

**CYPRESS COVE WATER SUPPLY CORPORATION'S  
ETHICAL STANDARDS AND  
CONFLICT OF INTEREST POLICY**

1. 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.
2. The role of the board of directors is to set policy; ensure the financial well-being of the Corporation; and to support and assist staff with the goals of operating the system in an effective, efficient and productive manner. A director's involvement in corporation business and activities should in no-way conflict with or inhibit staff effectiveness, efficiency and productivity. A director shall not approach any staff member of the corporation to seek solutions to any corporate business issue unless the issue has first been addressed by the board of directors at a regular board meeting and the board has requested the director to take such action.
3. A conflict of interest, as set forth in Tex. Bus. Org. Code Section 22.230 and described by paragraph 4 below, does not disqualify a person from serving as a director and is not a legal basis to remove a director from office. Qualification provisions for directors are set forth in Tex. Water Code Section 67.0051, which provides that a person must be at least 18 years of age and a member or shareholder of the Corporation. A person is disqualified from serving if he or she has been finally convicted of a felony or has been determined by a final judgment of a court exercising probate jurisdiction to be totally mentally incapacitated or partially mentally incapacitated without the right to vote. Additional qualification provisions may be set forth in the Corporation's bylaws in accordance with Tex. Bus. Org. Code Section 22.203.
4. Contracts or Transactions Involving Interested Directors and Officers: A director has a conflict of interest if:
  - A. He or she is a party to a contract or transaction with the Corporation, or one or more affiliates or associates of the director is a party to a contract with the Corporation;
  - B. An entity or organization for which he or she is a manager, official, or member, or for which he or she has a financial interest is party to a contract or transaction with the Corporation;
  - C. He or she is a developer, as defined in the Corporation's Tariff, or affiliated with a developer of property within the service area of the Corporation, or of a developer that is requesting service from the Corporation;
  - D. He or she is an employee or immediate family member, or shareholder of a developer of property within the service area of the Corporation or of a developer that is requesting service from the Corporation; or
  - E. He or she is serving as a consultant, engineer, attorney, manager, or in another professional capacity for a developer of property within the service area of the Corporation or of a developer that is requesting service from the Corporation.

- F. He or she has any other financial or special interest that may influence how the director would vote on a contract or transaction.
5. A director who has a conflict of interest described by paragraph 4, may be included in determining the presence of a quorum at a meeting of the board that authorizes the contract or transaction. An otherwise valid and enforceable contract or transaction is valid and enforceable and is not void or voidable, regardless of any conflict of interest if one of the following conditions is satisfied:
  - A. The material facts as to the relationship or interest and as to the contract or transaction are disclosed or known by the Corporation's board of directors and the directors in good faith and with ordinary care authorize the contract or transaction by the affirmative vote of the majority of disinterested directors; or
  - B. The contract or transaction is fair to the Corporation when the contract or transaction is authorized, approved, or ratified by the board. **The minutes of the meeting shall include a statement of the director's disclosure; or if applicable, a statement that the board was aware of the conflict of interest but decided that the contract or transaction was fair to the Corporation and was in the Corporation's best interest.**
6. A director who has a conflict of interest described by paragraph 4 must abstain from voting on a matter for which he or she has a financial interest as party to a contract or transaction with the Corporation, may not be selected to be on the Credentials Committee, and may not be selected as an independent election auditor during Corporation elections.
7. 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 upon information, opinions, reports, or statements, including financial statements and other financial data, concerning the Corporation or another person that were prepared and 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.
8. A director is not relying in good faith if the director has knowledge concerning a matter in question that makes reliance on one of the sources listed in paragraph 5 unwarranted.
9. Offers of Employment, Appointment, Financial, or Material Benefit: No officer or director of the Corporation should:
  - A. Solicit or accept or agree to accept any appointments or any financial and/or material benefit that might reasonably tend to influence his or her performance of duties for the Corporation or that he or she knows or should know is offered with the intent to influence the performance of his or her duties;
  - B. Make any personal investment that might reasonably be expected to create a material conflict between the officer or director and his or her duties for the Corporation; or
  - C. Solicit or accept or agree to accept a financial benefit from another person or entity in exchange for performing duties as an officer or director of the Corporation in favor of the other person or entity.

10. The Board may accept on behalf of the Corporation any contribution, gift, bequest, or devise for the general use or for any special purpose of the Corporation; provided, however, that the Board shall reject any such contribution, gift, bequest or devise made upon a condition or restriction if the Board determines that the acceptance as so conditioned or restricted may not be in the best interest of the Corporation.
  
11. Confidential Information: No director or officer or employee of the Corporation shall disclose confidential information concerning the property, operations, policies or affairs of the Corporation, or use such confidential information to advance personal interests, financial or otherwise, or accept employment or engage in any business or professional activity which such director, officer or employee might reasonably expect would require or induce him or her to disclose confidential information acquired through or by reason of his or her position with the Corporation.
  
12. Use of Corporation Facilities, Staff, Equipment, and Supplies: Directors and employees shall only use the Corporation's facilities, staff, equipment or supplies for purposes directly related to the Corporation's business.
  
13. Loans to Directors: The Corporation may not make a loan to a director. The directors of the Corporation who vote for or assent to the making of a loan to a director, and any officer who participates in making the loan, are jointly and severally liable to the Corporation for the amount of the loan until the loan is repaid.
  
14. Compensation: No officer or director of the Corporation shall be entitled to any compensation for or in consideration of the execution of his or her duties as officer or director; provided, however, that the actual, reasonable expenses of any officer or director incurred in the business of the Corporation may, with approval of the Board, be paid to them. **This section 14 is not applicable to a director who is party to an employment or independent contractor for the Corporation and governed by section 4.**

I have read this Ethical Standards and Conflict of Interest Policy and I understand and agree to abide by the policies set forth herein.

Signature \_\_\_\_\_ Date \_\_\_\_\_

Printed Name \_\_\_\_\_ Board Title (director or officer) \_\_\_\_\_

Presented to: \_\_\_\_\_ Date: \_\_\_\_\_

(name of employee/director who received this form and placed in director's file)