PART I: PREAMBLE

The Board of Directors (collectively, the "Board" or the "Directors," and individually a "Director") of The Academy of Accelerated Learning, Inc. (AAL) is committed to maintaining the highest legal and ethical standards in the conduct of the business of AAL, and to protecting the integrity and reputation of AAL, AAL Schools, the Board, and all AAL employees, volunteers, and programs.

The Directors and Officers (as defined below) shall exercise their duties honestly, in good faith, and with a high standard of diligence and care. Accordingly, the Directors and Officers shall ensure that they (1) do not compromise their independence of judgment, (2) preserve confidence and trust in the organization and the Board, and (3) protect and fulfill the mission of AAL. As such, this Policy will assist Directors and Officers as they identify actual or potential conflicts of interest, and with a procedure to address conflicts which may arise.

PART II: DEFINITIONS

The following terms shall have the following meaning in this policy:

(1) **Officer.** An officer is a member of the governing body of a charter holder, a member of the governing body of a charter school, or an officer of a charter school. An officer or director means a person charged with the duties of, or acting as, a Chief Executive Officer, a Central Administration Officer, a Campus Administration Officer, or a Business Manager, regardless of whether the person is an employee or contractor of a charter holder, charter school, management company, or any other person; or a volunteer working under the direction of a charter holder, charter school, or management company. A charter holder employee or independent contractor engaged solely in non-charter activities for the charter holder is not an "officer of a charter school." *19 Tex. Admin. Code § 100.1001(20)*.

(2) **Business entity**. A sole proprietorship, partnership, firm, corporation, holding company, joint-stock company, receivership, trust, agency, political subdivision, or any other entity recognized by law. *19 Tex. Admin. Code § 100.1145(a)(2)*.

(3) **Substantial interest in business entity**. A person has a substantial interest in a business entity if: (1) the person owns 10% or more of the voting stock or shares of the business entity or owns either 10% or more or $15,000 or more of the fair market value of the business entity; or (2) funds received by the person from the business entity exceed 10% of the person's gross income for the previous year. *19 Tex. Admin. Code § 100.1145(b)(1)-(2)*.

(4) **Substantial interest in real estate**. A person has a substantial interest in real estate, if the interest is an equitable or legal ownership with a fair market value of $2,500 or more.

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(5) **Substantial interest through a relative or family member**. A Director or Officer is considered to have a substantial interest if a person related to the Director or Officer within the third degree by consanguinity or the third degree by affinity (as defined below) has a substantial interest through a relative. *19 Tex. Admin. Code § 100.1145(d)*.

(6) **Family.** Family means a disqualified person's spouse, siblings, half-siblings, spouses of siblings, ancestors, children, grandchildren, great grandchildren, and spouses of children, grandchildren, and great grandchildren. *19 Tex. Admin. Code § 100.1001(25)(vi)*

(7) **Disqualified person.** A disqualified person is any person who was in a position to exercise substantial influence over the affairs of AAL at any time during the lookback period as further defined in IRS regulations. It is not necessary that the person actually exercise substantial influence, only that the person be in a position to do so.

PART III: ETHICAL PRINCIPLES

Sec. 1. PERSONAL AND PROFESSIONAL INTEGRITY

Directors and Officers shall conduct themselves in an honest and ethical manner, including the ethical handling of actual or apparent conflicts of interest, as set forth below.

Sec. 2. FINANCIAL STEWARDSHIP

As a tax-exempt public charity, AAL shall expend funds and record those expenditures in a manner that advances the charitable and educational mission and objectives of AAL, and not the private interests of Directors or Officers.

Sec. 3. PUBLIC ACCOUNTABILITY

AAL shall provide comprehensive and timely information in accordance with applicable state and federal law, and shall be responsive to reasonable requests for information about its activities. Additionally, informational data about AAL, such as IRS Form 990, audited financial statements and Annual Financial and Compliance Report, shall be made available to the public in accordance with applicable state and federal law.

Sec. 4. ACCURACY AND RETENTION OF RECORDS

AAL will create and maintain records that satisfy operational and legal requirements, including federal, state and local laws.

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Sec. 5. POLITICAL ACTIVITIES

As a 501(c)(3) tax-exempt public charity, AAL shall not engage in political activities. Directors and Officers shall not use their relationship with AAL to promote or oppose political candidates or parties, or to create the appearance that AAL endorses or opposes a political candidate or party for elected office.

Sec. 6. ENDORSEMENTS AND USE OF THE AAL NAME AND AFFILIATION

The AAL and AAL name, logo, letterhead, or other intellectual property may not be used by any person to endorse or gain support for a cause without prior authorization in writing from the Directors.

Sec. 7. QUESTIONS, CONCERNS OR REPORTS OF VIOLATIONS

Should a Director or Officer believe a colleague is violating the obligations or expectations of this Policy, or is otherwise acting in an illegal or unethical manner, it is his or her duty to report the matter to the President of the Board, or the Chief Executive Officer/Superintendent, as appropriate.

PART IV: CONFLICTS OF INTEREST

Sec. 1. COMPLIANCE WITH STATE LAW

AAL and its Officers and Directors shall comply with state law governing conflicts of interest among charter school and charter holder board members and officers, as described in Chapter 12 of the Texas Education Code and 19 Texas Administrative Code §§ 100.1143-100.1151, including, but not limited to the following:

a) ***Employees Serving on the Board***

(1) Except as otherwise provided by law, a person who receives "compensation or remuneration" (as defined by law and herein) from the nonprofit corporation holding AAL's open-enrollment charter may not serve on the Board, with the following exceptions:

(A) If each charter school operated by the Board as charter holder has received a satisfactory accountability rating, as defined by applicable law, for at least two of the preceding three school years, AAL employees may serve on the Board, as described below, and as provided by law.

