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Sec. 5.1.1. Board Powers and Duties.

The Board of Directors (“Board”) of PRIORITY CHARTER SCHOOLS (“PCS”) shall:

- (a) Govern under the governing structure described in the PCS Charter;
- (b) Be primarily responsible for implementing the programs authorized by the PCS Charter;
- (c) Delegate powers and duties as described in the PCS Charter or through a request for a delegation amendment with the TEA division responsible for charter schools;
- (d) Remain responsible for the management, operation, and accountability of the charter schools operated by the charter holder, regardless of whether the governing body delegates any of its powers or duties;
- (e) Monitor the performance of the students enrolled in PCS;
- (f) Adopt the budget of the charter holder and PCS compliant with Title 19, Texas Administrative Code, § 100.1101(a);
- (g) Amend the budget of the charter holder and PCS if the amendment exceeds one percent (1%) of the total budgeted expenditures or \$100,000 (whichever is lesser);
- (h) Approve the acquisition of real property or the improvement of real property;
- (i) Approve the obligation of funds for goods and services through formal contracts for business arrangements or financial transactions exceeding \$100,000;
- (j) Approve (or disapprove) the annual financial and compliance report;
- (k) Approve (or disapprove) any audit, investigative, or other monitoring report pertaining to the fiscal management of the charter holder and PCS issued by any oversight agency including the Texas Education Agency;
- (l) Authorize the obligation and expenditure of funds pursuant to the policies adopted by the Board;
- (m) Authorize the chief executive officer and chief financial officer to sign checks or other legal instruments disbursing funds from the charter holder’s and PCS’ bank accounts;

- (n) Authorize the use of property pursuant to the policies adopted by the Board;
- (o) Authorize the investment of funds pursuant to the policies adopted by the Board;
- (p) Authorize the collection of tuition and other fees pursuant to the policies adopted by the Board;
- (q) Authorize the development and implementation of administrative procedures applying the policies adopted by the Board;
- (r) Direct, govern, manage and otherwise oversee the fiscal management of the charter holder and PCS; and
- (s) Delegate other powers and duties as permitted by law.

Sec. 5.1.2. Board's Overarching Authority.

Absent the specific delegation of a power or duty as enumerated below, only the Board, functioning as a body corporate, may exercise a power or duty pertaining to the fiscal management of the charter holder and PCS.

Sec. 5.1.3. Delegation Amendment.

The Board shall adopt a resolution delegating the powers enumerated below to the Superintendent. In its resolution, the Board shall authorize the Superintendent to file the delegation amendment approved by the Board.

Sec. 5.1.4. Powers and Duties Delegated to Superintendent.

The Superintendent may perform the following powers and duties delegated by the Board in this part as enumerated below.

- (a) Prepare, or cause to be prepared, a proposed budget of the charter holder and PCS.
- (b) Prepare, or cause to be prepared, an amendment to the original and subsequently amended budgets of the charter holder and PCS approved by the Board if the amendment exceeds one percent (1%) of the total budgeted expenditures or \$100,000 (whichever is lesser).
- (c) Prepare, or cause to be prepared, a recommendation to the Board for the approval of the acquisition of real property or the improvement of real property pursuant to the policies adopted by the Board.

- (d) Prepare, or cause to be prepared, a recommendation to the Board for the approval of the obligation of funds for goods and services through formal contracts for business arrangements or financial transactions exceeding \$100,000.
- (e) Submit the annual financial and compliance report to the Board for its approval (or disapproval).
- (f) Submit any audit, investigative, or other monitoring report pertaining to the fiscal management of the charter holder and PCS issued by any oversight agency including the Texas Education Agency to the Board for its approval (or disapproval).
- (g) Obligate and expend, or cause to be obligated and expended, funds pursuant to the policies adopted by the Board.
- (h) Sign any check or other legal instrument disbursing funds.
- (i) Use, or cause to be used, property pursuant to the policies adopted by the Board.
- (j) Invest, or cause to be invested, funds pursuant to the policies adopted by the Board.
- (k) Collect, or cause to be collected, tuition and other fees pursuant to the policies adopted by the Board.
- (l) Develop and implement, or cause to be developed and implemented, administrative procedures applying the policies adopted by the Board.
- (m) Direct, guide, manage and otherwise supervise the fiscal management of the charter holder and PCS.
- (n) Exercise only the powers and duties enumerated above in this part.
- (o) Delegate, in whole or in part, any power or duty enumerated above to the Chief Financial Officer or other officer through the adoption of an administrative procedure.

Sec. 5.1.5. Limitation of Authority.

The Superintendent shall not perform any power and duty not delegated by the Board in this part as enumerated above.

Sec. 5.1.6. Accountability for Delegated Authority.

The Superintendent shall be responsible for directing, guiding, managing and supervising any power and duty delegated to and exercised by the Chief Financial Officer or other officer. Accordingly, the Superintendent shall remain accountable to the Board for any power and duty delegated to the Chief Financial Officer or other officer regardless of the delegation of the power or duty.

Sec. 5.1.7. Administrative Procedures.

The Superintendent shall prepare administrative procedures as necessary to implement this policy.

Sec. 5.10.1. Applicability of Procurement Laws.

The Board of Directors (“Board”) and Superintendent of PRIORITY CHARTER SCHOOLS (“PCS”) shall endeavor to maximize the use of PCS funds to purchase goods and services to further PCS’ mission and facilitate the implementation of the charter program.

Sec. 5.10.2. Applicability of Policy.

This policy pertains to the purchase of goods and services generally and does not apply:

- (a) To the purchase of goods and services for the construction, renovation, or repair of a structure, road, highway, or other improvement or addition to real property; or
- (b) To the procurement of professional and contracted services.

Sec. 5.10.3. Authority to Procure Goods and Services.

The Board authorizes the Superintendent, Chief Financial Office and/or their designee(s) to procure goods and services pursuant to the budget adopted and amended by the Board.

Sec. 5.10.4. Contract Required.

The Superintendent shall procure or cause the procurement of goods and/or services with a cost exceeding \$5,000 through an executed contract.

Sec. 5.10.4.1. Signature Authority.

Only the Superintendent, the Chief Financial Officer and/or their designee(s) shall be authorized to execute contractual agreements that obligate PCS to disburse funds for the receipt of goods and/or services. The Superintendent and Chief Financial Officer shall delegate specific signature authority to any designee in writing through an administrative procedure, job description or internal memorandum.

Sec. 5.10.5. Centralized Purchasing Function.

The Superintendent shall procure or cause the procurement of goods and/or services through a centralized purchasing function.

Sec. 5.10.5.1. Contract Administration.

The Superintendent or designee shall establish and maintain a contract administration system. The contract administration system must enable PCS to maintain original, fully executed legal agreements that include contractual provisions required by prudent business practice and applicable law and rule.

Sec. 5.10.5.2. Purchase Order System.

The Superintendent or designee shall establish and maintain a purchase order system. The purchase order shall serve as the formal method for procuring goods and/or services from a vendor and shall have the effect of obligating PCS to remit payment to the vendor upon receipt of the goods and/or services and of the related invoice.

Sec. 5.10.5.2.1. Required Approvals.

Only the Superintendent, the Chief Financial Officer and/or their designee(s) shall be authorized to approve purchase orders. The Superintendent and Chief Financial Officer shall delegate specific signature authority to any designee in writing through an administrative procedure, job description or internal memorandum.

Sec. 5.10.5.2.2. Issuance Prohibited.

PCS employees shall not issue a purchase order to a vendor unless it has been approved pursuant to Subsection 5.10.5.2.1.

Sec. 5.10.5.2.3. Failure to Properly Issue.

If a PCS employee issues a purchase order to a vendor without the required approvals established in Subsection 5.10.5.2.1, the employee shall be financially responsible for the purchase.

Sec. 5.10.5.3. Corporate Card Program.

