

MITCH Charter School

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Investment of Funds

The Board may authorize the investment or reinvestment of funds which are not immediately needed for the operation of the public charter school.

The executive director, working with the Finance Committee, will develop criteria for the appropriate investments of public charter school funds.

The Board “”adopts this Investment Policy to set parameters for the investment of operating reserve funds, special project funds and endowment funds held by MITCH Charter School. This policy does not apply to the MITCH Charter School’s checking account or any other funds held in general savings or checking accounts.

Except where legally required to hold separate funds, MITCH will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds monthly based on their respective cash balances. Until the total of all funds is greater than the amount of federal deposit insurance, currently \$250,000 per entity, all funds will be maintained in an insured account at a safe and sound financial institution.

MITCH will account for separately, to the extent possible, investments of public funds, such as state school funds and grant funds from public agencies, from investments of other funds, such as funds from donors, private foundations, fundraisers, and other entities and organizations.

I. General Objectives

The primary objectives for this investment policy, in priority order, shall be: preservation of capital; maintenance of a liquid position; and maximum yield.

1. Safety

Safety of principal is the foremost objective of the investment program. Investment decisions shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

- a. Credit Risk: MITCH will minimize credit risk, the risk of loss due to the financial failure of the security issuer or backer, by:
 - Limiting exposure to poor credits and concentrating the investments in the safest types of securities.
 - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

- Monitoring the investment portfolio holdings for rating changes, changing economic/market conditions, and other relevant factors.
- b. Interest Rate Risk: MITCH will minimize the price risk, due to changes in general market interest rates, associated with the sale of securities prior to maturity, by:
- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and/or special projects, thereby avoiding the need to sell securities on the open market prior to maturity.
 - Investing operating funds primarily in shorter-term securities.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating, and special project requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with anticipated cash needs.

3. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of lesser importance compared to the safety and liquidity objectives described above. The portfolio investments are limited to highly rated/low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Securities shall not be sold prior to maturity with the following exceptions:

- (a) A security with declining credit may be sold early to minimize loss of principal.
- (b) A security swap that would improve the quality, yield, or target duration in the portfolio.
- (c) Liquidity needs of the portfolio require that the security be sold.
- (d) To liquidate a security purchased in error that violates state law or this policy.

II. Standards of Care

1. Prudence

The standard of prudence to be used by the Board, Finance Committee, executive director, and any investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Directors, officers, and the executive director acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported to MITCH Board in a timely fashion, and the liquidation and/or sale of securities are carried out in accordance with the terms of this policy.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in similar positions and similar circumstances, not for speculation, but for investment, considering the probable safety of

capital as well as the probable income to be derived. The charitable and educational purpose of MITCH and the purpose of the investment fund, whether for operation, special projects or endowments, must be considered when implementing this policy.

2. Ethics and Conflicts of Interest

Directors, officers 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. Employees, officers and their families shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of MITCH. Directors, officers and employees shall, at all times, comply with the Oregon Government Standards and Practices code of ethics set forth in ORS 244, the standards of conduct for managing charitable funds in ORS 128.318, and for officers and directors, the fiduciary duties and conflict of interest requirements in ORS ch 65.

3. Delegation of Authority

The Board delegates authority to its Finance Committee to work with the executive director to manage MITCH's investment program and ensure compliance with the investment policy, designate eligible investment institutions, review periodic investment reports and monitor investment transactions.

The executive director may designate an employee under their supervision to administer the policy, place investments, maintain accounting records and prepare investment reports.

If authorized by the Board, the Finance Committee may retain one or more investment advisors as well as any administrators, custodians, or other investment service providers required for the proper management of investment funds. If and when delegating investment authority to one or more advisors, the committee will establish and follow appropriate procedures for selecting such advisors and for conveying to each the scope of their authority, MITCH's expectations and the requirement of compliance with these policies.

III. Authorized Financial Dealers and Institutions

A list will be maintained of financial institutions authorized to provide investment and safekeeping services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness and other factors considered relevant by MITCH. These may include primary dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). Regional brokers and dealers must have an office in Pacific Northwest in order to be considered for doing business with MITCH. The MITCH Charter School will limit all security purchases to institutions on the approved lists.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following, as appropriate:

1. Audited financial statements

2. Proof of FINRA, Financial Industry Regulatory Authority as per SEC Requirements from 2007
3. Proof of state registration
4. Completed broker/dealer questionnaire
5. Certification of having read and understood the MITCH investment policy
6. References from other nonprofit, Oregon charter schools, or local government clients.

A review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Finance Committee and executive director at least every five years. Additions and deletions to the list may be made at the discretion of the Finance Committee and executive director.

IV. Internal Controls

The Finance Committee, executive director, and business manager in cooperation with the external auditor, will establish and maintain an adequate internal control structure designed to reasonably protect the investments of MITCH from loss, theft or misuse. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by the Finance Committee and executive director.

1. Audit

MITCH shall establish a process for an annual independent review by an external auditor to assure adequate internal controls, as well as compliance with policies and procedures. In addition, the internal controls may be tested by an external auditor upon any extraordinary event, such as turnover of key personnel.

7. Accounting Method

MITCH shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP) relating to investment accounting. The accounting principles are those contained in the pronouncements of authoritative bodies including but not necessarily limited to, the Governmental Accounting Standards Board (GASB); the American Institute of Certified Public Accountants (AICPA); and the Financial Accounting Standards Board (FASB).

V. Investments

1. Delivery and Safekeeping

Prior to sending funds to a broker/dealer for an investment purchase, the executive director will require a trade ticket listing the details of the transaction. Securities may be held by the broker/dealer in MITCH's name, in the broker/dealer's account, or they may be held by a third-party safekeeping agent.