(B) If the charter holder has operated at least one charter school which reported attendance that occurred prior to September 2, 2001, but no charter school operated by the charter holder has received a sufficient number of substantive ratings to determine whether it has received a satisfactory rating for at least two of the preceding three school years,

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then AAL employees may serve on the governing body of the charter holder, as provided by law.

(C) An employee of AAL may serve as a Director if: (i) only employees of AAL, and not employees of the Board, serve on the Board; (ii) the compensation or remuneration received by that Director is limited to salary, bonuses, benefits, or other compensation received pursuant to the employment relationship with AAL; (iii) AAL employees do not constitute a quorum of the Board or any committee of the Board; and (iv) all AAL employees serving on the Board comply with all applicable conflict of interest provisions required by law.

b) ***Conflicts Requiring an Affidavit and Abstention from Voting***

The following circumstances shall be deemed a Conflict of Interest (as defined below), and the Director or Officer shall, in addition to the procedures set forth in Part III, Section 3 (Conflict of Interest Procedures), take the following action:

(1) If a Director or Officer has a substantial interest in a business entity or in real property, the Director or Officer shall file, before a vote, decision, or other action on any matter involving the business entity or the real property, an affidavit stating the nature and extent of the interest, and shall abstain from further participation in the matter if:

(A) In the case of a substantial interest in a business entity, the vote, decision, or other action on the matter will have a special economic effect on the business entity that is distinguishable from the effect on the public; or

(B) In the case of a substantial interest in real property, it is reasonably foreseeable that a vote, decision, or other action on the matter will have a special economic effect on the value of the property, distinguishable from its effect on the public.

(2) The affidavit described above is filed with the Secretary of the Board.

(3) The Director or Officer filing the affidavit shall abstain from further participation in the matter requiring the affidavit. A Director or Officer filing the affidavit shall abstain from further participation in the matter requiring the affidavit unless a majority of the Board is composed of persons who are likewise required to file, and who do file affidavits of similar interests on the same official action.

c) ***Separate Vote on Budget Item***

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The Directors shall take a separate vote on any budget item specifically dedicated to a contract with a business entity in which a Director has a substantial interest. Abstention is required, except as provided above and in 19 Texas Administrative Code § 100.1147(c), otherwise the affected Director may not participate in that separate vote. The affected Director may vote on a final budget if: (1) the affected Director has complied with the above-stated requirements; and (2) the matter in which the affected Director is concerned has been resolved.

Sec. 2. STATEMENT ON FEDERAL LAW

AAL and its Officers and Directors shall comply with the federal regulations regarding private benefit and excess benefit transactions as described in Section 4958 of the Internal Revenue Code and 26 C.F.R. § 53.4958 (the "federal tax rules") when it is contemplating entering into a transaction or arrangement that may benefit the private interest of a Director or Officer or other individual deemed to be a disqualified person under the federal tax rules. A "disqualified person" includes Directors and Officers, and any person who is in a position to exercise substantial influence over the affairs of the corporation. A "disqualified person" includes Family (as defined in Section II of this policy) of the disqualified person.

a) ***Interested Person***

Any Director or Officer, employee, or member of a committee with powers delegated by the Board who has a direct or indirect interest, as defined below, is an "Interested Person."

(1) A person has an "Interest" if the person has, directly or indirectly, through business, investment, or Family:

(A) an ownership or investment interest, directly or indirectly, in any entity with which AAL has a transaction or arrangement;

(B) a compensation arrangement with AAL, or with any entity or individual with which AAL has a transaction or arrangement; or

(C) a potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which AAL is negotiating a transaction or arrangement.

(2) "Compensation" is defined to include direct and indirect remuneration, as well as gifts or favors that are not insubstantial.

(3) A person has an "Interest" if the person has a substantial interest in a business entity or a substantial interest in real property as described in Part III, Section 2-a-1 above.

b) ***Interested Person with Conflict of Interest***

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An Interested Person shall have a Conflict of Interest (as defined in this policy) only if the Board or the appropriate committee determines that a Conflict of Interest exists in accordance with the procedures set forth below.

Sec. 3. CONFLICT OF INTEREST PROCEDURES

a) ***Duty of Prior Disclosure***

In connection with any actual or potential conflict of interest, an Interested Person shall disclose the existence of the Interest in writing to the Board as soon as he or she has knowledge of it, and the Board shall give such Interested Person the opportunity to disclose all material facts related thereto to the Board or designated committee considering the proposed transaction or arrangement. Such written disclosure shall be made part of and set forth in the Board minutes. In any event, the disclosure of any actual or potential conflict of interest by an Interested Person should occur prior to any consideration of the proposed transaction by the Board.

(1) **Transaction Not Subject to Board Action.** An Interested Person with any actual or potential conflict of interest with respect to a transaction or arrangement that is not the subject of Board action shall disclose to the President of the Board or Superintendent, any such Interest. Such disclosure shall be made as soon as the Interest is known to the Interested Person.

(2) **Untimely Disclosure.** If an Interested Person fails to disclose the Interest before the Board acts on a transaction as to which a Director has an Interest, then the Interested Person shall promptly submit a written statement to the Board setting forth all material facts regarding the Interest, along with an explanation concerning the untimely nature of the notice.

