

ORDER ADOPTING CODE OF ETHICS, TRAVEL EXPENSE POLICY,
INVESTMENT POLICY AND PROCEDURES FOR SELECTION
AND REVIEW OF CONSULTANTS, POLICIES CONCERNING THE USE
OF MANAGEMENT INFORMATION INCLUDING THE FORMATION OF AN
AUDIT COMMITTEE AND CERTAIN OTHER MATTERS

THE STATE OF TEXAS

§

COUNTY OF DENTON

§

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B

§

We, the undersigned officers of the Board of Directors (the "Board") of Denton County Fresh Water Supply District No. 1-B (the "District"), hereby certify as follows:

1. The Board convened in regular session, open to the public, on February 12, 2002, at its office outside the District and the roll was called of the members of the Board, to-wit:

John Philip Brosseau	President
David R. Moore	Vice President
Emil E. Reichstadt	Secretary
Inge W. Drechsler	Asst. Secretary/Treasurer
Teresa Walker	Assistant Secretary

All members of the Board were present.

Whereupon, among other business conducted by the Board, Director Reichstadt introduced the Order set out below and moved its adoption, which motion was seconded by Director Walker and after full discussion and the question being put to the Board of Directors, said motion was carried by the following vote:

"Aye" 5; "No" 0.

The Order thus adopted is as follows:

WHEREAS, DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B (the "District") is a water control and improvement district operating pursuant to Chapter 49 and Chapter 51, and certain retained provisions of Chapter 53 of the Texas Water Code, as amended; and

WHEREAS, Texas Water Code §49.199, requires that the Board of Directors of the District adopt certain policies and procedures in writing, including a code of ethics, a travel expense policy, an investment policy, policies and procedures for selection, monitoring, or review and evaluation of professional services, a uniform method of accounting and reporting the complies with requirements of the Texas Natural Resource Conservation Commission ("Commission") and policies

that ensure a better use of management information, including budgets for use in planning and controlling cost, a functioning audit committee of the board and uniform reporting requirements that use "Audits of State and Local Government Units" as a guide on audit working papers and that uses "Governmental Accounting and Financial Reporting Standards";

WHEREAS, pursuant to an amendment to Chapter 2256, Government Code, as amended, the Public Funds Investment Act (the "Act"), requires that the Board of Directors of the District establish a written investment policy regarding the investment of its funds and funds under its control and designate one or more officers or employees of the District to be responsible for the investment of such District Funds in accordance with the Act as well as designate an Investment Officer of the District, which has been done by separate Board dated April 18, 2001 Order Adopting an Amended Investment Policy and Appointment of Investment Officer, which Order may be amended from time to time; and

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B THAT:

I.

The Board of Directors hereby adopts Attachment "A" through "D" hereof as its written policies and procedures required by Texas Water Code §49.199, relating to the establishment of a code of ethics policy, a travel expense policy, policies and procedures for selection, monitoring and review and evaluation of professional services and policies relating to use of management information and formation of an audit committee.

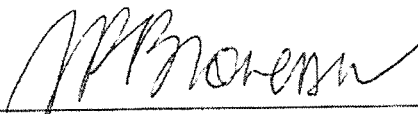
II.

This Order shall supercede any previous Order Adopting Code of Ethics, Travel Policy, Investment Policy and Procedures for Selection and Review of Consultants, Policies Concerning the Use of Management Information including the Formation of an Audit Committee and Certain Other Matters as my exist with the exception of the above-referenced April 18, 2001 Board Order Adopting an Amended Investment Policy and Appointment of Investment Officer.

III.

The President or Vice President and the Secretary or Assistant Secretary of the Board of Directors are authorized to evidence adoption of this Order on behalf of the Board of Directors and to do all other things proper and necessary to carry out the intent hereof.

APPROVED AND ADOPTED the 12th day of February, 2002.



John Philip Brosseau, President

ATTEST:



Emil E. Reichstadt, Secretary

[DISTRICT SEAL]

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ATTACHMENT "A"

CODE OF ETHICS

SECTION 1. Purpose. The Purpose of this Code of Ethics is to set forth the standards of conduct and behavior for the members of the Board of Directors of DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B (the "District"), and its officers, employees, and persons handling investments for the District (collectively with the Directors, the "District Officials") in accordance with Chapter 171, Local Government Code, as amended.

SECTION 2. Conflicts of Interest. A Director will abstain from participating in a vote or decision on a matter involving a business entity in which the Director has a substantial interest if it is reasonably foreseeable that an action on the matter would confer an economic benefit on the business entity. A Director will abstain from acting as a surety for a business entity that has work, business, or a contract with the District. A Director will abstain from acting as a surety on any official bond required by an officer of the District. For these purposes, a person is considered to have a "substantial interest" in a business if (1) he owns 10% or more of the voting stock or shares of the business entity or owns either 10 percent or more or \$5,000 or more of the fair market value of the business entity; or (2) funds received from the business exceed 10% of his gross income for the previous year. A person has a substantial interest in real property if the interest is an equitable or legal ownership with a market value of \$2,500 or more. A Director is considered to have a substantial interest for these purposes if a person related to the Director within the first degree of affinity or consanguinity, as determined under Chapter 573, Government Code, has a substantial interest as defined herein.