The purchase and sale of securities, repurchase agreement and guaranteed investment contract transactions shall be settled on a delivery versus payment basis. It is the intent of MITCH that all purchased securities shall be perfected in the name of MITCH. Sufficient evidence to title shall be consistent with modern investment and commercial practices.

8. Collateral

Cash management tools, defined as bank deposits, time deposits, certificates of deposit, and savings accounts, shall be held in qualified depositories and collateralized.

A signed Master Repurchase Agreement must be in place between the MITCH and the securities dealer, prior to entering into any repurchase agreement with that dealer.

At the minimum, the Finance Committee, executive director or Board will monitor the collateral requirements monthly for guaranteed investment contracts.

9. Authorized Investments

The following investments will be permitted by this policy and are authorized for investment:

- a. U.S. Treasury securities and other lawfully issued general obligations of the United States, including general obligations of agencies and instrumentalities of the United States or enterprises sponsored by the United States government.
- b. Debt of the agencies and instrumentalities of the states of Oregon, California, Idaho and Washington and their political subdivisions.
- c. Time deposit open accounts, certificates of deposit, bank deposit, and savings accounts.
- d. Bankers acceptances.
- e. Corporate indebtedness of at least AA rating by Moody's, Standard & Poor's or Fitch.
- f. Repurchase agreements.

VI. Investment Parameters

1. Diversification

The investments shall be diversified by:

- (a) Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities);
- (b) Investing in securities that have high credit quality;
- (c) Limiting investments in high interest rate risk;
- (d) Investing in securities with varying maturities; and
- (e) Continuously investing a portion of the portfolio in readily available funds.

2. Maximum Maturities and Percentage of Investments by Type

The maximum percentages for direct investments of surplus funds are determined periodically by the Finance Committee and set forth in the Addendum to the Policy. Surplus funds are defined as the sum of all investments, cash balances, and deposit balances of all types. The maximum maturity is measured from the settlement date of the investment transaction. Capital

project funds are funds specifically dedicated to capital projects, and will typically include proceeds from MITCH Facility Fund. MITCH may designate (upon approval by the Board) other funds as capital project funds.

Operating funds are all surplus funds that are not capital project funds.

3. Liquidity of Funds

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds, or overnight repurchase agreements, or held in bank balances to ensure that appropriate liquidity is maintained to meet on-going obligations.

Maturity limitations will depend upon whether the funds being invested are considered short-term or long-term funds. All funds will be considered short-term except those reserved for capital projects. Except for special situations, as directed by the Finance Committee, investments will be limited to maturities not exceeding 36 months.

Short-term portfolio – Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs.

Long-term portfolio – Instruments and diversification for the long-term portfolio shall be as for the short-term portfolio. Long-term portfolio is defined as “maturities over 18 months and maximum of 36 months”. Maturity scheduling shall be timed according to anticipated need. For example, investment of capital project funds shall be timed to meet projected contractor payments.

The investments of grant proceeds may be restricted under grant covenants that may be more restrictive than the investment parameters included in this policy. Grant proceeds shall be invested in accordance with the most restrictive parameters of this policy and the applicable grant covenants.

The length of maturity and percentage of the total portfolio are determined periodically by the Finance Committee and set forth in the Addendum to this Policy.

4. Credit Ratings

Although not subject to ORS chapter 294, MITCH adopts by this policy the minimum credit rating levels for the permissible investments as set out in ORS 294.035(3) when applicable. The Board may authorize an investment that is not aligned with ORS 294.035 as long as it is within the parameters of this policy. (ORS 294.035 is included as an Addendum) These credit rating levels apply to the security at the transaction settlement date. If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Finance Committee and the executive director shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Finance Committee and executive director will notify MITCH Board about the credit rating downgrade and whether the decision was made to sell or hold the security.

5. Securities Lending and Reverse Repurchase Agreements

MITCH will not lend securities nor directly participate in a securities lending or reverse repurchase program.

6. Competitively Priced Securities

Before any security purchase or sale is initiated by the Finance Committee, the executive director shall gather information about current market interest rate levels from various sources, including investment counselors, internet financial web sites, financial publications, and other sources and present it to the Finance Committee. Each security purchase shall be made at competitive market interest rate levels. The Finance Committee shall use its discretion in determining whether to seek competitive bids or offers.

VII. Reporting

1. Methods

The executive director or designee will prepare an investment report monthly including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the previous month. The report will be submitted to the Finance Committee for review. This management summary will be prepared in a manner that will allow the Finance Committee to ascertain whether investment activities during the reporting period have conformed to the investment policy.

In addition, the executive director or designee will prepare a regular board report. At a minimum, this report will include the following:

- a. Listing of individual securities held at the end of the reporting period.
- b. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmark(s).
- c. Listing of investments by maturity date, call date, cost and current fair value.
- d. Percentage of the total portfolio that each type of investment represents along with the percentages authorized in this policy.

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The appropriate benchmark for cash equivalents will be the 90-day U.S. Treasury Bill Index. For fixed income assets over time, the average return should meet or exceed the Barclays Capital Aggregate Bond Index, or its equivalent, and for equity investments over time, the investment should meet or exceed the Standard and Poor's 500 Index or its equivalent.

Because bond proceeds are expected to be invested at the time they are received, and are therefore invested in an interest rate environment that exists at that point in time, that portion of the portfolio will be excluded from ongoing benchmark performance measurement.

3. Marking to Market

The market value of the portfolio shall be calculated at least annually and a statement of the market value of the portfolio issued at fiscal year-end.

END OF POLICY

Legal Reference(s):

[ORS 128.305 – 128.336](#)

[ORS 338.115\(2\)](#)