(3) **Failure to Disclose.** If the Board has reasonable cause to believe that an Interested Person failed to disclose an Interest, the Board shall inform the Interested Person of the basis for such belief and afford the Interested Person an opportunity to explain the alleged failure to disclose. After hearing the Interested Person's explanation, and conducting such investigation as may be warranted under the circumstances, the Board may determine that the Interested Person failed to disclose an actual Conflict of Interest. In such event, the Board shall vote on the appropriate corrective action.

b) ***Determining Whether a Conflict of Interest Exists***

After disclosure of the Interest and all material facts related thereto, the Interested Person shall leave the meeting of the Board or designated committee while a determination is made by disinterested Directors as to whether a conflict of interest ("Conflict of Interest") exists. No Director shall vote on any matter in which he or she has a Conflict of Interest.

c) ***Vote by Disinterested Directors***

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(1) **Nonparticipation of Directors with Conflict.** A Director who has a Conflict of Interest shall neither vote nor participate in, nor be permitted to hear the Board's discussion of the matter, except to disclose material facts and to respond to questions. Such Director shall not attempt to exert his or her influence with respect to the matter, either before, during, or outside of the Board meeting.

(2) **Action by Disinterested Directors.** If the Board concludes that a Conflict of Interest exists, the Board shall determine by voting whether the transaction should be authorized, approved or ratified. The vote shall be conducted as follows:

(A) Except as otherwise permitted by law, Directors with a Conflict of Interest shall leave the room in which the meeting is conducted.

(B) Except as otherwise allowed by law, and as set forth in Part III, Section 1-b-3 (Conflicts Requiring an Affidavit and Abstention from Voting), a majority of the disinterested Directors, without regard to any quorum requirement, must vote affirmatively for the transaction to be authorized, approved or ratified. However, a transaction cannot be authorized, approved or ratified by a single Director.

(3) **Vote Not Disallowed by Presence of Directors with a Conflict.** The presence of, or a vote cast by, a Director with a Conflict of Interest in a transaction does not affect the validity of a vote regarding the transaction if the transaction is otherwise authorized, approved or ratified, as prescribed herein.

(4) **Circumstances in Which Comparability Data is Necessary**. If the transaction involves compensation for services of a Director, an Officer, or other individual deemed to be a disqualified person (as defined above at page 6(B)) under the federal tax rules, or if the transaction involves the transfer of property or other benefit to a Director, Officer, or other individual deemed to be a disqualified person under the federal tax rules, the disinterested Directors or committee must determine that the value of the economic benefit provided by AAL to the Interested Person or Persons does not exceed the value of the consideration received in exchange by obtaining and reviewing appropriate comparable data ("Comparability Data").

(A) When considering the comparability of compensation for example, the relevant data which the Board or committee may consider includes, but is not limited to, the following: (i) compensation levels paid by similarly-situated schools; (ii) the availability of similar services within the same geographic area; (iii) current compensation surveys compiled by independent firms; and (iv) written offers from similar institutions competing for the same person's services. When the transaction involves the transfer of real property as compensation, the relevant factors include, but

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are not limited to: (i) current independent appraisals of the property, and (ii) offers received in a competitive bidding process.

(B) Based on the Comparability Data, the Board or committee shall determine, by a majority vote of the disinterested Directors or committee members, whether the transaction or arrangement is fair and reasonable to AAL. In conformity with the above determination, the Board or committee shall make its decision as to whether to enter into the transaction or arrangement.

(C) If such transaction or arrangement is approved by the Board or committee, the Comparability Data and the approval shall be made part of the Board minutes in accordance with Part III, Section 3-d (Documentation) below.

d) ***Documentation***

The Board Secretary shall keep accurate minutes reporting:

(1) **Interest Disclosed; Determination of Conflict of Interest.** That the Interested Person(s) disclosed the Interest and the Board determined whether a Conflict of Interest exists. The minutes should include:

(A) The name(s) of the person(s) who disclosed or otherwise were found to have an Interest in connection with an actual or possible Conflict of Interest, the nature of the Interest, any action taken to determine whether a Conflict of Interest was present, and the Board's or committee's decision as to whether a Conflict of Interest in fact existed.

(B) The names of the persons who were present for discussions and votes relating to the Conflict of Interest, the content of the discussion, including any alternatives to the proposed transaction or arrangement, and a record of any votes taken in connection with the proceedings.

(C) A completed Affidavit of Abstention complying with Chapter 171 of the Texas Local Government Code and 19 Texas Administrative Code §§ 100.1143-1149 (*see* Affidavit Exhibit A).

(2) **Nonparticipation of Directors with Conflict.** That the Director or Directors with an Interest or a Conflict of Interest left the room and did not participate in the determination of whether a Conflict of Interest exists or the vote regarding the transaction or arrangement;

(3) **Comparability Data.** The Comparability Data considered and relied upon by the Board in its consideration of the transaction or arrangement; and

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(4) **Vote of Disinterested Directors.** That the remaining disinterested Directors reviewed the Transaction and voted upon it, and the result of their vote.

Sec. 4. COMPENSATION

(1) A Director who receives compensation, directly or indirectly, from AAL for services is precluded from voting on matters pertaining to that Director's compensation.

(2) A voting member of any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from AAL for services is precluded from voting on matters pertaining to that member's compensation.

(3) No voting member of the Board or any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from AAL, either individually or collectively, is prohibited from providing information to any committee regarding compensation.

