

RIVER OAK CHARTER SCHOOL INVESTMENT POLICY

INTRODUCTION

- A. River Oak Charter School (“ROCS”) is a nonprofit public benefit corporation that is tax-exempt under section 501(c)(3) of the Internal Revenue Code. ROCS operates River Oak Charter School (“Charter School”). ROCS receives revenue from the State of California, the federal government and other government agencies. It also receives gifts from individuals, corporations, foundations, and other entities to support its educational mission. The purpose of this Investment Policy (“Policy”) is to provide the structure for the prudent investment of the funds entrusted to ROCS and outline the procedures to assist in maximizing the efficiency of the ROCS’ cash management system while meeting its daily cash flow demands.
- B. The Purpose of this Investment Policy is to provide a clear statement of ROCS’ investment objectives, to define the responsibilities of ROCS’ Board of Directors (the “Charter Council”) and any other parties involved in managing the ROCS’ investments and to acknowledge ROCS’ diversification requirements.
- C. The investment practices and policies of ROCS are based on compliance with State law and prudent money management. The primary goal is to invest public funds in a manner which will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity, and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all laws governing the investment of public funds.
- D. The scope of this Investment Policy applies to all financial assets of ROCS. It does not apply to assets of any foundation(s) yet to be formed that receive only private funds.
- E. Consistent with Government Code Section 53600.3, except as provided in subdivision (a) of Section 27000.3, the Charter Council or persons authorized to make investment decisions on behalf of ROCS investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the trustees shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of ROCS, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of ROCS
- F. ROCS and staff shall act in accordance with the written procedures and this Policy, exercise due diligence, report in a timely fashion and implement appropriate controls to mitigate adverse developments.

GENERAL PROVISION

ROCS may hire and/or retain an investment manager or a certified financial planner to advise and consult the Charter Council on the portfolio. However, investment decisions are ultimately made by the Charter Council on an ongoing basis.

INVESTMENT OBJECTIVES

Consistent with Government Code Section 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of the Charter Council and staff shall be to safeguard the principal of the funds under its control through minimizing risk and expenses. The secondary objective shall be to meet the liquidity needs of ROCS. The third objective shall be to achieve a return on the funds under its control.

- A. ROCS shall seek to preserve principal and minimize losses by mitigating credit risk and market risk as follows:
 - i. Credit Risk is defined as an issuer's ability and willingness to repay interest and principal. Credit Risk shall be mitigated by diversifying the fund among issues and issuers so that the failure of any one issue or issuer would not result in a significant loss of income or principal to participants.
 - ii. Market Risk is the possibility that an individual or entity will experience losses due to factors that affect the overall performance of investments. Therefore, the entity should establish a maximum weighted average maturity or duration for the portfolio. Occasional market losses on individual securities are inevitable with active portfolio management and must be considered within the context of the overall investment return.
- B. Liquidity refers to the recurring maturity of a portion of the investment portfolio, as well as the ease with which an asset can be converted into ready cash with a minimal chance of principal loss.
- C. Yield is defined as the objective of attaining an income-only return on investment commensurate with the risk profile and cash flow characteristics of the portfolio throughout budgetary and economic cycles. Although ROCS may employ certain indices to gauge the funds' rate of return, such indices shall be used solely for comparative purposes and do not constitute a warranty or guarantee of actual fund performance.

LEGAL FRAMEWORK

Education Code Section 41015 authorizes the governing Board of any school district or any county office of education which has funds in a special reserve fund of the district or county office of education, or any surplus moneys not required for the immediate

necessities of the district or county office of education, to invest all or any part of the funds in any of the investments specified in Section 16430 or 53601 of the Government Code. Irrespective of whether ROCS has additional flexibility with regard to the investment of its surplus funds under state law, ROCS shall only invest surplus funds in accordance with Section 16430 or 53601 of the Government Code in order to ensure that ROCS is investing its funds conservatively and in alignment with how other California public school funds are invested. Authorized investments may change from time-to-time as authorized by federal or state law.

DIVERSIFICATION AND MATURITY RESTRICTIONS

- A. It is the policy of ROCS to maintain a reasonable diversification-of investment assets between asset classes and investment categories at all times. Investments are diversified to minimize the risk of loss resulting in over concentration of assets in a specific maturity, specific issuer, or a specific class of securities.
- B. Consistent with Government Code Section 53601, the following diversification limits will change from time to time as authorized by federal or state law.