The Superintendent may establish a corporate charge or credit card program to permit authorized PCS employees to purchase goods and/or services. The Superintendent may only use and may only allow the use of the corporate card program for official PCS business and shall prohibit the use of the corporate card program for personal benefit. Any employee authorized to participate in the corporate card program shall be required to sign a usage agreement. In addition to other pertinent requirements, the usage agreement shall require the employee to pay for any unsubstantiated charges or for the purchase of non-business related goods and/or services.

Sec. 5.10.5.3.1. Required Records.

Authorized PCS employees shall document each purchase through the corporate card program. Accordingly, the Superintendent shall require the PCS employee to prepare a purchase order form or other comparable internal accounting record for each corporate card purchase. Additionally, the Superintendent shall require the employee to also provide the original, itemized vendor receipt.

Sec. 5.10.5.3.2. Failure to Document.

If an employee fails to provide the required records pursuant to Subsection 5.10.5.3.1, the employee shall be financially liable for the costs charged to the corporate card.

Sec. 5.10.5.4. Purchasing Officer.

The Superintendent may delegate the purchasing function to an employee designated as the purchasing officer.

Sec. 5.10.5.5. Campus Principal Responsible.

Each PCS campus principal shall be responsible for all the expenditures from the budget approved for their campus. Each campus principal must work with the purchasing officer to purchase goods and/or services pursuant to this policy. Alternatively, the campus principal may use the corporate card program to purchase goods and/or services.

Sec. 5.10.5.6. Employee Purchases Prohibited.

PCS employees are prohibited from conducting any transaction that results in the purchase of services and/or equipment, furniture, supplies or other materials and that obligates PCS funds and otherwise results in the expenditure of PCS funds. To acquire supplies, materials, equipment, furniture and/or services, PCS employees must follow this and other related policies.

Sec. 5.10.5.6.1. Consequence for Violation.

If a PCS employee fails to follow this policy, the employee shall be financially responsible for any expenses incurred for the purchase of goods and/or services regardless of the benefit to PCS School and its students.

Sec. 5.10.5.7. Authorized Vendors.

The Superintendent or designee shall require the procurement of goods and/or services from authorized vendors. The Superintendent or designee shall select or cause the selection of vendors based upon an application submitted by each vendor that includes the following considerations.

- (a) The vendor's record of providing satisfactory goods and/or services that conform to the buyer's specifications, if any.
- (b) The vendor's record of providing goods and/or services within a stated time schedule.
- (c) The vendor's ability and capacity to meet the needs and demands of PCS based upon its existing personnel, equipment and other resources.
- (d) The vendor's available financial resources to enable it to perform the work or provide the goods requested by PCS.

Sec. 5.10.6. Authorized Procurement Methods.

The Superintendent or designee shall procure or cause the procurement of goods and/or services through the following methods for the amounts indicated.

Sec. 5.10.6.1. No Method Required.

The Superintendent, Chief Financial Officer and/or their designee(s) may procure goods and/or services that have a cost of less than \$10,000 through the most expedient manner available.

Sec. 5.10.6.2. Quotes.

The Superintendent, Chief Financial Officer and/or their designee(s) may procure goods and/or services that have a cost of no less than \$10,000 and no more than \$50,000 through the solicitation of written quotes from authorized vendors.

Sec. 5.10.6.3. Competitive Bids.

The Superintendent, Chief Financial Officer and/or their designee(s) may procure goods and/or services that have a cost of \$50,000 or more through competitive bids from authorized vendors.

Sec. 5.10.6.3.1. Board Approval Required.

Prior to executing a contract for the procurement of goods and/or services with a cost of \$50,000 or more, the Board shall approve the contract.

Sec. 5.10.6.3.2. Bid Specifications.

The Superintendent, Chief Financial Officer and/or their designee(s) shall prepare bid specifications for each requested competitive bid. The Superintendent, Chief Financial Officer and/or their designee(s) shall not accept any bid that does not conform to the bid specifications or that is received after the deadline for submitting a bid.

Sec. 5.10.6.3.3. Withdrawal by Bidder.

The bidder may withdraw a bid at any time prior to the scheduled time for the bid opening.

Sec. 5.10.6.3.4. Bid Opening.

The Superintendent, Chief Financial Officer and/or their designee(s) shall invite the public and all bidders to attend the bid opening.

Sec. 5.10.6.3.5. Rejection of Bids.

The Board, Superintendent, Chief Financial Officer and/or their designee(s) may reject any and all bids.

Sec. 5.10.6.3.6. Recommendation to Board.

The Superintendent shall recommend to the Board the vendor with lowest conforming bid that provides the best value to PCS. In making a recommendation, the Superintendent shall consider:

- (a) The total cost of the goods and/or services;
- (b) The reputation of the vendor and of the vendor's goods and services;
- (c) The quality of the vendor's goods and/or services;
- (d) The extent to which the goods and/or services meet PCS' need(s);
- (e) The vendor's past relationship with PCS;
- (f) The total long-term cost to PCS to acquire the vendor's goods and/or services;
and
- (g) Any other factor specifically listed in the request for bids.

Sec. 5.10.6.4. Sole Source.

The Superintendent is not required to follow Subsection 5.10.6 for purchases that are only available from a single vendor.

Sec. 5.10.7. Administrative Procedures.

The Superintendent shall prepare administrative procedures as required to implement this policy.

Sec. 5.11.1. Applicability of Procurement Laws.

This policy pertains solely to the purchase of professional services. The purchase of other services shall be addressed in the manner prescribed under PG-5.10.

Sec. 5.11.1.1. Professional Services Defined.

“Professional services” means services:

- (a) Within the scope of the practice, as defined by state law, of:
 - (1) Accounting;
 - (2) Architecture;
 - (3) Landscape architecture;
 - (4) Land surveying;
 - (5) Medicine;
 - (6) Optometry;
 - (7) Professional engineering;
 - (8) Real estate appraising; or
 - (9) Professional nursing; or
- (b) Provided in connection with the professional employment or practice of a person who is licensed or registered as:
 - (1) A certified public accountant;
 - (2) An architect;
 - (3) A landscape architect;
 - (4) A land surveyor;
 - (5) A physician, including a surgeon;
 - (6) An optometrist;
 - (7) A professional engineer;
 - (8) A state certified or state licensed real estate appraiser; or
 - (9) A registered nurse.

Sec. 5.11.1.2. Other Services Defined.

“Other services” or simply “services” means any service not specifically identified as a professional service.

Sec. 5.11.2. Adoption by Reference.

In procuring professional services, the Superintendent shall generally adhere to Policy PG-10 unless a specific provision to the contrary is adopted in this policy.

Sec. 5.11.3. Selection of Provider.

The Board and Superintendent shall not select a provider of professional services or a group or association of providers or award a contract for professional services on the basis of competitive bids submitted for the contract or for the professional services.

Instead, the Board and Superintendent shall select the provider for the professional service to be procured based on the following criteria.

- (a) The provider's demonstrated competence and qualifications to perform the services.
- (b) The fairness and reasonableness of the provider's price.

Sec. 5.11.4. Limitation on Fees.

A provider may not charge a fee for professional services that exceeds any maximum provided by law.

Sec. 5.11.5. Monitoring of Provider Performance.

The Superintendent or designee shall monitor the services and work of all professional services providers. In developing a system for monitoring the provider performance, the Superintendent shall consider the inclusion of deliverables and other measurable outcomes that demonstrate the delivery of the professional services procured from the provider and that enable the Superintendent or designee to evaluate the quality of the professional services rendered and satisfactory performance of the provider.

Sec. 5.11.6. Administrative Procedures.

The Superintendent shall prepare administrative procedures as required to implement this policy.

Status and Use of State Funds

PRIORITY CHARTER SCHOOLS (“PCS”) is entitled to receive funding under Chapter 42, Education Code and in accordance with state law.