(4) Except with respect to Board decisions regarding a *bona fide* class or category of employees pursuant to Texas Government Code § 573.062(b), a voting member of the Board or any committee whose jurisdiction includes compensation matters is precluded from voting on personnel matters (including matters related to compensation) concerning a person related within the third degree by consanguinity or within the second degree by affinity (as defined below and as specified by Texas Government Code § 573.002).

Sec. 5. ADDITIONAL PROHIBITION

No administrator, officer, or employee of **AAL** and no member of the governing body of the charter school or its charter holder may derive any personal financial benefit from a real estate transaction with **AAL**.

Sec. 6. DISCLOSING VENDOR RELATIONSHIPS

AAL and its Officers and Directors shall comply with the state law disclosure requirements regarding relationships between vendors who conduct business with AAL as described in Chapter 176 of the Texas Local Government Code.

a) ***Conflict Disclosure Statements by School Directors, the Superintendent, and Purchasing Agents***

(1) The AAL Directors, Superintendent, or any other agent of AAL who exercises discretion in the planning, recommending, selecting, or contracting of a vendor for the Charter School

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(hereinafter "Covered Individuals") must file a Conflicts Disclosure Statement with respect to a vendor if:

a. The vendor enters into a contract with AAL or AAL is considering entering a contract with the vendor, and the vendor has an employment or other business relationship with a Covered Individual or with a family member of a Covered Individual that will result in the Covered Individual or the family member of the Covered Individual receiving taxable income that exceeds $2,500 during the 12-month period preceding the date that the Covered Individual became aware that a contract between AAL and the vendor has been executed or AAL is considering entering into a contract with the vendor.

b. The vendor has given to a Covered Individual or a family member of a Covered Individual one or more gifts that have an aggregate value of more than $100 in the 12-month period preceding the date the Covered Individual becomes aware that a contract between AAL and the vendor has been executed or AAL is considering entering into a contract with the vendor.

c. The vendor has a family relationship with a Covered Individual.

(2) A Covered Individual is not required to file a Conflicts Disclosure Statement in relation to a gift accepted by the Covered Individual or a family member of the Covered Individual if the gift is a political campaign contribution, officeholder contribution, or food accepted as a guest. A Covered Individual is not required to file a Conflicts Disclosure Statement if the vendor is an administrative agency.

(3) A Covered Individual must file the Conflicts Disclosure Statement with the person responsible for maintaining AAL records or the designated AAL representative who maintains the statements and questionnaires filed under this policy by 5:00 p.m. on the seventh business day after the date on which the Covered Individual becomes aware of the facts that require the filing of the Conflicts Disclosure Statement.

(4) The Texas Ethics Commission provides the required Conflicts Disclosure Statement Form online at: (FORM CIS).

b) ***Vendor Submission of Conflict of Interest Questionnaires***

(1) A vendor must complete and file a Conflict of Interest Questionnaire if the vendor has a business relationship with AAL and:

a. Has an employment or other business relationship with a Covered Individual or with a family member of a Covered Individual; or

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b. Has given a Covered Individual or a family member of a Covered Individual one or more gifts with the aggregate value of more than $100; or

c. Has a family relationship with a Covered Individual.

(2) A vendor must file the completed Conflict of Interest Questionnaire with the appropriate person responsible for maintaining AAL records or the designated representative who maintains the statements and questionnaires filed under this policy by the seventh business day after the later of the date of:

a. The date that the vendor begins discussions or negotiations to enter into a contract with AAL or submits to AAL an application, response to a request for proposals or bids, correspondence or another writing related to a potential contract with AAL; or

b. The date that the vendor becomes aware of an employment or other business relationship with a AAL Officer or Director or a family member of a AAL Officer or Director; that the vendor has given one or more gifts as described above; or of a family relationship with a AAL Officer or Director.

(3) A vendor must file an updated completed Conflict of Interest Questionnaire with the appropriate person responsible for maintaining AAL records or the designated representative who maintains the statements and questionnaires filed under this policy by the seventh business day after the date on which the vendor becomes aware of an event that would make a statement in the questionnaire incomplete or inaccurate.

(4) A Covered Individual who also serves as a AAL vendor is required to file the questionnaire if the Covered Individual enters or seeks to enter into a contract with AAL or is an agent of a person who enters or seeks to enter into a contract with AAL.

(5) The Texas Ethics Commission provides the required Conflict of Interest Questionnaire form online at: (FORM CIQ).

c) ***Additional Requirements***

(1) **Maintaining Records**. The person responsible for maintaining AAL records or the designated representative who maintains the statements and questionnaires filed under this policy must maintain a list of Covered Individuals and make the list available to the public and any vendor who may be required to file a Conflict of Interest Questionnaire. This person must also maintain the statements and questionnaires that are required to be filed under these policies in accordance with AAL's records retention schedule.

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(2) **Electronic Filing**. The filing requirements of Chapter 176 of the Texas Local Government Code, including signature requirements, may be satisfied by electronic filing in a form approved by the Texas Ethics Commission.

(3) **Internet Posting**. If AAL maintains an Internet website, the school must provide access to the statements and to questionnaires required to be filed under these policies on that website.

(4) **Requirements Cumulative**. The disclosure requirements under Chapter 176 of the Texas Local Government Code are in addition to any other disclosure required by law.

d) ***Enforcement***

(1) A Covered Individual commits an offense under Chapter 176 of the Texas Local Government Code if the Officer or Director is required to file a Conflicts Disclosure Statement and knowingly fails to timely file the statement.