Type of Investment	Percentage of Funds Permitted	Maximum Final Maturity
Local Agency Bonds	100%	5 Years
U.S. Treasury Securities	100%	5 Years
U.S. Government Agency Securities	100%	5 Years
State Government Securities	100%	5 Years
California Local Agency Securities	100%	5 Years
Municipal Debt	100%	5 Years
Bankers Acceptances	40%, 30% of a single issuer	180 Days
Commercial Paper	25%, 10% of a single issuer	270 Days
Negotiable Certificates of Deposit	30%	5 Years
Repurchase Agreements	100%	1 Year
Medium-Term Notes	30%, 10% of a single issuer	5 Years
Mutual Funds and Money Market Mutual Funds	20%, 10% in a single fund	N/A
Investment Pools	100%	N/A
Mortgage Pass-Through and Asset-Backed Securities	20%	5 years
Non-negotiable Certificates of Deposit	100%	N/A

PROHIBITED TRANSACTIONS

- A. At the time of purchase, all permitted investments shall conform in all respects

with this Policy, as may be amended from time to time. No investment prohibited by the Government Code for school districts shall be permitted herein.

- B. Any investment transactions, credit risk criterion, percentage limitations or market valuation that are not in compliance with this Policy and cannot be corrected without penalty at time of purchase must be documented and approved by the Charter Council in writing as soon as possible. Thereafter, action shall be taken by ROCS to correct such matter as soon as practicable. If a percentage restriction is adhered to at the time of purchase, a later increase or decrease in percentage resulting from a change in values or assets will not constitute a violation of that restriction.
- C. Pursuant to Government Code Section 53601.6, ROCS shall not invest any funds surplus funds in inverse floaters, range notes, or mortgage-derived, interest-only strips.
- D. The following transactions are prohibited:
 - i. Borrowing for investment purposes (“Leverage”).
 - ii. Reverse Repurchase Agreements, as defined by Government Code Sections 53601(j)(3) and (j) (4) or otherwise.
 - iii. Structured Notes (e.g., inverse floaters, leveraged floaters, equity-linked securities, event-linked securities). This includes all floating- rate, adjustable-rate or variable-rate securities in which a change in interest rates or other variables that can reasonably be foreseen to occur during their term would result in their market value not returning to par at the time of each interest rate adjustment.
 - iv. Simple “floating rate notes,” whose periodic coupon adjustment is based on a short- term (one-year or less) rate index (such as Treasury bills, federal funds, prime rate or LIBOR) and which have a reasonable expectation of maintaining a value of par at each interest rate adjustment through final maturity, are exempt from this definition. Additionally, U.S. Treasury and Agency zero coupon bonds, U.S. Treasury and Agency strips, Resolution Funding Corporation (“REFCORP”) strips or other callable securities which otherwise meet the quality, maturity and percent limitations assigned to their respective security category, are exempt from this section.
 - v. Structured Investment Vehicles (“SIV”).
 - vi. Derivatives (e.g., options, futures, swaps, swap options, spreads, straddles, caps, floors, collars) shall be prohibited.
 - vii. Any investment transaction not permitted for a school district.
 - viii. Prohibited investments may change from time-to-time as authorized by federal or state law.

ETHICS AND CONFLICT OF INTEREST

ROCS and all persons involved in the investment process shall refrain from personal

business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. ROCS has adopted a Conflict of Interest Code that complies with the Political Reform Act, as set forth in Education Code Section 47604.1, Government Code Section 1090, *et seq.* and Corporations Code restrictions on self-dealing transactions, and which shall be updated with any charter school-specific conflict of interest laws or regulations. Charter Council members and ROCS employees shall comply with these laws and the Conflict of Interest Code. As required, the Conflict of Interest Code has been approved by the Mendocino County Board of Supervisors.

AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

Any permitted investment shall be purchased either from a “primary” or regional broker/dealer qualifying under SEC Rule 15c3-1(uniform net capital rule) or a “well capitalized” financial institution, as defined in Title 12 CFR Part 6.4. Any broker, brokerage, dealer or securities firm that has made a contribution to ROCS or that employs a Charter Council member, ROCS administrator, or an immediate family member of a Charter Council member or ROCS administrator is ineligible for selection by the ROCS

INVESTMENT MONITORING AND REPORTING

The Charter School Management Organization (CSMC) or designee, shall submit monthly, quarterly and annual reports (in compliance with Government Code Sections 53607 and 53646) to the Charter Council. These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be compliant with the Government Code.

DELEGATION OF RESPONSIBILITY

The Charter Council has ultimate responsibility for the investment management of the ROCS’s investment assets. The Charter Council may delegate authority over the ROCS’s investment to a properly formed and constituted Investment Committee (the “Committee”) of the Charter Council. ROCS may hire outside experts as investment consultants or investment managers. The Charter Council may also establish an advisory committee to provide investment advice to the Charter Council or the Committee. Advisory committees have no authority to act for the Charter Council, but may monitor compliance with this Investment Policy, recommend changes to this Investment Policy, and assist the Charter Council or Committee in selecting and retaining investment managers to execute this Investment Policy.

Pursuant to Government Code Section 53607, the authority of the Charter Council to invest or to reinvest funds of a local agency, or to sell or exchange securities so purchased, may be delegated for a one-year period by the Charter Council to the treasurer of the local agency, who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires, and shall make a monthly report of those transactions to the Charter Council. Subject to review, the legislative body may renew the delegation of authority pursuant to this section each year.

RESPONSIBILITIES OF INVESTMENT MANAGERS

Any investment manager hired pursuant to the previous paragraph will invest assets placed in the investment manager's care in accordance with this Investment Policy. Any investment manager hired pursuant to the previous paragraph shall also acknowledge acceptance of the investment manager's responsibility as a fiduciary. Any investment manager hired pursuant to the previous paragraph will operate within all policies, guidelines, constraints, and philosophies described in this Investment Policy. Specific responsibilities include reporting on a timely basis, quarterly and administering ROCS investments at a reasonable cost while avoiding a compromise of quality.

GENERAL INVESTMENT GUIDELINES

A copy of this Investment Policy shall be provided to any investment managers hired pursuant to this Policy. The tax-exempt status of ROCS and the fact that ROCS funds are public funds shall be taken into consideration when making investments. ROCS is expected to operate in perpetuity; therefore, a 5-year investment horizon shall be employed. Interim fluctuations should be viewed with appropriate perspective taking into consideration the liquidity needs. A cash account shall be maintained with very-low risk tolerance to keep cash available for distributions, obligations, and other anticipated expenses. Transactions shall be executed at a reasonable cost, taking into consideration prevailing market conditions and services and research provided by the executing broker.

SAFEKEEPING

Pursuant to Government Code Section 53608, ROCS may deposit for safekeeping with a federal or state association (as defined by Financial Code Section 5102), a trust company or a state or national bank located within this state or with the Federal Reserve Bank of San Francisco or any branch thereof within this state, or with any Federal Reserve bank or with any state or national bank located in any city designated as a reserve city by the Board of Governors of the Federal Reserve System, the bonds, notes, bills, debentures, obligations, certificates of indebtedness, warrants, or other evidences of indebtedness in which the money of ROCS is invested pursuant to Government Code 53600, et seq. or pursuant to other legislative authority. ROCS shall take from such financial institution a receipt for securities so deposited. The authority of ROCS to deposit for safekeeping may be delegated by the Charter Council to the Chief Financial Officer of ROCS; the Chief Financial Officer shall not be responsible for securities delivered to and receipted for by a financial institution until they are withdrawn from the financial institution by the Chief Financial Officer.

MAINTAINING THE PUBLIC TRUST

All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

INTERNAL CONTROLS

ROCS has established a system of written internal controls, which will be reviewed annually with ROCS independent (external) auditor. The controls are designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, unanticipated market changes or imprudent actions by employees of the ROCS. All agreements, statements and trade packets will be subject to review annually by auditors in conjunction with ROCS annual audit.

PERFORMANCE STANDARDS

- A. The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs but focusing on preservation of capital and then liquidity as the most important objectives, with yield as the least important objective.
- B. ROCS shall not invest any funds in any security that could result in zero interest accrual if held to maturity.