

POLICIES PERTAINING TO BUSINESS AND SUPPORT SERVICES

INVESTMENTS

Guiding Principle:

The Board of Directors (Board) and Superintendent/CEO for dba SAPI Charter Schools (Superintendent) 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 the charter districts/schools. 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.

Applicable Law:

With respect to the investment of public funds, the charter district/school shall adhere to the legal requirements set forth at Texas Education Code Section 12.1053(b)(3), Texas Government Code Sections 2256.009 through 2256.016 and Texas Administrative Code, Title 19, Section 100.1045.

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.

Prudence:

The Board and Superintendent or designee shall make investments with judgment and care, under the prevailing circumstances, which persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived. The charter district/school recognizes that no investment is totally free from risk and that occasional measured losses are inevitable in a diversified portfolio and will be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the charter district/school.

If acting in accordance with this policy and the related administrative procedures and if exercising due diligence, the Superintendent or designee shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion to the Board and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

Preservation and Safety of Principal.

The Board and Superintendent or designee shall keep the safety of principal as the foremost objective of any investment. Accordingly, the Board and Superintendent or designee shall undertake investments in a manner that seeks to ensure the preservation of capital in the overall investment portfolio. As deemed

appropriate and necessary, the Board and Superintendent or designee may seek financial and investment advice from an appropriate qualified advisor.

Liquidity:

The Board and Superintendent or designee shall ensure that the investment portfolio remains sufficiently liquid to meet all operating requirements that may be reasonably anticipated. The Board and Superintendent or designee may accomplish this goal by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets. Negotiable securities may be sold prior to their maturity to provide liquid funds as needed for cash flow requirements.

Applicability:

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

Investment of Local Funds:

Recognizing that state and federal law may not apply to the investment of local funds, the Board and Superintendent may, at their discretion, invest local funds in any type of investment deemed appropriate and provided that the Board and Superintendent adhere to the guiding principle and investment objectives described in this policy.

Investment of Grant Funds:

In accordance with Texas Administrative Code, Title 19, Section 100.1045(b)(4), the charter district/school shall not invest state or federal grant funds, unless investment of such funds is expressly authorized under the terms of the grant.

Ethics and Conflicts of Interest:

Board members, officers¹ and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Board members, officers and employees shall disclose any material interests in financial institutions in which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

Delegation of Authority:

Through this policy, the Board authorizes the Superintendent to manage the investment program established under this policy and to act in accordance with this policy and any administrative procedures adopted pursuant to this policy. No person, be they a Board member, officer, employee, independent contractor, volunteer or otherwise, may engage in an investment transaction except as provided in this policy and the administrative procedures adopted under this policy. The Superintendent may delegate, through memorandum or job description, the daily administration of the investment program established under this policy to any officer or employee under the Superintendent's direction and supervision. The

¹ Officer is defined pursuant to Texas Administrative Code, Title 19, Section 100.1001(16).

Superintendent or designee shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of the investment program.

Authorization Thresholds:

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

Account Maintenance:

The Superintendent or designee shall ensure that investments are maintained in discrete and distinct accounts that separate funds pertaining to non-charter activities, functions, programs and services and to local charter district/school campus and student activities from public funds.

Internal Controls

The Superintendent or designee shall be responsible for establishing and maintaining a system of internal controls over the investment of funds. The internal control structure shall be designed to ensure that the assets of the charter district/school are protected from loss, theft or misuse and to provide reasonable assurance that the investment objectives are attained. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits likely to be derived.

The internal controls shall address the following elements:

- (a) Control of collusion;
- (b) Separation of transaction authority from accounting and record keeping;
- (c) Custodial safekeeping;
- (d) Clear delegation of authority to subordinate officers and employees; and
- (e) Written confirmation of transactions for investments and wire transfers.

Investment Records:

The Superintendent or designee shall ensure that the charter district/school creates and maintains accurate and complete records of any and all investments.

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.

Authorized Investments:

Except as otherwise provided in this policy with respect to local funds, the Board and Superintendent shall only make investments in the types identified below.

Obligations of or Guaranteed by a Governmental Entity:

Except as prohibited below, the following are authorized investments under this section.

- (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.

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.

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 (III)(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 (IV) below; or
- (c) Secured in any other manner and amount provided by law for the deposits of the School.

Other Authorized Form:

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

- (a) The funds are invested by the School 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 the School;
- (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 the School with respect to the certificates of deposit issued for the account of the School; and
- (e) At the same time that the funds are deposited and the certificates of deposit are issued for the account of the School, 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 the School through the depository institution.

Repurchase Agreements:

A fully-collateralized repurchase agreement is an authorized investment under this section 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 the School, held in the School's name, and deposited with the School 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.

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 in the Obligations of or Guaranteed by a Governmental Entity section above 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.

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.

Use of Invested Funds:

Money received by the charter district/school 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.

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 the Obligations of or Guaranteed by a Governmental Entity section 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 the following sections of this policy: Obligations of or Guaranteed by a Governmental Entity; Commercial Paper; Mutual Funds; or Investment Pools.
- (d) The terms of the loan require that the securities being held as collateral be:
 - (1) Pledged to the charter district/school;
 - (2) Held in the charter district’s/school’s name; and
 - (3) Deposited at the time the investment is made with the charter district/school or with a third party selected or approved by the Board;
- (e) The loan is placed through a primary government securities dealer 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.

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.

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.

Mutual Funds:

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

- (a) Are registered with and regulated by the Securities and Exchange Commission;
- (b) Provide the charter district/school 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.

An investment in a no-load market mutual fund is authorized under this section 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.

The charter district/school 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.

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 subsection (a) of the Obligations of or Guaranteed by a Governmental Entity section above, excluding those obligations prohibited under the Obligations of or Guaranteed by a Governmental Entity section, in an amount at least equal to the amount of bond proceeds invested under the contract; and
- (c) Is pledged to the charter district/school and deposited with the charter district/school or with a third party selected and approved by the Board.

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) The charter district/school must receive bids from at least three separate providers with no material financial interest in the bonds from which the proceeds were received;
- (c) The charter district/school 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.

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.

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.

In order to invest in an 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 the charter district/school 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.

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.

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

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

Required Training:

The Superintendent or designee shall receive continuing professional education pertaining to the appropriate investment of funds in the authorized investments identified in this policy. Moreover, the Superintendent or designee shall require any charter district/school employee involved in the investment of funds to receive the same training.

Administrative Procedures:

The Superintendent shall prepare administrative procedures as may be deemed prudent and necessary for the proper implementation of this policy.