(2) A vendor commits an offense under Chapter 176 of the Texas Local Government Code if the vendor is required to file a Conflict of Interest Questionnaire and knowingly fails to timely file the questionnaire or knowingly fails to file an updated questionnaire after becoming aware of an event that would make the previously filed questionnaire incomplete or inaccurate.

(3) Offenses under Chapter 176 of the Texas Local Government Code are classified as Class A-C misdemeanors depending on the contract price.

(4) AAL may reprimand, suspend, or terminate the employment of an employee who knowingly fails to comply with a requirement under these policies.

(5) The Board may, at its discretion, declare a contract void if the governing body determines that a vendor failed to file a Conflict of Interest Questionnaire.

Sec. 7. ADDITIONAL VENDOR RELATIONSHIP CONSIDERATIONS

Texas Education Code § 11.067 imposes potential criminal penalties, up to and including a State Jail felony, for any vendor that bids on or contracts with AAL that has a board member who: 1) has a substantial interest in the vendor or any subcontractor hired by the vendor; 2) is related in the second degree of consanguinity or affinity to the vendor; or 3) has received a gift or benefit valued at more than $250. For purposes of this law, "vendor" is very broadly defined as a company, individual, contractor, subcontractor, or professional services provider the charter school has entered into an agreement, contract, MOU, interlocal agreement, fee schedule, retainer, or similar agreement. Further, a board member is deemed to have a "substantial interest" if the board member owns more than 10% of the voting interest in the vendor or has a direct or indirect participating

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interest in shares, stock, or otherwise in more than 10% of the profits, proceeds or capital gains of the vendor.

Tex. Educ. Code § 11.067.

PART V: NEPOTISM

Sec. 1. NEPOTISM GENERALLY PROHIBITED

A Director or Officer may not hire, select, appoint, confirm the appointment of, or vote for the hiring, selection, appointment, or confirmation of an individual who is to be directly or indirectly compensated from public funds or fees of office, if:

(1) The person is related to the Director or Officer by consanguinity (blood) within the third degree or by affinity (marriage) within the second degree (as defined below); or

(2) The Director or Officer holds the appointment or confirmation authority as a member of a local board and the person is related to another member of the Board by blood or marriage within a prohibited degree. *Tex. Gov't. Code §§ 573.002, 573.041*.

(3) Refer to attached diagram, Exhibit B.

Sec. 2. EMPLOYEES AND INDEPENDENT CONTRACTORS COVERED

The nepotism law governs the hiring of an individual, whether the individual is hired as an employee or as an independent contractor.

Sec. 3. PAYMENT TO PROHIBITED PERSON

A Director or Officer may not approve an account or draw or authorize the drawing of a warrant or order to pay the compensation of an ineligible person if the Director or Officer knows the person is ineligible. *Tex. Gov't. Code § 573.083; 19 Tex. Admin. Code § 100.1141*.

Sec. 4. RELATION BY CONSANGUINITY

Two persons are related to each other by consanguinity (blood) if one is a descendant of the other or if they share a common ancestor. An adopted child is considered to be a child of the adoptive parents for this purpose. *Tex. Gov't. Code § 573.022*.

a) *Third Degree of Consanguinity*

An individual's relatives within the third degree by consanguinity are the individual's:

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(1) Parent or child (first degree);

(2) Brother, sister, grandparent, or grandchild (second degree); and

(3) Great-grandparent, great-grandchild, aunt or uncle (who is a sibling of a parent of the person), nephew or niece (who is a child of a brother or sister of the person) (third degree). Texas Government Code § 573.023.

Note: There is no distinction under the nepotism statute between half-blood and full-blood relations. Thus, half-blood relationships fall within the same degree as those of the full blood. *See* Exhibit B.

Sec. 5. RELATION BY AFFINITY

Two persons are related to each other by affinity (marriage) if they are married to each other, or if the spouse of one of the persons is related by consanguinity to the other person. The ending of a marriage by divorce, or the death of a spouse ends relationships by affinity created by that marriage unless a child of the marriage is living, in which case the marriage is considered to continue as long as a child of that marriage lives. This provision applies to a Board member or Officer only until the youngest child of the marriage reaches the age of 21 years. *Tex. Gov't Code § 573.024*.

a) *First Degree of Affinity*

A husband and wife are related to each other in the first degree by affinity. For other relationships, the degree of affinity is the same as the degree of the underlying relationship by consanguinity. For example, if two persons are related to each other in the second degree by consanguinity, the spouse of one of the persons is related to the other person in the second degree by affinity.

b) *Second Degree of Affinity*

If two individuals are related to each other in the second degree by consanguinity, the spouse of one of the individuals is related to the other individual in the second degree by affinity.

c) *Third Degree of Affinity*

An individual's relatives within the third degree of affinity are:

(1) Anyone related by consanguinity to the person's spouse within the first or second degree; and

(2) The spouse of anyone related to the person by consanguinity within the first or second degree. *Tex. Gov't. Code § 573.025*.

