

# **SAN MIGUELITO MUTUAL WATER COMPANY**

## **CONFLICT-OF-INTEREST POLICY**

### **INTRODUCTION**

The purpose of this conflict-of-interest policy is to prevent the institutional or personal interests of San Miguelito Mutual Water Company (“SMMWC” or the “Company”) board members, officers, and staff from interfering with the performance of their duties to SMMWC, and to ensure that there is no personal, professional, or political gain at the expense of SMMWC. Pursuant to Health and Safety Code Section 116755, board members of mutual water companies are required to complete training that includes their fiduciary duties and the duty of a corporate director to avoid contractual conflicts of interest. Fiduciary duties include the requirements that a fiduciary is generally prohibited from competing with the Company, which includes taking advantage of an opportunity available to the Company. The fiduciary responsibilities of board members are legal responsibilities as well as ethical considerations.

This policy is not designed to eliminate relationships and activities that may create a duality of interest. Rather, its purpose is to require a) the disclosure of any conflicts of interest, b) the recusal of any interested party in a decision relating thereto by prohibiting the interested board member from voting on any matter in which there is a conflict, and c) confidentiality such that any director, officer, or staff member shall not disclose or use information relating to the business of SMMWC for the personal profit or advantage of the director, officer, staff member, family member, or any other organization the person is a member of or participates in.

### **CONFLICT OF INTEREST**

A conflict of interest occurs when a person has an economic or family interest in the subject matter. Because of a director’s fiduciary responsibilities, he or she has a duty to be reasonably informed about potential conflicts of interest.

Conflicts of interest may exist when the interests or potential interests of any director, officer, or staff member, or that person’s close relative, or any individual, group, or organization to which the person associated with SMMWC has allegiance, may be seen as competing with the interests of SMMWC, or may impair such person’s independence or loyalty to SMMWC. A conflict of interest is defined as an interest that might affect, or might reasonably appear to affect, the judgment or conduct of any director, officer, or staff member in a manner that is adverse to the interests of SMMWC.

**PROHIBITED ACTIVITIES** The following is a non-exclusive list of examples of conduct or activities that can give rise to or may constitute a prohibited conflict of interest. A conflict of interest may exist if a director, officer, staff member, or close relative:

- a. Has a business or financial interest in any third party dealing with SMMWC. This does not include ownership interest of less than 5 percent of outstanding securities of public corporations.
- b. Holds office, serves on a board, participates in management, or is employed by any third party dealing with SMMWC.

- c. Derives remuneration or other financial gain from a transaction involving SMMWC (other than salary reported on a W-2 or W-9 or salary and benefits expressly authorized by the board).
- d. Receives gifts from any third party on the basis of his or her position with SMMWC (other than occasional gifts valued at no more than \$50, or if valued at more than \$50, the gift is made available in a team space or common area for others to share — e.g., fruit baskets, boxes of candy). All other gifts should be returned to the donor with the explanation that SMMWC policy does not permit the acceptance of gifts. No personal gift of money should ever be accepted.
- e. Engages in any outside employment or other activity that will materially encroach on such person's obligations to SMMWC; compete with SMMWC's activities; involve any use of SMMWC's equipment, supplies, or facilities; or imply SMMWC's sponsorship or support of the outside employment or activity.
- f. Competes either directly or indirectly, with the SMMWC in the purchase or sale of property or property rights, interests, or services, or, in some instances, competes directly for the same external use of the SMMWC's resources (for example, staff or contracts) for personal purposes.
- g. Discloses or exploits information pertaining to the SMMWC's business for the personal profit or advantage of such person or a family member of such person or a person/entity with whom he or she has an agency relationship.

#### **DISCLOSURE, RECUSAL AND ABSENTION**

The Following procedures shall apply to conflicts of interest.

- A. **Disclosure.** Whenever any director or the general manager has a conflict of interest or a perceived conflict of interest with SMMWC, he or she shall notify the board president (or vice president, if the president is the conflicted party) of such conflict in writing.

Whenever any staff member (paid or volunteer) has a conflict of interest or a perceived conflict of interest with SMMWC, he or she shall notify the general manager of such conflict in writing.

- B. **Recusal and Abstention.** When any conflict of interest is relevant to a matter that comes under consideration or requires action by the board, the interested person shall call it to the attention of the board president and shall not be present during board discussion or decision on the matter. He or she shall not participate in any manner in the decision or deliberations regarding the matter under consideration. However, that person shall provide the board with any and all relevant information on the particular matter.
- C. **Record.** The minutes of the meeting of the board shall reflect that the conflict of interest was disclosed, that the interested person was not present during discussion or decision on the matter, and did not vote.

## **CERTIFICATION AND BI-ANNUAL REVIEW**

A copy of this conflict-of-interest policy shall be furnished to each director, officer, and staff member who is presently serving this organization or who may become associated with it.

This policy and its application shall be reviewed by the board of directors bi-annually to assure compliance with the continuing responsibility that persons subject to this policy have relating to their transactions and outside business interests and relationships in order to avoid potential conflicts of interest, and make required disclosures.

Each person subject to this policy shall sign a statement on forms supplied by the Company, which at a minimum affirm that such person:

- (a) has received a copy of the policy;
- (b) has read and understands the policy; and
- (c) has agreed to comply with the policy.

Such statements shall be maintained on file in the Company's Office.