- (a) State funds received by PCS are public funds for all purposes under state law, and may be used only for a purpose for which a school district may use local funds under Education Code 45.105(c), to wit:
 - (1) Purchasing appliances and supplies;
 - (2) Paying insurance premiums;
 - (3) Paying janitors and other employees;
 - (4) Buying school sites;
 - (5) Buying, building, repairing, and renting school buildings, including acquiring school buildings and sites by leasing through annual payments with an ultimate option to purchase; and
 - (6) For other purposes necessary and approved in the conduct of the public schools determined by the Board of Directors.

Any other use or application of such funds constitutes misuse and misapplication of public funds and is subject to the civil and criminal laws governing misuse or misapplication of Texas public funds.

- (b) State funds received by PCS are held by PCS in trust for the benefit of the students of the open-enrollment charter school. In their use of public funds, the Board of Directors, and the governing body and officer of a charter school, shall be held to the standard of care and fiduciary duties that a trustee owes a beneficiary under Texas law.
- (c) Pending their use, state funds received by PCS must be deposited into a bank with which PCS has entered into a depository contract. No later than November 1 of each year, PCS shall file a copy of the depository contract with the Texas Education Agency division responsible for school financial audits, or, if there has been no change since the last filing, a statement to that effect in lieu of the depository contract.
 - (1) State funds received by PCS must be deposited into an account owned and controlled by PCS pending their use. Once properly deposited, PCS may immediately use the funds for any purpose described in section (a)(1) above, subject to the standard of care and fiduciary duties that a trustee owes a beneficiary under Texas law.

- (2) For purposes of this policy, the term “bank” means a bank, a savings and loan association, or a savings bank organized under the laws of Texas, another state, or federal law that has its main office or a branch office in this state. The term does not include any bank the deposits of which are not insured by the Federal Deposit Insurance Corporation (FDIC). Although the term excludes a bank the deposits of which are not insured by the FDIC, deposits exceeding FDIC-insured amounts need not be collateralized for the institution to constitute a “bank” under this policy.
- (3) Notwithstanding the requirements of this policy listed above, if required by a contract executed prior to September 1, 2001, state funds may be deposited into an account managed by a bond trustee acting on behalf of PCS for the sole purpose of complying with debt service obligations of PCS on a bond issued under Chapter 53, Education Code.

Investment of State Funds

The following provisions apply unless alternative requirements for investing state funds have been approved by the State Board of Education under 19 TAC § 100.103 (relating to Optional Open-Enrollment Charter Provisions for Contracting and Purchasing), and the open-enrollment charter has been amended by the Commissioner of Education to adopt the approved procedures.

- a. PCS shall invest state funds in accordance with a requirement in the Texas Public Funds Investment Act (Government Code §§ 2256.009–2256.016) that applies to a school district or the board of trustees of a school district
- b. State funds invested by PCS shall be maintained in a discrete charter investment account, separate and distinct from the operating accounts for the charter school and separate and distinct from any investment accounts related to non-charter activities.
- c. PCS shall invest state funds in accordance with any applicable provision or covenant contained in a debt instrument, bond indenture, or similar agreement.
- d. PCS shall not invest state or federal grant funds, unless investment of such funds is expressly authorized under the terms of the grant.
- e. Investment of state funds shall be governed by the following investment objectives, in order of priority:
 - (1) Preservation and safety of principal;
 - (2) Liquidity; and
 - (3) Yield.
- f. In determining whether PCS, or its employees or agents, have exercised prudence with respect to an investment decision respecting state funds, the determination shall be made taking into consideration:

- (1) The investment of all funds, or funds under PCS' control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
- (2) Whether the investment decision was consistent with the written investment policy of PCS.

MISSION STATEMENT

The primary mission and vision of Priority Systems' schools is to implement a public charter school in partnership with parents and the community that offers a multicultural, safe and friendly environment in which students can successfully learn basic skills and core academic content, develop and demonstrate their special talents and gifts, and develop social competencies that demonstrate citizenship and character.

The secondary mission and vision of the schools is also committed to empowering others who possess like visions and missions to carry out their distinctive callings. Priority Systems, Inc. does not intend to control others in their endeavors, but to help lighten their load of providing assistance and training in the area of personalized education.

At Priority Systems, Inc., the administration attempts to teach its staff that parents and students are our customers. We further endeavor to instill within each staff member, from the teachers to the cook to the custodian that "people do not care what you have until they know you care."

POLICY

It is the policy of PRIORITY CHARTER SCHOOLS ("PCS") to advocate for and issue financial decisions and practices that both further the mission of PCS School as described above and that are made in the interest of the charter holder in compliance with its fiduciary duty owed to PCS students.

As such, the PCS Board of Directors (Board) shall make financial decisions with integrity, fairness, objectivity, and that maximize benefits while minimizing the cost of goods and services to PCS.

The Board shall, as a body corporate and as individual members, explore and develop fiscal stewardship through training and other means of educating Board members in the understanding of legal and other requirements pertaining to financial management of the charter holder and PCS.

Such training and education shall consider, but shall not necessarily be limited to, the development of management controls and monitoring of business activities, addressing possible fraud and irregularities through special audits and investigations and referrals to oversight agencies and law enforcement, as well as the General Ethical Standards (page 93) in Module 3 of the Texas Financial Accountability System Resource Guide (Version 14).

Sec. 5.3.1. Adoption and Amendment of Budget

The Superintendent shall annually recommend a budget for consideration and adoption by the Board of Directors (“Board”) of PRIORITY CHARTER SCHOOLS (“PCS”). The Board shall annually adopt the PCS budget (“Budget”). The Board may subsequently amend the Budget, and shall amend the Budget if the Superintendent or designee determines that the Budget must be amended and the amendment exceeds the lesser of one percent (1%) of the total budgeted expenditures or \$100,000.

Sec. 5.3.2. Notice to the Public.

The Board shall publish, or cause to be published, a notice to the public of the meeting(s) at which it will deliberate and adopt the proposed budget submitted to the Board by the Superintendent. The notice shall conform to the form and content requirements for other notices to the public of the meetings of the Board.

Sec. 5.3.3. Authority to Obligate and Expend.

The Budget, as amended, constitutes the Board’s authorization to the Superintendent to obligate and expend funds. The Superintendent shall not obligate or expend any funds without the Board’s authorization as set forth in the Budget, as amended.

Sec. 5.3.4. Deadline for Adoption.

The Superintendent shall submit the proposed budget to the Board at least ten business days prior to the start of the fiscal year or school year, whichever date is earliest.

Sec. 5.3.5. Form and Content of Budget and Amendments.

The Superintendent shall prepare, or cause to be prepared, a proposed budget and subsequent amendments to the approved budget utilizing the account code structure required by the Texas Education Agency (TEA). For each net asset classification, the proposed budget and subsequent amendments shall account for and include all estimated revenues and proposed expenses of the charter holder and PCS for the upcoming fiscal year.

Sec. 5.3.6. Line Item Budgeting and Revenue Estimate.

The Budget shall identify estimated revenues and proposed expenses by line item. Each line item shall include a functional and object classification.

The estimate of revenues shall be based on revenues from local, State and Federal sources of funding. In estimating the revenues from the Foundation School Program (FSP), the Superintendent shall use the Estimates of State Aid Entitlement Template, or other equivalent financial tools to calculate an estimate of FSP revenues. An estimate of FSP revenues shall consider estimated student enrollment and attendance (including

the historical rate of attendance for the last three school years), the number of students enrolled for the upcoming school year, and, where appropriate, a conservative estimate of the increase in student enrollment. The Superintendent shall with respect to the number of students enrolled, adjust that number to consider the historical percentage of students that historically withdraw from PCS prior to the start of the fiscal year based on over an average of the last three school years.

Sec. 5.3.7. Limitation of Expenses.