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Sec. 6. EXCEPTIONS FOR EXISTING EMPLOYEES/CONTINUOUS EMPLOYMENT

The nepotism prohibitions do not apply to the appointment of a person to a position if the person is employed in the position immediately before the election or appointment of the Director or Officer to whom the person is related in a prohibited degree, and that prior employment is continuous for at least:

(1) Thirty days, if the Director or Officer is appointed;

(2) Six months, if the Director or Officer is elected. *Tex. Gov't Code* § 573.062(a); or

(3) A person who was not restricted or prohibited under Texas Education Code § 12.1055 as it existed before September 1, 2013, from being employed by AAL and who was employed by AAL before September 1, 2013, is considered to have been in continuous employment as provided by Texas Government Code § 573.062(a), and is not prohibited from continuing employment with AAL. *Tex. Educ. Code § 12.1055(d)*.

a) *Continuous Employment Exception*

For purposes of calculating the appropriate date for the applicability of the continuous-employment exception, a superintendent with final authority to select personnel is an appointed Director or Officer. *Atty. Gen. Op. GA-177 (2004).* If an employee continues in a position under this exception, the Director or Officer to whom the employee is related in a prohibited degree may not participate in any deliberation or voting on the appointment, reappointment, employment, reemployment, change in status, compensation, or dismissal of the employee, if the action applies only to the employee and is not taken regarding a *bona fide* class or category of employees. *Tex. Gov't Code § 573.062(b)*. A "change in status" includes a reassignment within an organization, whether or not a change in salary level accompanies the reassignment. *Atty. Gen. Op. JC-193 (2000).* For an action to be "taken with respect to a *bona fide* category of employees," the officeholder's action must be based on objective criteria, which do not allow for the preference or discretion of the officeholder. *Atty. Gen. Op. DM-46 (1991).* The nepotism prohibitions do not apply to appointment or employment of a substitute teacher. *Tex. Gov't Code § 573.061*.

b) *Retired Teachers*

A teacher who has retired from a full-time, certified teacher position has broken his or her employment with AAL, and does not qualify for the continuous employment exception to the nepotism laws. *Atty. Gen. Op. JC-442 (2001).*

Sec. 7. OTHER NEPOTISM EXCEPTIONS

The nepotism exceptions described in 19 Texas Administrative Code § 100.1139 also apply.

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Notwithstanding an exception, a Director or Officer related in a prohibited degree may not participate in any deliberation or voting on the appointment, reappointment, or confirmation of same, employment, reemployment, change in status, compensation, or dismissal of an individual, unless the action is taken regarding a *bona fide* class or category of employees.

Sec. 8. TRADING PROHIBITED

A Director or Officer may not hire, select, appoint, confirm the appointment of, or vote for the hiring, selection, appointment, or confirmation of an individual to a charter position in which the individual's services are under the Director or Officer's direction or control if:

(1) The person is related to another Director or Officer within the prohibited degree; and

(2) The appointment would be carried out, in whole or in partial consideration for the other Director or Officer's hiring, selecting, appointing, confirming, or voting for an individual who is related to the first Director or Officer within a prohibited degree. *Tex. Gov't Code § 573.044*.

Sec. 9. SOURCE OF FUNDING IRRELEVANT

The rules against nepotism apply to employees paid with public funds, regardless of the source of those funds. Thus, the rules apply in the case of a teacher paid with funds from a federal grant. *Atty. Gen. L.A. No. 80 (1974).*

Sec. 10. ENFORCEMENT OF NEPOTISM PROHIBITIONS

In accordance with state law, a Director or Officer who violates the nepotism regulations shall be removed from office by the Board. A failure to thus remove is a material charter violation.

(1) Removal must be in accordance with the Articles and Bylaws of AAL and in accordance with the terms of the charter and other state and federal law.

(2) A Director or Officer violating the nepotism laws may also be removed by the Attorney General and may be subject to criminal and other penalties.

Sec. 11. DELEGATION OF HIRING AUTHORITY & NEPOTISM EXCEPTIONS

Under commissioner rule, the Chief Executive Officer/Superintendent has final authority to hire and fire all school employees. 19 Texas Administrative Code § 100.1113(a)(2). However, the Board may, by charter amendment approved by TEA, seek to not delegate or to otherwise delegate final authority to select AAL personnel in another manner or to reserve such authority to the Board.

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Under the default commissioner rule, unless there is an approved charter amendment, the Chief Executive Officer/Superintendent is a "public official" for purposes of Chapter 573 of the Texas Government Code, with respect to a decision made under that delegation of authority. Texas Education Code § 11.1513(f). As such, if the Chief Executive Officer/Superintendent has retained under the law final authority to select AAL personnel, the Chief Executive Officer/Superintendent may not hire, select, appoint, confirm the appointment of, or vote for the hiring, selection, appointment, or confirmation of an individual who is to be directly or indirectly compensated from public funds or fees of office, if:

(1) The person is related to the Chief Executive Officer/Superintendent by consanguinity (blood) within the third degree or by affinity (marriage) within the second degree; or

(2) The person is related to a Board member by blood or marriage within a prohibited degree. *Tex. Gov't Code §§ 573.002, 573.041.*

An individual who is related to the Chief Executive Officer/Superintendent within the relevant level or consanguinity (blood) or by affinity (marriage) and was employed by AAL before September 1, 2013 is considered to have been in continuous employment as provided by Texas Government Code § 573.062(a), and is not prohibited from continuing employment with AAL.

Notwithstanding the above, each Director remains subject to Chapter 573 of the Texas Government Code with respect to all AAL employees. This nepotism exception may only be enacted by commissioner approved charter amendment. *Tex. Educ. Code §§ 11.1513(f), 12.1055*.

PART VI: RELATED PARTY TRANSACTIONS

Sec. 1. COMPLIANCE WITH COMMISSIONER RULE

AAL shall comply with all rules issued by the Commissioner of Education concerning related party transactions under Tex. Educ. Code §§ 12.1166–.1167. This includes any rule concerning notification to the Commissioner if AAL intends to enter into a transaction with a related party and provide an appraisal from a certified appraiser to the Texas Education Agency.

