating to possession of the collateral, the substitution or release of pledged securities, ownership of securities, and the method of valuation of securities. Clearly marked evidence of ownership (safekeeping receipt) must be supplied to the District and retained. Collateral shall be reviewed by the custodian at least monthly to assure that the market value of the pledged securities is adequate. The result of such valuations shall be reported to the District's Finance/Administrative Committee at least semi-annually.

The District shall accept only the following types of collateral:

- (a) Obligations of the United States or its agencies and instrumentalities;
- (b) Direct obligations of the State of Texas or its agencies and instrumentalities;

(c) Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;

(d) Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm as not less than “A” or its equivalent with a remaining maturity of ten (10) years or less;

(e) A surety bond issued by an insurance company rated as to investment quality by a nationally recognized rating firm as not less than “A”; and

(f) A letter of credit issued to the District by the Federal Home Loan Bank.

All collateral shall be subject to inspection and audit by the Investment Officer or the District’s independent auditors.

Banking institutions serving as depositories will be required to sign a depository contract with the District. The collateralized deposit portion of the contract shall define the District’s rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with federal and state regulations. Additionally, the contract must be approved by the board of directors or designated committee of the depository and a copy of the meeting minutes or adopted resolution must be delivered to the District.

7.13 Payment for Investment

Payment shall be made by the District for investments authorized by this policy upon delivery thereof to the District or to a custodial bank, or in the case of a book-entry transactions shall be done on a delivery versus payment basis and shall be credited to the custodial bank’s Federal Reserve System account held in favor of the District. All transactions shall be confirmed in writing to the District.

7.15 Investment Reporting

The Investment Officer shall provide, at least quarterly, reports to the board regarding investment transactions during the reporting period. The report must comply with Texas Government Code, Chapter 2256.

7.17 Investment Training

Not later than the first anniversary of the date the investment officer takes office or assumes the officer’s duties, the investment officer shall attend a training session of at least six hours of instruction relating to investment responsibilities under the Public Funds Investment Act, and attend at least four hours of additional investment training within each two-year period after the first year. Training must be from an independent source approved by the board, and shall include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Public Funds Investment Act.

ARTICLE VIII Purchasing and Contracting

8.01 Purchasing

(a) Expenditures to acquire goods or services valued at greater than \$5,000 require approval by the board in advance, unless an emergency acquisition requiring an expenditure greater than \$5,000 shall be presented to the board for approval and validation at its next meeting. Acquisitions valued at less than \$5,000 may be made by the President or Treasurer without prior board approval, if within budget constraints.

(b) No expenditures may be made that are not authorized by the budget. This requirement shall not, however, prevent the board from amending the budget at the same time that it authorizes an expenditure, provided that funds are available in other budget categories or that reserve funds are available.

8.03 Procurement Responsibilities and Authorization

(a) The District shall secure the highest quality goods and services for the funds available. The District shall award contracts to responsible vendors, suppliers, and contractors that, in the judgment of District, will promote the mission and goals of the District, and result in the best and most economical completion of the District's proposed plants, improvements, facilities, works, equipment and appliances.

(b) All goods and services obtained from a third party by purchase, lease, or rental agreement requiring a single expenditure of more than \$25,000 shall be procured by competitive sealed bids, proposals or other applicable competitive procedure, except those specific goods and services explicitly characterized as exempt from competitive bidding.

(c) Goods and services that do not meet the \$25,000 threshold need not be subject to competitive bidding, but will be procured in accordance with sound business practices, and in a manner that will promote and advance the mission and goals of the District.

ARTICLE IX

COMMITTEES

9.01 Board Committees

The President may appoint members of the board to serve on advisory committees to consider and make recommendations to the full board concerning the policies and activities of the District.

9.03 Notice of Committee Meetings

(a) Committee meetings may be called at any time by the Chair of the committee.

(b) The Chair of the committee will notify all members of a committee by mail, telephone, electronic mail or facsimile stating the place, date, time, and agenda of the meeting no less than 72 hours prior to the meeting.

(c) Notices of committee meetings will contain an agenda stating the matters to be considered at such meetings. The agenda will be set by the Chair of the committee in consultation with the General Manager.

