

Sec. 1. Purpose of Policy.

The Board of Directors (hereafter, the “Board”) and Superintendent/Chief Executive Officer (hereafter, “Superintendent”) of Heritage Academy Charter Schools, Inc. doing business as Heritage Academy (hereafter, the “Academy”) shall make investments with care and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the Academy. 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. Through this policy, the Board shall address the legal requirements, as applicable, promulgated at:

- (a) Texas Education Code Section 12.1053(b)(3); and
- (b) Texas Government Code Sections 2256.009 through 2256.016.

Sec. 2. Designee(s).

In this policy, where the Superintendent is authorized to delegate authority to a designee (as denoted by the phrase “or designee”), the Superintendent may delegate such authority to a designee. If the Superintendent delegates authority to a designee, the Superintendent shall do so in writing through an administrative procedure, job description or internal memorandum. The Superintendent’s delegation of authority to a designee must be specific, must cite the policy section from which it is derived, and must utilize thresholds for each approval level. Any delegation of authority to a designee not documented as set forth in this section shall be null and void.

Sec. 3. Applicability.

This policy applies equally to surplus cash as defined below. In general, the Board and Superintendent shall limit investments to surplus cash.

Sec. 4. Surplus Cash Defined.

Surplus cash means the amount of cash available in the Academy’s bank account(s) that exceeds twenty percent (20%) of the Academy’s 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. 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; and
- (c) Yield.

Sec. 6. Account Maintenance.

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

Sec. 7. Investment Records.

The Superintendent or designee shall ensure that the Academy creates and maintains accurate and complete records of any and all investments of the Academy's surplus cash.

Sec. 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. 9. Authorization Thresholds.

The Superintendent or designee is authorized to invest 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 or designee shall recommend to the Board any investment of surplus cash exceeding \$100,000 or for a period exceeding one year.

Sec. 10. Authorized Investments.

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

Sec. 10.1. Obligations of or Guaranteed by a Governmental Entity.

Except as provided by Subsection 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. 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. 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 (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 Academy.

Sec. 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 the Academy 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 Academy;
- (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;

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- (d) The depository institution selected by the Board acts as custodian for the Academy with respect to the certificates of deposit issued for the account of the Academy; and
- (e) At the same time that the funds are deposited and the certificates of deposit are issued for the account of the Academy, 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 Academy through the depository institution.

Sec. 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 the Academy, held in the Academy's name, and deposited with the Academy 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. 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 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. 10.3.2. Term of Agreement.

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

Sec. 10.3.3. Use of Invested Funds.

Money received by the Academy 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. 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 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 10.1, 10.6, 10.7, or 10.9.
- (d) The terms of the loan require that the securities being held as collateral be:
 - (1) Pledged to the Academy;
 - (2) Held in the Academy’s name; and
 - (3) Deposited at the time the investment is made with the Academy 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.

Sec. 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. 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. 10.7. 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 Academy 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. 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. 10.7.2. Prohibited Investments.

The Academy 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. 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 10.1(a) above, excluding those obligations described by Subsection 10.1.1, in an amount at least equal to the amount of bond proceeds invested under the contract; and
- (c) Is pledged to the Academy and deposited with the Academy or with a third party selected and approved by the Board.

Sec. 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) The Academy 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 Academy 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. 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. 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. 10.9.1. Required Statement.

In order to invest surplus cash in the investment pool, the Superintendent or his 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 Academy 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. 10.9.2. Required Information.

In order to continue investing surplus cash in the investment pool, the Superintendent or his 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. 10.9.3. Other Requirements.

The Superintendent or his designee shall monitor the investment pool's compliance with Subsections 10.9.2 and 10.9.3 above and the other statutory provisions promulgated in Section 2256.016 of the Texas Government Code.

Sec. 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. 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 Academy employee involved in the investment of public funds to receive the same training.

Sec. 12. Administrative Procedures.

The Superintendent or designee shall prepare and formally adopt administrative procedures as reasonably necessary to properly administer this policy and to adhere to applicable law.