The Superintendent shall not propose, nor shall the Board approve, a budget or an amendment that results in a deficiency in net assets arising from proposed expenses exceeding estimated revenues.

Sec. 5.3.8. Surplus in Net Assets.

The Superintendent or designee shall prepare a surplus in net assets arising from estimated revenues exceeding proposed expenses. In considering net assets carried forward from the previous fiscal year, the proposed surplus in net assets must equal or exceed an amount not less than 20% but not more than 30% of total expenses from the previous fiscal year.

Sec. 5.3.9. Proposed Expenses to Comply with Allowable Uses of Funds.

The Superintendent or designee shall prepare a proposed budget that includes proposed expenses compliant with Board policy and allowable uses of funds.

Sec. 5.3.10. Publication of Adopted Budget.

The Superintendent or designee shall post the adopted Budget on the PCS website, prominently displaying the electronic link to the adopted Budget on the charter holder's or the PCS website. The adopted Budget shall remain on the website until the third anniversary of the date that the Budget was adopted by the Board.

Sec. 5.3.11. Administrative Procedures.

The Superintendent shall prepare administrative procedures as necessary to implement this policy.

Sec. 5.4.1. Board Oversight of Cash.

The Board of Directors (“Board”) of PRIORITY CHARTER SCHOOLS (“PCS”) shall govern and manage the cash received and disbursed from all sources of funding in a manner consistent with State and Federal law and to achieve favorable cash flows to further the interests of the charter holder and PCS.

Sec. 5.4.2. Operating Account.

The Board shall require that all local, State and Federal funds be deposited into a single account maintained by a bank as defined in Education Code Section 45.201. Additionally, and except as provided in Sec. 5.4.3, the Board shall require that all local, State and Federal funds be disbursed from the same account. The bank account created and maintained pursuant to this section shall be commonly referred to as the Operating Account.

Sec. 5.4.3. Payroll Account.

The Board may authorize a second bank account for the sole purpose of disbursing the wages or salary and other compensation, less authorized deductions, from local, State and Federal funds to employees of the charter holder and PCS. A bank account so created and maintained shall be commonly referred to as the Payroll Account.

Sec. 5.4.4. Account Signatories.

The Board, by resolution, has authorized the Superintendent and the Chief Financial Officer as the signatories to PCS’ bank accounts.

Sec. 5.4.5. Record of Cash Receipts and Disbursements.

The Superintendent or designee shall prepare a financial management system that conforms to the requirements of the Texas Education Agency to record a unique record for each deposit made for and for each disbursement made from each source of funding.

Sec. 5.4.5.1. Check Register.

The Superintendent or designee shall prepare a register of individual deposits and disbursements for the Operating and Payroll Accounts, commonly referred to as the Check Register.

Sec. 5.4.5.2. Original, Itemized Records.

The Superintendent or designee shall maintain an original, itemized record of each deposit and disbursement supporting the transactions listed on the Check Register for the Operating Account and the Payroll Account.

Sec. 5.4.5.3. Reconciliation of Accounts.

The Superintendent or designee shall reconcile statements received from the bank for the Operating and Payroll Accounts to the respective Check Registers, addressing and resolving discrepancies.

Sec. 5.4.6. Investment of Surplus Cash.

For purposes of this Policy, surplus cash shall mean the available cash balance in the Operating Account exceeding two times the amount of the charter holder's or the charter school's total current liabilities, as applicable. Surplus cash shall be invested as approved by Board resolution and in compliance with Education Code Section 12.1053 and Government Code Sections 2256.009 through 2256.0016.

Sec. 5.4.7. Cash Flow Projection.

The Superintendent or designee shall prepare a projection of the cash inflows and cash outflows of the charter holder and PCS, which shall be commonly referred to as the Cash Flow Projection. The Cash Flow Projection shall be presented to the Board at each regularly scheduled meeting of the Board, along with explanations of any significant variances thereto. For purposes of this Policy, a significant variance is defined as a variance of the actual cash inflow or cash outflow for a specific line item that exceeds the projected cash inflow or projected cash outflow, as amended, by five percent or more. Any amendments to the Cash Flow Projection shall also be disclosed to the Board.

Sec. 5.4.8. Other Method of Disbursement

The Superintendent or designee is authorized to disburse funds through the Operating and/or Payroll Account, petty cash accounts, charge accounts or credit accounts. Funds shall not be disbursed through debit or gift cards.

Sec. 5.4.9. Administrative Procedures.

The Superintendent shall prepare administrative procedures as necessary to implement this policy.

Sec. 5.5.1. Reports to the Board.

The Superintendent of PRIORITY CHARTER SCHOOLS (“PCS”) or designee shall prepare and distribute financial reports to the Board of Directors (“Board”) at each regularly scheduled meeting of the Board. The Superintendent or designee shall prepare financial reports containing the following minimal information.

1. A comparison of the estimated revenues and approved expenses included in the budget originally adopted and subsequently amended (hereafter, the approved budget) by the board to the actual revenues earned and expenses incurred by PCS. The comparison shall be prepared on an accrual basis of accounting and will include comparative and total amounts for the month and year-to-date.
2. A summary of PCS’ cash inflows and outflows by operating, investing and financing activities including the beginning and ending cash balances.
3. A projection of PCS’ cash inflows and outflows for each line item included in the approved budget.
4. A listing of all individual transactions and disbursements by purchase order exceeding the threshold requiring Board authorization identified in Policy (See PG 5.1, 5.3).
5. A statement disclosing any instances of noncompliance with Board policy and/or applicable law.

Sec. 5.5.2. Annual Financial and Compliance Report.

- (A) The Superintendent or designee shall procure the services of a certified public accountant (hereafter, the independent auditor) licensed in the State of Texas to conduct an annual audit of PCS.
- (B) The Superintendent or designee and the independent auditor shall present to the Board:
 - (1) The independent auditor’s letter of engagement;
 - (2) A timeline for the timely completion of the annual audit including the dates of when the independent auditor will initiate and conclude the planning, field work and reporting phase of the audit;
 - (3) Their agreement that the annual financial and compliance report shall be presented to the Board for its approval or disapproval during a regularly scheduled meeting prior to the 150th day after the conclusion of the fiscal year.
- (C) The Superintendent or designee and the independent auditor shall present to the Board any reason(s) for their failure to adhere to the timeline.
- (D) The Superintendent or designee shall ensure that the form and content of the annual financial and compliance report conforms to the requirements promulgated

by the Texas Education Agency (TEA) in Module 10 to the Financial Accountability System Resource Guide (FASRG).

- (E) In accordance with generally accepted accounting principles, the Superintendent or designee shall issue annual financial and compliance report disclosing the financial condition, results of operation, cash flows and other pertinent information regarding charter holder operations other than PCS.

Sec. 5.5.3. Grant Reporting.

Sec. 5.5.3.1. Expenditure Reports.

- (A) The Superintendent or designee shall prepare expenditure reports for each grant received by PCS supporting the expenditures reported to the grantor agency and pursuant to the requirements of the grantor agency.
- (B) Expenditure reports shall be filed timely in accordance with the deadlines established by the grantor agency such that PCS is reimbursed and otherwise receives any and all funds to which it is entitled.
- (C) A refund of any excess grant amount received by PCS shall be in the final expenditure report filed with the grantor agency.

Sec. 5.5.3.2. Requests for Disposition Instructions.

The Superintendent or designee shall request instructions from the grantor agency for the disposal of the property should property acquired with grant funds be no longer needed.

Sec. 5.5.3.3. Public Education Information Management System.

- (A) The Superintendent or designee shall prepare required Public Education Information Management System (PEIMS) submissions in accordance with PEIMS Data Standards and Module 10 of the Financial Accountability System Resource Guide.
- (B) The Superintendent or designee may collaborate with the regional education service center in preparing and timely submitting PEIMS reports.

Sec. 5.5.4. Required Government Filings.