9.05 Financial/Audit Committee

The Financial/Audit Committee shall be established as a committee of the board and shall be comprised of the Treasurer and at least one other director. The Treasurer shall serve as the Chair of the committee. The committee shall recommend the selection of an auditor to perform the annual audit, monitor the completion of the audit, and, if applicable, recommend to the board specific actions needed to address recommendations or concerns raised by the auditor in the audit report. The committee shall also review annually the District's investment policies and investment strategies and perform a compliance audit of management controls on investments.

ARTICLE X

Code of Ethics

10.01 Statement of Policy

It is the policy of the District that all directors conduct themselves in a manner consistent with sound business and ethical practices, in compliance with applicable laws, and in a manner that excludes considerations of personal advantage; that the public interest always be considered in conducting District business; that the appearance of impropriety be avoided to ensure and maintain public confidence in the District; and that the board control and manage the affairs of the District fairly, impartially, without discrimination, and in accordance with the stated purpose of the District.

10.03 Purpose

The purpose of this Code of Ethics (“Code”) is:

- (a) to ensure a high level of public confidence;
- (b) to establish guidelines for ethical standards of conduct for all directors as public servants;
- (c) to encourage high ethical standards in official conduct by the officials of the District;
- (d) to establish guidelines for such ethical standards of conduct; and
- (e) to satisfy the requirement of Texas Water Code, Section 36.061(a)(1), which states that the board shall adopt in writing “a code of ethics for District directors, officers, employees, and persons who are engaged in handling investments for the District.”

10.05 Qualification of Directors

- (a) Each director shall comply with all statutes applicable to them as governmental officials.
- (b) Each director shall conduct himself/herself in accordance with his/her duties as stated in the Act and his/her Oath of Office.
- (c) A person shall not serve as a director if he or she is not qualified to do so under the provisions of the Act or other applicable law.

10.07 Conflict Of Interest

(a) Section 36.058 of the Texas Water Code provides that directors are subject to the provisions of Chapter 171 of the Texas Local Government Code relating to the regulation of conflicts of interest of officers of local governments. Directors shall, pursuant to the standards of

Chapter 171, disclose any conflict of interest with respect to a matter pending before the board and shall refrain from participation in the discussion or decision on such matters.

(b) Each director and the General Manager of the District shall comply with the conflict of interest disclosure requirements of Chapter 176, Texas Local Government Code.

10.09 Nepotism

In accordance with Chapter 573, Texas Government Code, no board member may appoint, or confirm the appointment, of a person to a position that is to be directly or indirectly compensated from District funds if the appointee is related to the board member within the second degree by affinity (marriage) or within the third degree by consanguinity (ancestry).

10.11 Standards of Conduct

(a) No director or employee of the District should accept or solicit any gift, favor, or service that might reasonably tend to influence him/her in the discharge of his/her official duties or that he/she knows or should know is being offered him/her with the intent to influence his/her official conduct.

(b) No director or employee of the District shall accept employment or engage in any business or professional activity that he/she might reasonably expect would require or induce him/her to disclose confidential information acquired by reason of his/her official position.

(c) No director or employee of the District should accept other employment or compensation that could reasonably be expected to impair his/her independence of judgment in that performance of his/her official duties.

(d) No director or employee of the District should make personal investments that could reasonably be expected to create a substantial conflict between his/her private interest and the public interest.

(e) No director or employee of the District should intentionally or knowingly solicit, accept, or agree to accept any benefit for having exercised his/her official powers or performed his/her official duties in favor of another.

(f) With respect to honoraria, a director may not solicit, agree to accept, or accept an honorarium in consideration for services the director would not have been asked to provide but for his or her official position. A director may, however, accept food, transportation and lodging in connection with such services.

10.13 Use of District Property

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

ARTICLE XI

REIMBURSEMENT OF DIRECTORS

The purpose of this policy is to establish procedures and guidelines for the reimbursement of expenses incurred by directors of the District. This policy applies to those actual expenses reasonably and necessarily incurred while engaging in activities on behalf of the District. As stewards of public funds, directors should consider the cost of all expenses they incur and be frugal. Only directors who have qualified for office are entitled to reimbursement of expenses by the District.