ATTACHMENT "B"

TRAVEL EXPENSE POLICY

SECTION 1. Purpose. The purpose of this Travel Expense Policy is to set forth the policies of DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B (the "District") concerning travel expenses for members of the Board of Directors of the District at all meetings other than Board meetings.

SECTION 2. Attendance at Meetings. Attendance at conferences, hearings, or other meetings outside the Metroplex or Denton County area by the members of the Board of Directors must be sanctioned by the Board of Directors; attendance at local meetings will be at each Director's discretion, however, such local meetings must relate to the business of the District. Following the meeting, Directors attending any meeting shall report to the Board concerning the meeting.

SECTION 3. Meeting Expenses Outside of Metroplex or Denton County. The District will pay Directors fee of \$150 per day for days of the meeting and a director fee of \$150 for one travel day. At sanctioned meetings, the District will pay the single room rate for the hotel at which the meeting is being held or any other comparable hotel. For travel connected with attendance at a sanctioned meeting, the District will pay round trip mileage at the current IRS mileage rate for travel by car or round trip airfare at current commercial rates for standard (not first class) airfare.

SECTION 4. Meeting Expenses for Local Meetings. The District will pay Directors a director fee of \$150 per day and round trip mileage at the current IRS mileage rate for transportation to the meeting location.

SECTION 5. Reimbursement. Directors attending meetings will submit an itemized expense report to Denton County Fresh Water Supply District No. 1-A ("DCFWSO No. 1-A"), the District's operations manager, before reimbursement is made. DCFWSO NO. 1-A will submit such expense report to the Board of Directors for approval. Items on the expense report shall include lodging, meals, reasonable tips, and transportation. Reimbursement for meals will be limited to \$50 per day. Directors sharing expense items may split reported expenses in any matter they deem equitable, but the Board will pay no more than 100% of the actual total cost of reimbursable items.

SECTION 6. Extraordinary Expenses. Any extraordinary expenses for a Director attending a sanctioned meeting must be approved by the Board prior to incurring the expense.

ATTACHMENT "C"

POLICY CONCERNING SELECTION, MONITORING, REVIEW, AND EVALUATION OF PROFESSIONAL CONSULTANTS

SECTION 1. Purpose. The purpose of this Policy Concerning Selection, Monitoring, Review, and Evaluation of the Professional Consultants is to set guidelines for the Board of Directors for DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B (the "District") concerning its Professional Consultants.

SECTION 2. Definition of Professional Consultant. "Professional Consultant" shall include the District's attorney, auditor, manager, financial advisor, engineer, tax assessor/collector, development consultant and such other consultants other than employees that the District may hereafter engage.

SECTION 3. Selection of Consultants. Whenever the Board of Directors of the District decides to terminate the services of one or more of its Professional Consultants, the Board shall solicit proposals and shall appoint a committee of two Directors to review any proposals received by the Board, to interview applicants if deemed necessary by such committee, and to make a recommendation to the entire Board of Directors concerning the selection.

SECTION 4. Monitoring of Professional Consultants. For those Professional Consultants with annual contracts, the Board of Directors of the District will review the performance of the Professional Consultants for the prior year at the time the contract is renewed. The Board of Directors shall review the performance of its other Professional Consultants in connection with the review of its annual financial report or annual audit.

ATTACHMENT "D"

POLICIES RELATING TO USE OF MANAGEMENT INFORMATION AND FORMATION OF AN AUDIT COMMITTEE

SECTION 1. Purpose. The purpose of this Policy Relating to Use of Management Information and Formation of an Audit Committee for DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B (the "District") is to provide written policies concerning use of management information.

SECTION 2. Annual Budgets. Prior to each fiscal year, the Board of Directors of the District shall adopt an annual budget in connection with the operation and management of the District which will be prepared by the Denton County Fresh Water Supply District No. 1-A ("DCFWS No. 1-A"), the District's operations manager, in which revenues are anticipated for the next fiscal year for use in planning and controlling of costs and shall compare the actual revenues and expenditures of the District to the budgeted revenues and expenditures on a monthly basis. This annual budget shall cover operations expenses and revenue for the District as well as debt service expenses and revenue for the District.

SECTION 3. Audit Committee. At such time as the District is required to conduct annual audits, the District hereby appoints its Board of Directors as an audit committee, or any two such members of the Board that the Board may appoint from time to time to review the annual audit prepared by the District Auditor.

SECTION 4. Accounting Standards. At such time as the District is required to conduct annual audits, the District hereby directs its auditor to adopt uniform auditing reporting requirements that use "Audits of State and Local Governmental Units" as a guide on audit working papers and that uses "Governmental Accounting and Financial Reporting Standards" and any further standards as may be required by the Texas Natural Resource Conservation Commission, Commission rules or State statutes as may be amended from time to time.