The Superintendent or designee shall timely file reports and data information to and as required by the:

- Internal Revenue Service
- Comptroller of Public Accounts
- Teacher Retirement System of Texas

- Texas Workforce Commission

Sec. 5.5.5. Disclosures to Donors.

The Superintendent or designee shall timely prepare documentation as may be required by a donor to demonstrate appropriate and beneficial use of a donation.

Sec. 5.5.6. Administrative Procedures.

The Superintendent shall prepare administrative procedures as required to implement this policy.

Sec. 5.6.1. Financial Management System Defined.

The PRIORITY CHARTER SCHOOLS's ("PCS") Financial Management System is the system of controls and records that enable PCS to use and safeguard funds and property for lawfully authorized purposes in furtherance of its mission and to achieve its vision, consisting of the following components.

- (a) Budgetary Control. The Financial Management System facilitates oversight of PCS' finances by the Board of Directors ("Board") through:
 - 1. Documented practices that provide for the maintenance of records of the original budget and budget amendments as approved by the Board;
 - 2. Approval of obligations and expenses by the Superintendent, Chief Financial Officer and other authorized or designated PCS administrators not exceeding budgeted amounts approved by the Board unless authorized in Board policy or through a Board approved budget amendment.
 - 3. Board receipt and review, including accurate, complete and timely updates by the Superintendent of compliance with the budget, as amended to include a comparison of the original and amended budget to PCS' actual obligations and expenses.
- (b) Financial Reporting. The Financial Management System shall provide accurate, complete and timely information regarding PCS' financial condition, results of operations, cash flows and other pertinent matters concerning PCS operations. The Board shall receive summary reports at each meeting. The Superintendent may utilize summary and detailed reports and records to oversee PCS finances, property and staff resources.
- (c) Internal Control. The Financial Management System shall include documented controls over assets, liabilities, appropriations, obligations, revenues, expenses, and cash flows to ensure that funds, property, staff resources and other tangible and intangible items of value are used to implement the PCS program. The Financial Management System shall also include controls over budgeting, contract administration, financial accounting, financial reporting, grant administration, payroll and other PCS functions. The Financial Management System shall include controls over records to demonstrate compliance with local policy and Federal and state legal requirements.
- (d) Records. The Financial Management System shall create and maintain financial accounting and other summary, detailed and source records that account for PCS' assets, liabilities, appropriations, obligations, revenues, expenses and cash flows. The records maintained shall identify the source and application of funds and the use, custodial assignment and location of property. The records maintained shall include sufficiently detailed source documents that function as the origin of the summary and detailed financial and other information disclosed

to the public, oversight government agencies, the Board, the Superintendent and other interested parties.

Sec. 5.6.2. Chart of Accounts.

In accordance with Module 11 of the *Financial Accountability System Resource Guide* (FASRG), PCS shall maintain financial accounting records that utilize the minimum account code structure mandated by the State Board of Education and the Texas Education Agency.

Sec. 5.6.2.1. Required Account Codes.

PCS shall utilize the account codes mandated in FASRG Module 11 to account for public funds and public property. As appropriate and necessary, the Superintendent may authorize the use of the local option codes and locally defined classifications provided in FASRG Module 11.

Sec. 5.6.2.2. Local Account Codes.

Within the mandated account code structure, the Superintendent may authorize the development and use of locally defined account codes that facilitate the administration and oversight of non-PCS functions and activities and the use of local funds and property.

Sec. 5.6.3. Obligations.

The Superintendent or designee shall authorize or cause to be authorized any obligation of public funds. Additionally, the Superintendent or designee shall prepare a financial accounting record(s) that accounts for any obligation of local or public funds through the execution of a contract or the issuance of a purchase order. In authorizing the obligation of local or public funds, the Superintendent or designee shall determine if the obligation was authorized by the Board in the approved budget, as amended, and through applicable Board policy or resolution.

Sec. 5.6.4. Disbursements for Goods and Services.

The Superintendent or designee shall authorize any disbursement of public funds through check, electronic funds transfer, charge or credit account, promissory note, or other means or method of disbursing funds to a third party. Prior to authorizing the disbursement of funds, the Superintendent shall prepare or cause to be prepared a sufficiently detailed, original internal accounting record identifying the business related purpose of the disbursement. Additionally, the Superintendent or designee shall obtain a sufficiently detailed, original third-party record identifying the goods received or services rendered.

Sec. 5.6.5. Disbursements for Employment Services.

As authorized by the Board through policy or resolution, the Superintendent or designee shall approve the employment of qualified individuals for Board approved positions. Moreover, the Superintendent or designee shall prepare sufficiently detailed payroll, personnel and time or activity accounting records to support the use of local and public funds for employment services.

Sec. 5.6.6. Competitive Procurement.

Pursuant to applicable Federal and state law and rules, the Superintendent or designee shall ensure that goods and services are procured competitively to ensure that limited financial resources are maximized without unreasonably sacrificing the quality of the goods and services received.

Sec. 5.6.7. Contract Administration.

The Superintendent or designee shall maintain a contract administration process to ensure that contractors deliver goods or provide services in accordance with the terms, conditions, and other legal requirements of the applicable contract or purchase order.

Sec. 5.6.8. Administrative Procedures.

The Superintendent shall prepare administrative procedures as required to implement this policy.

Sec. 5.7.1. Applicability.

Unless otherwise noted herein, this policy applies to the use by PRIORITY CHARTER SCHOOLS (“PCS”) of local, state and Federal funds regardless of the originating source of the funds.

Sec. 5.7.2. Policy to Supplement and Not Supersede.

This policy shall supplement existing state and Federal law, rule and other legal requirement and shall not supersede any state or Federal law, rule or other legal requirement. In the event of a conflict with a law, rule or other legal requirement, the law, rule or other legal requirement shall prevail.

Sec. 5.7.3. Overarching Principle.

The Superintendent or designee shall expend public funds for the benefit of the students enrolled in PCS. Accordingly, the Superintendent or designee must at all times be able to demonstrate how each use of public funds benefitted PCS’ students.

Sec. 5.7.4. General Requirement.

Recognizing that it is impractical to list every conceivable allowable use of funds and that a general framework is beneficial in guiding decisions regarding the use of funds, PCS shall adhere to the following general requirements prior to and when it obligates and disburses funds.

The proposed use of funds:

- (a) Is reasonable in its nature and amount;
- (b) Does not exceed that which a prudent person would incur under the circumstances prevailing at the time the decision was made to incur the cost(s);
- (c) Is ordinary and necessary to achieve the goals and implement the strategies and activities of the charter program;
- (d) Conforms to the documented and established practices of PCS;
- (e) Is generally or specifically allowed by applicable state or Federal law, rule or other legal requirement;
- (f) Is not prohibited by applicable state or Federal law, rule or other legal requirement; and
- (g) Complies with policy and administrative procedures approved by the Board of Directors (Board).

Sec. 5.7.4.1. Use of Unrestricted Local Funds.

The Superintendent may use or allow the use of local funds for any lawful purpose that conforms to Board policy.

Sec. 5.7.4.2. Use of Restricted Local Funds.

If a donor restricts a contribution or PCS implies or states that a specific purpose for its fund raising effort(s), the Superintendent may only use or allow the use of local funds for the restricted purpose and in accordance with Board policy.

Sec. 5.7.5. Generally Authorized Expenses.

In general, the Superintendent is authorized to expend and may authorize the expenditure of state and Federal funds for the following purposes.