To receive reimbursements, directors must complete a Director Reimbursement Voucher ("Voucher"), together with all supporting receipts and invoices. Directors are encouraged to submit completed vouchers by the 15th day of the following month.

11.01 Transportation

(a) District Meetings

(1) Each director shall be reimbursed for round-trip mileage for attendance at meetings of the board, and for such other transportation expenses undertaken by a director at the direction of the board.

(2) Mileage will be paid from point of departure to the meeting, whether the point of departure is home, place of employment, or other location, to the extent the mileage would not have been traveled but for attendance at the meeting. Directors shall be reimbursed for District use of a personal vehicle at the maximum rate allowed by the United States Internal Revenue Service.

(b) Other Meetings and Conferences.

(1) Each director shall be reimbursed for round-trip mileage for attendance at meetings or hearings of governmental bodies or agencies where matters directly affecting the District are under consideration.

(2) Each director shall be reimbursed for round-trip mileage for attendance at conferences where the subject matter is directly related to the business of the District.

(3) Mileage will be paid from point of departure to the meeting, conference or seminar whether point of departure is home, place of employment, or other location, to the extent the mileage would not have been traveled but for attendance at the meeting. Directors shall be reimbursed for District use of a personal vehicle at the maximum rate allowed by the United States Internal Revenue Service.

(4) Directors traveling by commercial transportation are entitled to reimbursement of the actual cost of necessary transportation for performing official business, except the reimbursement for air transportation will not exceed the next lowest available airline fare below first class unless first class is the only available fare. Mileage reimbursements for

long trips may not exceed the amount charged for commercial transportation if those rates are more economical.

11.03 Meals

The actual cost of meals is included as part of meeting expenses. Directors will be reimbursed for meals directly associated with meetings or conferences. Directors will not be reimbursed for expenses for his/her spouse, family or personal guest meals. Charges for alcoholic beverages are not reimbursable.

11.05 Lodging

Lodging expenses associated with travel for District business are reimbursable. Normally, directors should pay for their lodging and submit receipts for reimbursement. District assistance can be available at a director's request. Each director will be responsible for costs for spouses, family members or personal guests. Other personal expenses will not be reimbursed by the District.

11.07 Other Expenses; Memberships; District Publications; Reimbursement for Personal Expenses Prohibited

(a) Other expenses incurred in the course of conducting District business are reimbursable. Charges for such things as telephone, fax, and photocopier must be submitted with an appropriate bill or receipt. Reasonable non-documented expenses will also be reimbursed.

(b) Directors may be reimbursed up to \$250 per fiscal year for expenses not discussed above for activities directly related to and benefiting the District and its policies and objectives. Examples of such activities could include memberships in non-profit associations and organizations. Requests for approval to the Executive Committee for such reimbursements should include sufficient information to demonstrate the public purpose that will be advanced by the expenditure.

(c) Personal expenses are not reimbursable.

11.09 Board Discretion

The board may at its discretion approve exceptions from this policy on a case-by-case basis. The District will not reimburse directors for unreasonable or unnecessary expenses, or in excess of a reasonable amount.

ARTICLE XII GENERAL PROVISIONS

12.01 Effect of Bylaws

These Bylaws shall be construed in connection with and so as to conform in all respects to the provisions of the Act and the general laws of the State of Texas applicable to the District and its affairs.

12.03 Amendment of Bylaws

Bylaws may be altered, amended, repealed, or replaced by a simple majority vote of the board at any regular meeting of the board. No such action may be taken unless a copy of the proposed alteration, amendment or repeal or copy of the proposed new Bylaws is submitted to each of the directors at least ten (10) days prior to the meeting date.

12.05 Severability

If any provision of these Bylaws is rendered invalid in whole or in part by an order of a court of competent jurisdiction or other law, such provision shall be severed from these Bylaws and deemed inapplicable to the extent and during the time it is rendered invalid. All remaining provisions of these Bylaws shall continue in effect except to the extent they are rendered unworkable by the severance.

12.07 Seal

The Seal of the District shall have inscribed thereon the name of the District and words indicating that it is a Texas groundwater conservation district. Said seal may be impressed by causing a facsimile thereof to be printed, affixed or otherwise reproduced.