Sec. 2. DEFINITIONS

For purposes of this policy, the term "related party" includes:

(1) a person who is:
   a. a current or former (within the last five years) board member for AAL or the charter school;
   b. a current or former (within the last five years) administrator for AAL or the charter school;

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c. a current or former officer of a charter school;
d. a person who is related to a person described in clauses (a)-(c) of this subparagraph within the third degree of consanguinity or second degree of affinity, as determined under Chapter 573 of the Texas Government Code;
e. a person who within the last five years ending on the date of the transaction was in a position to exercise substantial influence over AAL including any "disqualified person" as defined under Internal Revenue Code ("I.R.C.") § 4958, or Treasury Regulation 26 C.F.R §53.4958-3;
f. a family member of a person described in clause (e) of this subparagraph, which includes: (i) the person's spouse or ancestor; or (ii) the person's children, grandchildren, great grandchildren, siblings, half-siblings, and their spouses;
g. any person described in clause (e) or (f) of this subparagraph with respect to an organization described in I.R.C. §509(a)(3), that was organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of AAL; or
h. any person who is a donor or donor advisor;

(2) an entity that:
a. is related to AAL;
b. is participating in a joint venture with AAL;
c. is jointly governed with AAL;
d. has a current or former (within last five years) board member, administrator, or officer who is either: (i) a current board member, administrator, or officer of AAL or AAL; or (ii) related to within the third degree of consanguinity or second degree of affinity of a person described in clause (i) of this subparagraph as determined under Chapter 573 of the Texas Government Code;
e. is more than 35% controlled by individuals described in part 1(e) and (f) of this section, including: (i) a corporation in which such persons own more than 35% of the total combined voting power; (ii) a partnership in which such persons own more than 35% of the profits interest; (iii) a trust or estate in which such persons own more than 35% of the beneficial interest; or (iv) an entity for which the constructive ownership rules of I.R.C. § 4946(a)(3) and (a)(4) apply; or
f. Any private foundation as described in I.R.C. § 509(a)(3) that: (i) is organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of AAL; and (ii) meets the control test in section 2(e);

(3) a donor-advised fund if a donor (or any person appointed or designated by such donor) has, or reasonably expects to have, advisory privileges with respect to the distribution or investment of amounts held in such fund or account by reason of the donor's status as a donor;
(4) any person or entity associated with the section regarding sponsoring entity;
(5) a lender providing secured or unsecured debt to AAL or AAL other than bonds or tax-exempt facility financing, for any transaction other than the loan or note agreement; or
(6) a major donor to AAL or AAL under a written grant agreement or other contract, for any transaction with the donor other than the written grant agreement.

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19 Tex. Admin. Code § 1001(25).

Sec. 3. AUDIT BY COMMISSIONER

If the aggregate amount of all transactions between AAL and a related party exceeds $5,000.00, the Commissioner may conduct an audit of such transaction. If the Commissioner determines a transaction with a related party using funds received under Texas Education Code § 12.106 was structured in a manner that did not benefit AAL or that the transaction was in excess of fair market value, the Commissioner may order that the transaction be reclassified or that other action be taken as necessary to protect AAL's interests. Failure to comply with the Commissioner's order is a material charter violation.

Sec. 4. ANNUAL AUDIT DISCLOSURE

AAL must include in its annual audit a list of all transactions with a related party. Additionally, the annual audit must separately disclose:

1. All financial transactions between AAL and any related party, separately stating the principal, interest, and lease payments; and
2. The total compensation and benefits provided by AAL and any related party for each member of the Board and each officer and administrator of AAL and the related party.

Tex. Educ. Code § 12.1168; *19 Tex. Admin. Code § 100.1069(c)*.

PART VII: CONFIDENTIALITY

A Director and Officer shall exercise care not to disclose Confidential Information. Confidential Information is information deemed confidential by law, and any information not generally known or publicly available, or that AAL maintains as confidential, proprietary, restricted, or otherwise as not to be disclosed generally, and any information that the Board or AAL otherwise determines or deems as Confidential Information.

A Director shall not use AAL property, Confidential Information, or the status of his or her position to solicit business for others, or in any other manner obtain a private financial, social or political benefit.

PART VIII: DISCLOSURE AND ANNUAL REVIEW

Sec. 1. NEW DIRECTORS AND OFFICERS

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Each new Director and Officer shall review a copy of this Policy and shall complete the Annual Statement of Disclosure and Compliance attached hereto as Exhibit C. The Board shall treat completed Annual Statements of Disclosure and Compliance as Confidential Information.

Sec. 2. PERIODIC REVIEW

To ensure that AAL operates in a manner consistent with charitable purposes, and does not engage in activities that could jeopardize its tax-exempt status, periodic reviews shall be conducted. The periodic reviews shall, at a minimum, include the following subjects: (i) whether compensation arrangements and benefits are reasonable based on competent survey information, and are the result of arm's length bargaining; (ii) whether partnerships, joint ventures, and arrangements with management organizations conform to AAL's written policies, are properly recorded, reflect reasonable investment or payments for goods and services, further charitable purposes, and do not result in inurement, impermissible private benefit or in an excess benefit transaction.

Sec. 3. ANNUAL REVIEW

Each current Director and Officer shall complete the Annual Statement of Disclosure and Compliance attached hereto as Exhibit C. The Board shall treat completed Annual Statements of Disclosure and Compliance as Confidential Information.