- (a) To compensate the Superintendent, teachers, janitors and other employees for employment services rendered.
- (b) To pay the interest for short-term loans acquired to compensate PCS employees.
- (c) To purchase equipment, furniture, materials, software, supplies and vehicles.
- (d) To pay for insurance premiums.
- (e) To purchase real property for use as a school site pursuant to Board authorization.
- (f) To purchase, build, repair and rent school buildings pursuant to Board authorization.
- (g) As authorized by the Board, to acquire school buildings and real property by leasing through annual payments with an ultimate option to purchase.
- (h) For other purposes necessary in the conduct of PCS as determined by the Board including for the following purposes.
 - (1) To develop and monitor a system of controls to ensure compliance with state and Federal laws and rules.
 - (2) To administer state and Federal grants.
 - (3) To conduct Board meetings and provide Board members with training.
 - (4) To procure legal, audit and other professional services necessary for the proper administration and oversight of PCS.
 - (5) To record, compile, maintain and report data on student attendance, student enrollment, staff, finances and grants.
 - (6) To develop, maintain and update a charter instructional plan including conducting a comprehensive needs assessment.
 - (7) To conduct periodic assessments of students to identify potential learning deficiencies and to measure the students' progress towards desired academic goals.
 - (8) For the upkeep and repair of instructional and instructionally related materials and equipment in the classroom and library, of food service equipment, and of vehicles.
 - (9) To provide breakfast and lunch and snacks to students pursuant to the guidelines and requirements of the Texas Department of Agriculture.

- (10) To conduct field trips as authorized by Board.
- (11) For athletic and band equipment, instruments and uniforms.
- (12) To conduct graduation and award ceremonies recognizing the achievements of students and staff.
- (13) To conduct pre/post employment physicals or drug testing and background checks.
- (14) For the research, development and maintenance of curriculum and innovative, new or modified instruction.
- (15) For in-service training or staff development for instructional and instructionally related staff conducted by a regional education service center, an outside consultant(s) or a PCS employee(s).
- (16) To travel for PCS activities and functions.
- (17) For utilities and the maintenance of telecommunication and computer networks and systems.
- (18) To provide a safe and drug free school environment.
- (19) For memberships in civic and professional organizations that further the mission of PCS.
- (20) For any other purpose, function, activity, program or service authorized by the Board through the adoption of PCS' annual operating budget and charter instructional plan including any amendments thereto.
- (21) For other purposes determined by the Board of Directors to be in the best interest of PCS' students.

Sec. 5.7.6. Generally Prohibited Expenses.

In general, the Superintendent is prohibited from expending and may not authorize the expenditure of state and Federal funds for the following purposes.

- (a) Alcoholic beverages.
- (b) Any good or service for personal benefit or use.
- (c) Entertainment including amusement, diversion, recreation and social activities.
- (d) Field trips that are not part of a teacher's lesson plan or that do not meet the instructional objectives of the charter instructional plan.
- (e) Fines and penalties against individuals.
- (f) Gifts.

Sec. 5.7.7. Authorized Uses of Funds for Special Programs.

In addition to the general requirement and generally authorized expenses enumerated above, the Superintendent may use and may allow the use of the following types of state funds for the purposes authorized in the relevant statutes and as discussed in this section.

Sec. 5.7.7.1. Special Education.

The Superintendent may use and may allow the use of state funds provided for special education for the following purposes.

- (a) To evaluate, place and provide educational and/or other services to students pursuant to an individual educational plan designed to address the unique learning need(s) of a student with a disability as approved by an admission, review and dismissal committee.
- (b) To provide special education instructional services, including speech, occupational and physical therapy and resource room.
- (c) To purchase adaptive technology to facilitate learning for the student(s).
- (d) For a purpose included in the charter instructional plan and budget as approved and amended by the Board.

Sec. 5.7.7.2. Bilingual Education.

The Superintendent may use and may allow the use of state funds provided for bilingual education for the following purposes.

- (a) To evaluate, place and provide educational and/or other services to students that are intended to make the students proficient in the English language.
- (b) To provide a bilingual program.
- (c) To provide English as a second language instruction.
- (d) To provide instruction in the primary language.
- (e) To increase cognitive academic language proficiencies.
- (f) To conduct an evaluation of the program and student performance.
- (g) For supplemental staff expenses.
- (h) For salary supplements to teachers.
- (i) For supplies required for quality instruction and smaller class size.
- (j) For a purpose included in the charter instructional plan and budget as approved and amended by the Board.

Sec. 5.7.7.3. Career and Technology Education.

The Superintendent may use and may allow the use of state funds provided for career and technology education to provide educational and/or other services to prepare students for gainful employment, advanced technical training or for homemaking including employment preparation services, apprenticeship opportunities and job training activities.

Sec. 5.7.7.4. Compensatory Education.

The Superintendent may use and may allow the use of state funds provided for compensatory education for instructional strategies that address the academic needs of students at risk of dropping out of school as discussed in the charter instructional plan and/or campus improvement plans. However, the Superintendent may only use and may only allow the use of state funds for activities that supplement the regular education program for students at risk of dropping out of school. Accordingly, compensatory education funds may be used for the following purposes.

- (a) Intensive instructional programs.
- (b) Concentrated instructional staff resources.
- (c) Reduction of class size
- (d) Teacher assistants.
- (e) Staff development activities for teachers and teacher assistants to add new competencies specifically designed to address the needs of students at risk of dropping out of school.
- (f) Extension of the instructional day, week and/or year.
- (g) Individual and small group tutorials.
- (h) Specialized computer-assisted instruction.
- (i) Specialized instructional equipment, materials and supplies.
- (j) Individualized instruction programs.
- (k) For a purpose included in the charter instructional plan and budget as approved and amended by the Board.

Sec. 5.7.7.5. Gifted and Talented Education.

The Superintendent may use and may allow the use of state funds provided for Gifted and Talented Education for gifted and talented programs and advanced placement courses designated as part of a gifted and talented program.

Sec. 5.7.7.6. Indirect Cost Limitation.

The Superintendent may use and may only allow the use of state funds provided for special programs for indirect costs up to the maximum allowed by state law and rule.

Sec. 5.7.8. Authorized Uses of Funds for Federal Programs

The Superintendent may use and may allow the use of Federal funds for those purposes authorized by Federal law, rule and grant requirement.

Sec. 5.7.9. Documentation Required.

The Superintendent shall prepare or cause to have prepared records for all uses of funds. All recorded uses of funds shall adequately demonstrate compliance with this policy.

Sec. 5.7.10. Administrative Procedures.

The Superintendent shall prepare administrative procedures as required to implement this policy.

Sec. 5.8.1. General Principle.

The Superintendent of PRIORITY CHARTER SCHOOLS (“PCS”) is charged with developing and implementing the monitoring systems described in this Policy

Sec. 5.8.1.1. State Requirements.

The Superintendent or designee shall develop and implement a system to monitor each individual PCS campus’s compliance with the following state requirements:

Sec. 5.8.1.1.1. Financial Solvency.

The Superintendent or designee shall monitor the financial solvency of each individual PCS campus through the use of historical, budgeted and projected financial and other relevant data. In developing the monitoring system for financial solvency the Superintendent shall consider the impact of the charter instructional plan for the current fiscal year and the long-term strategic plan for the subsequent three fiscal years. Additionally, the Superintendent shall consider conservative estimates of student enrollment, student attendance and revenue projections based upon historical data for the last five academic and fiscal years and data for the current and subsequent academic and fiscal year.

Sec. 5.8.1.2. Financial Accountability Rating System of Texas (FIRST).

The Superintendent or designee shall monitor the finances and operation of each individual PCS campus to attain a favorable FIRST rating. In developing the monitoring system for financial solvency the Superintendent shall consider the adequacy of the system of internal controls to ensure that it enables each individual PCS campus to achieve compliance with applicable legal requirements. To the degree appropriate and necessary, the Superintendent may consult with PCS’ independent auditor or other qualified professional to identify potential issues that may result in an unfavorable FIRST rating.

Sec. 5.8.1.3. Indirect Cost Limitation.