Sec. 4. APPLICABLE LAW

This Policy is supplemental to and does not replace federal, state or local laws governing conflicts of interest applicable to charter schools and charitable organizations. When in conflict, the applicable law shall control.

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EXHIBIT A
AFFIDAVIT OF ABSTENTION

STATE OF TEXAS §
§
COUNTY OF _____ §

I, _____, a local public official, make this affidavit and hereby under oath state the following:

I have a substantial interest in a business entity or real property that may receive a special economic effect that is distinguishable from the effect on the public by an action contemplated by AAL.

The business entity or real property in which I have a substantial interest is: [*name and address of business and/or description of property*]:

_____

_____

_____

I or a person that is related to me within the first degree of consanguinity (blood) or affinity (marriage) as defined by state law has a substantial interest in this business entity or real property for the following reasons [*check all that apply*]:

☐ an ownership interest of 10 percent or more of the voting stock or shares of the business entity;

☐ an ownership interest of 10 percent or more or $15,000 or more of the fair market value of the business entity;

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☐ funds received from the business entity exceed 10 percent of _____ (my, his, her) gross income for the previous year;

☐ real property is involved and _____ (I, he, she) have/has an equitable or legal ownership with a fair market value of at least $2,500;

Upon filing of this affidavit with the official record keeper of AAL, I affirm that I shall abstain from voting or further participating in any matter involving the business entity or real property, unless allowed by law.

SIGNED this the _____ day of _____, 20___.

_____
Signature of Affiant

_____
Title

Before me, the undersigned authority, this day personally appeared _____ _____ (Affiant Name) and by oath swore that the facts herein above stated are true and correct to the best of his/her knowledge or belief.

SWORN TO and SUBSCRIBED before me on the _____ day of _____, 20__.

_____
Notary Public, State of Texas

(seal) My commission expires: _____

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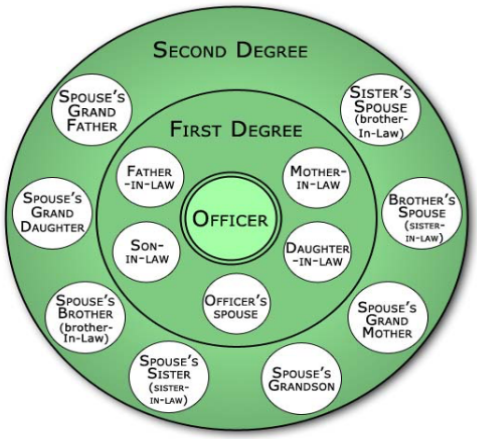
EXHIBIT B

NEPOTISM CHART

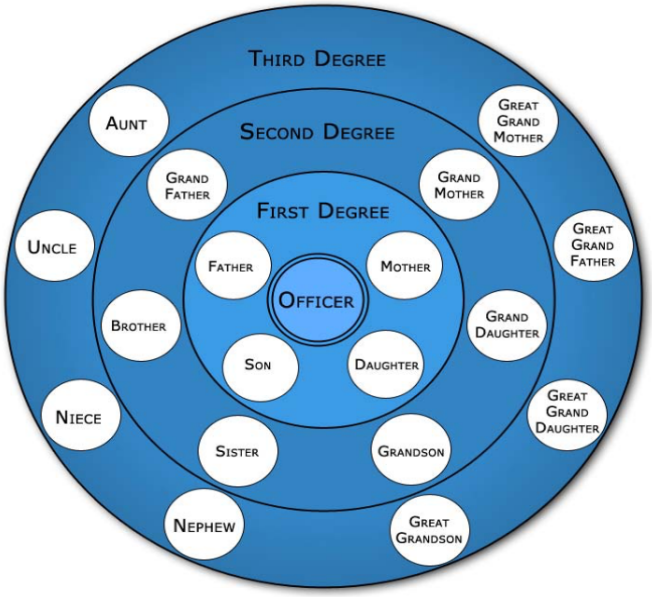
NEPOTISM CHART

The chart below shows

- **Affinity Kinship** (relationship by marriage)
- **Consanguinity Kinship** (relationship by blood) for purposes of interpreting nepotism as defined in VTCA Government Code, Chapter 573, §§573.021 – .025



AFFINITY KINSHIP
Relationship by Marriage



CONSANGUINITY KINSHIP
Relationship by Blood

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EXHIBIT C

ANNUAL STATEMENT OF DISCLOSURE AND COMPLIANCE

Name: _____

Position: _____

□ Please describe below any relationships, positions, or circumstances in which you are involved that you believe could be considered an Interest or that might be perceived as an actual or possible Conflict of Interest, as defined in the AAL Ethics, Conflict of Interest and Nepotism Policy. Please also describe any familial relationships that would qualify as relationships within the prohibited degree as defined in the AAL Ethics, Conflict of Interest and Nepotism Policy.

_____

_____

_____

_____

_____

□ I am involved in no activity, relationship, position or circumstance that could be considered an Interest or might be perceived as an actual or possible Conflict of Interest, as defined in the AAL Ethics, Conflict of Interest and Nepotism Policy. I do not have any familial relationships that would qualify as relationships within the prohibited degree as defined in the AAL Ethics, Conflict of Interest and Nepotism Policy.

I hereby certify that the information as set forth above is true and complete to the best of my knowledge. I have reviewed and agree to abide by the AAL Ethics, Conflict of Interest and Nepotism Policy that is currently in effect.

Signature: _____

Date:

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