The Superintendent or designee shall monitor the budgeted and actual expenditures for the special allotments allocated to each individual PCS campus to ensure that the minimum required amount of state funds for each special program is expended. In developing the monitoring system for limiting the amount of indirect costs charged to each special program, the Superintendent shall consider the charter instructional plan and the total amount of common costs incurred to support PCS’ instructional and instructionally-related program and the special programs required by the state.

Sec. 5.8.2. Federal Requirements.

The Superintendent or designee shall develop and implement or cause to have developed and implemented a system to monitor each individual PCS campus's compliance with the following Federal requirements.

Sec. 5.8.2.1. Maintenance of Effort (MOE).

The Superintendent or designee shall monitor the finances and operation of each PCS campus to ensure that the minimal fiscal effort required by the Federal government for general and special education is attained. In developing the monitoring system for MOE the Superintendent shall consider the impact of the charter instructional plan for the current fiscal year.

Sec. 5.8.2.1.1. General Education.

In assessing PCS' compliance with the Federal MOE requirement for programs funded pursuant to the No Child Left Behind Act, the Superintendent or designee may consider the impact of exceptional or uncontrollable circumstances or a precipitous decline in financial resources.

Sec. 5.8.2.1.2. Special Education.

In assessing PCS' compliance with the Federal MOE requirement for programs funded pursuant to the Individuals with Disabilities Education Act, the Superintendent or designee may consider the impact of changes in staff and student enrollment, the termination of an exceptionally costly program provided to a particular child, the termination of costly expenditures for long-term purchases, and PCS' participation in the high cost grant program.

Sec. 5.8.2.2. Supplement; Not Supplant.

The Superintendent or designee shall monitor the finances and operation of each individual PCS campus to ensure that Federal funds are expended to supplement and not supplant non-Federal sources of funding. In developing the monitoring system for the proper use of Federal funds the Superintendent shall consider the charter instructional plan, the approved budget and subsequent amendments, the identified needs of the students enrolled in PCS, and the actual method of funding for a particular cost for the prior and current academic years.

Sec. 5.8.2.3. Excess Cost.

The Superintendent or designee shall monitor the finances and operation of each individual PCS campus to ensure that Federal funds are used only to pay the excess costs for students enrolled in the special education program.

Sec. 5.8.3. Projection of Potential Noncompliance.

The Superintendent or designee shall develop or cause to have developed monitoring systems that are based upon the regulatory models implemented by the Texas Education Agency.

Sec. 5.8.4. Requirement to be Exceeded.

To the degree feasible, the Superintendent or designee should develop monitoring systems that include additional data and indicators beyond those used by the Texas Education Agency in its regulatory models.

Sec. 5.8.5. Data to be Used.

To the degree feasible, the Superintendent or designee should develop or cause to have developed monitoring systems that include historical, budgeted, actual and projected data to be periodically updated to include actual, year-to-date data and revised projections.

Sec. 5.8.6. Monitoring Timeline.

To the degree feasible, the Superintendent or designee should develop or cause to have developed monitoring systems that produce results at the beginning, middle and end of the fiscal year.

Sec. 5.8.7. Corrective Action Plan.

Upon identifying a potential instance of noncompliance, the Superintendent or designee shall prepare a plan that addresses the condition(s) that resulted or may result in the School's failure to comply with the fiscal requirements addressed by this policy.

Sec. 5.8.8. Report to the Board.

At the beginning, middle and end of the fiscal year, the Superintendent shall report to the Board the status of each individual PCS campus's compliance with the critical state and Federal fiscal requirements addressed by this policy. In the event that an instance or potential instance of noncompliance is identified, the Superintendent shall inform the Board of PCS' corrective action plan undertaken or to be undertaken.

Sec. 5.8.9. Administrative Procedures.

The Superintendent shall prepare administrative procedures as required to implement this policy.

Sec. 5.9.1. Guiding Principle.

The Board of Directors (“Board”) and Superintendent of PRIORITY CHARTER SCHOOLS (“PCS”) shall make investments with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of PCS. Moreover, the Board and Superintendent shall invest funds in a manner comparable to that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

Sec. 5.9.2. Investment of Surplus Cash.

In general, the Board and Superintendent shall limit investments to surplus cash.

Sec. 5.9.3. Surplus Funds Defined.

Surplus cash means the amount of cash available in PCS’ bank account(s) that exceeds 20% of PCS’ total operating expenses for the fiscal year. Surplus cash does not include funds from state and/or Federal grants unless their investment is expressly authorized under the terms of the grant.

Sec. 5.9.4. Investment Objectives.

In general, the Board and Superintendent shall observe the following objectives when investing surplus cash.

- (a) Preservation and safety of principal.
- (b) Liquidity.
- (c) Yield.

Sec. 5.9.5. Applicability.

This policy applies equally to local, state and Federal funds to the degree allowed by applicable law and rule.

Sec. 5.9.6. Account Maintenance.

The Superintendent or designee shall ensure that investments are maintained in discrete and distinct accounts that separate funds pertaining to non-PCS activities, functions, programs and services from public funds.

Sec. 5.9.7. Investment Records.

The Superintendent or designee shall ensure that PCS creates and maintains accurate and complete records of any and all investments of PCS’ surplus cash.

Sec. 5.9.8. Contractual Considerations.

The Board and Superintendent shall ensure that investments are made in accordance with any applicable provision or covenant contained in a debt instrument, bond indenture, or similar agreement.

Sec. 5.9.9. Authorization Thresholds.

The Superintendent is authorized to investment an amount of surplus cash not exceeding \$100,000 for a period not exceeding one year in the authorized investments identified in this policy. Otherwise, the Superintendent shall recommend to the Board any investment of surplus cash exceeding \$100,000 or for a period exceeding one year.

Sec. 5.9.10. Authorized Investments.

Pursuant to Texas Education Code Section 12.1053(b)(3), the Board and Superintendent shall only invest surplus cash in accordance with Texas Government Code Sections 2256.009 through 2256.016 as delineated in this subsection.

Sec. 5.9.10.1. Obligations of or Guaranteed by a Governmental Entity.

Except as provided by Subsection 5.9.10.1.1, the following are authorized investments under this subsection.

- (a) Obligations, including letters of credit, of the United States or its agencies or 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) Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas, the United States, or their respective agencies or instrumentalities;
- (e) Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated not less than “A” or its equivalent as to investment quality by a nationally recognized investment rating firm; and
- (f) Bonds issued, assumed, or guaranteed by the State of Israel.

Sec. 5.9.10.1.1. Prohibited Investments.

The following investments are prohibited.

- (a) Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.

- (b) Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- (c) Collateralized mortgage obligations that have a stated final maturity date of greater than ten years.
- (d) Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Sec. 5.9.10.2. Certificates of Deposit and Share Certificates.

A certificate of deposit or share certificate is an authorized investment under this policy if the certificate is issued by a depository institution that has its main office or a branch office in the State of Texas and is:

- (a) Guaranteed or insured by the FDIC or its successor or the National Credit Union Share Insurance Fund or its successor;
- (b) Secured by obligations authorized in Section 5.9.10.1 above, including mortgage-backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, excluding those obligations described by Section 5.9.10.1.1; or
- (c) Secured in any other manner and amount provided by law for the deposits of PCS.

Sec. 5.9.10.2.1. Other Authorized Form.

An investment in a certificate of deposit is authorized under this subsection if it is made under the following conditions:

- (a) The funds are invested by PCS through a depository institution that is selected by the Board and that has its main office or a branch office in the State of Texas;
- (b) The depository institution selected by the Board arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of PCS;
- (c) The full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States;
- (d) The depository institution selected by the Board acts as custodian for PCS with respect to the certificates of deposit issued for the account of PCS; and
- (e) At the same time that the funds are deposited and the certificates of deposit are issued for the account of PCS, the depository institution selected by the Board receives an amount of deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the amount of the funds invested by PCS through the depository institution.

Sec. 5.9.10.3. Repurchase Agreements.

A fully-collateralized repurchase agreement is an authorized investment under this subsection if the repurchase agreement:

- (a) Has a defined termination date;
- (b) Is secured by obligations of the United States or its agencies and instrumentalities;
- (c) Is pledged to PCS, held in PCS' name, and deposited with PCS or a third party selected and approved by the Board; and
- (d) Is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas.

Sec. 5.9.10.3.1. Repurchase Agreement Defined.

For purposes of this policy, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described at Subsection 5.9.10.1 at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.

Sec. 5.9.10.3.2. Term of Agreement.

The term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.

Sec. 5.9.10.3.3. Use of Invested Funds.

Money received by PCS under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

Sec. 5.9.10.4. Securities Lending Programs.

A securities lending program is an authorized investment if it meets the following conditions:

- (a) The value of the securities loaned is at least 100% collateralized, including accrued income;
- (b) A loan made under the program must allow for termination at any time;
- (c) A loan made under the program is secured by:
 - (1) Pledged securities described in Subsection 5.9.10.1 above;
 - (2) Pledged irrevocable letters of credit issued by a bank that is organized and existing under the laws of the United States or any other state and

- continuously rated by at least one nationally recognized investment rating firm at not less than “A” or its equivalent; or
- (3) Cash invested in accordance with Subsections 5.9.10.1, 5.9.10.6, 5.9.10.7, or 5.9.10.9.
- (d) The terms of the loan require that the securities being held as collateral be:
 - (1) Pledged to PCS;
 - (2) Held in PCS’ name; and
 - (3) Deposited at the time the investment is made with PCS or with a third party selected or approved by the Board;
 - (e) The loan is placed through a primary government securities dealer¹ or a financial institution doing business in the State of Texas; and
 - (f) The agreement to lend securities has a term of one year or less.

Sec. 5.9.10.5. Banker’s Acceptances.

A banker’s acceptance is an authorized investment if it:

- (a) Has a stated maturity of 270 days or fewer from the date of its issuance;
- (b) Will be liquidated in full at maturity;
- (c) Is eligible for collateral for borrowing from a Federal Reserve Bank; and
- (d) Is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than “A-1” or “P-1” or an equivalent rating by at least one nationally recognized credit rating agency.

Sec. 5.9.10.6. Commercial Paper.

Commercial paper is an authorized investment if it:

- (a) Has a stated maturity of 270 days or fewer from the date of issuance; and
- (b) Is rated not less than “A-1” or “P-1” or an equivalent rating by at least:
 - (1) Two nationally recognized credit rating agencies; or
 - (2) One nationally recognized credit rating agency provided the commercial paper is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

Sec. 5.9.10.7. Mutual Funds.

No-load money market mutual funds are authorized if they:

¹ Primary government securities dealer shall be defined pursuant to the Code of Federal Regulations, Title 5, Section 6801.102(f) or its successor.

- (a) Are registered with and regulated by the Securities and Exchange Commission;
- (b) Provide PCS with a prospectus and other information required by the Securities and Exchange Act of 1934 (15 U.S.C. § 78a, *et seq.*) or the Investment Company Act of 1940 (15 U.S.C. § 80a-1, *et seq.*);
- (c) Have a dollar-weighted average stated maturity of 90 days or fewer; and
- (d) Include in their investment objectives the maintenance of a stable net asset value of \$1 for each share.

Sec. 5.9.10.7.1. Other Authorized Form.

An investment in a no-load market mutual fund is authorized under this subsection if the mutual fund:

- (a) Is registered with the Securities and Exchange Commission;
- (b) Has an average weighted maturity of less than two years;
- (c) Is invested exclusively in obligations approved by the Board in this policy;
- (d) Is continuously rated by at least one nationally recognized investment rating firm of not less than “AAA” or its equivalent; and
- (e) Conforms to the requirements in Section 2256.016(b) and (c) of the Texas Government Code relating to the eligibility of investment pools to receive and invest funds of investing entities.

Sec. 5.9.10.7.2. Prohibited Investments.

PCS may not invest:

- (a) In the aggregate more than 15% of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in no-load market mutual funds;
- (b) Any portion of bond proceeds, reserves, and funds held for debt service, in no-load market mutual funds; or
- (c) Funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described above in an amount that exceeds 10% of the total assets of the mutual fund.

Sec. 5.9.10.8. Guaranteed Investment Contracts.

A guaranteed investment contract is an authorized investment for bond proceeds if the guaranteed investment contract:

- (a) Has a defined termination date;
- (b) Is secured by obligations authorized by Section 5.9.10.1(a) above, excluding those obligations described by Subsection 5.9.10.1.1, in an amount at least equal to the amount of bond proceeds invested under the contract; and

- (c) Is pledged to PCS and deposited with PCS or with a third party selected and approved by the Board.

Sec. 5.9.10.8.1. Qualifying Requirements.

To be eligible as an authorized investment,

- (a) The Board has to specifically authorize guaranteed investment contracts as eligible investments in the order, ordinance, or resolution authorizing the issuance of bonds;
- (b) PCS must receive bids from at least three separate providers with no material financial interest in the bonds from which the proceeds were received;
- (c) PCS must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;
- (d) The price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and
- (e) The provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

Sec. 5.9.10.8.2. Limitation to Contract Term.

Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested in a guaranteed investment contract with a term longer than five years from the date of issuance of the bonds.

Sec. 5.9.10.9. Investment Pools.

An investment pool is an authorized investment if:

- (a) The Board authorizes the investment in the particular pool through policy or resolution; and
- (b) The investment pool only invests the funds that it receives in the investments authorized in this policy.

Sec. 5.9.10.9.1. Required Statement.

In order to invest surplus cash in the investment pool, the Superintendent or designee must receive an offering circular or other similar disclosure instrument containing, at a minimum, the following information:

- (a) The types of investments in which money is allowed to be invested;
- (b) The maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;

- (c) The maximum stated maturity date any investment security within the portfolio has;
- (d) The objectives of the pool;
- (e) The size of the pool;
- (f) The names of the members of the advisory board of the pool and the dates their terms expire;
- (g) The custodian bank that will safe keep the pool's assets;
- (h) Whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
- (i) Whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
- (j) The name and address of the independent auditor of the pool;
- (k) The requirements to be satisfied for PCS to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and
- (l) The performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

Sec. 5.9.10.9.2. Required Information.

In order to continue investing surplus cash in the investment pool, the Superintendent or designee must receive the following information:

- (a) Investment transaction confirmations; and
- (b) A monthly report that contains, at a minimum, the following information:
 - (1) The types and percentage breakdown of securities in which the pool is invested;
 - (2) The current average dollar-weighted maturity, based on the stated maturity date, of the pool;
 - (3) The current percentage of the pool's portfolio in investments that have maturities of more than one year;
 - (4) The book value versus the market value of the pool's portfolio, using amortized cost valuation;
 - (5) The size of the pool;
 - (6) The number of participants in the pool;
 - (7) The custodian bank that is safekeeping the assets of the pool;
 - (8) The yield and expense ratio of the pool;
 - (9) The portfolio managers of the pool; and
 - (10) Any changes or addenda to the offering circular.

Sec. 5.9.10.9.3. Other Requirements.

The Superintendent or designee shall monitor the investment pool's compliance with Subsections 5.9.10.9.2 and 5.9.10.9.3 above and the other statutory provisions promulgated in Section 2256.016 of the Texas Government Code.

Sec. 5.9.10.9.4. Delegation of Authority.

The Board may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with surplus cash.

Sec. 5.9.11. Required Training.

The Superintendent or designee shall receive continuing professional education pertaining to the appropriate investment of surplus cash in the authorized investments identified in this policy. Moreover, the Superintendent or designee shall require any PCS employee involved in the investment of public funds to receive the same training.

Sec. 5.9.12. Administrative Procedures.

The Superintendent shall prepare administrative procedures as required to implement this policy.