

Purpose

The Board of Directors (the “Board”) of Shining Rock Classical Academy (“SRCA” or the “School”) adopts this Investment Policy to set parameters for the investment of operating reserve funds, special project funds and endowment funds held by SRCA. This policy does not apply to the SRCA checking account or any other funds held in general savings or checking accounts.

Except where legally required to hold separate funds, SRCA 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.

SRCA 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.

Prioritization of Objectives

The primary objectives for this investment policy, in priority order, shall be:

1. **Preservation of Capital**
2. **Maintenance of a Liquid Position**
3. **Maximum Yield**

Risk Management

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.

Credit Risk: SRCA 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.

Interest Rate Risk: SRCA 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.

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.

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:

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

Standards of Care

Prudence: The standard of prudence to be used by the Board, Finance Committee, and any investment officials designated by the Board shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Directors, officers, and its designees 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 SRCA 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 SRCA and the purpose of the investment fund, whether for operation, special projects, or endowments, must be considered when implementing this policy.

Ethics and Conflicts of Interest: Directors, officers, employees, and any approved designees 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 SRCA, unless disclosed to the Finance Committee and approval is explicitly provided. Directors, officers, employees, and any approved designees shall, at all times, comply with the standards of conduct for officers and directors, the fiduciary duties and conflict of interest requirements.

Delegation of Authority: The Board delegates authority to the Finance Committee to work with the Board to manage SRCA's investment program and ensure compliance with the investment policy, designate eligible investment institutions, place investments, review periodic investment reports, monitor investment transactions, maintain accounting records and prepare/deliver investment reports.

The Finance Committee may also establish an Investment Sub-Committee (“ISC”), if needed, to directly manage all aspects of investments for the SRCA and will report to the Finance Committee. The Investment Sub-Committee will be comprised of three (3) members, including the Chair of the Finance Committee, the Head of School and one At-Large member from the SRCA board.

If authorized by the Board, the Finance Committee/ISC 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, SRCA’s expectations and the requirement of compliance with these policies.

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 SRCA. 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 North Carolina to be considered for doing business with SRCA. The School will limit all security purchases to institutions on the approved lists and may elect to utilize one investment firm to centralize its investment portfolio.

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

- Audited financial statements
- Proof of state and/or federal registration
- Certification of having read and understood the SRCA investment policy
- References from other nonprofits, North Carolina 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 at least every three (3) years. Additions and deletions to the list may be made at the discretion of the Finance Committee and the SRCA Board.

Internal Controls

The Finance Committee, in cooperation with the external auditor, will establish and maintain an adequate internal control structure designed to reasonably protect the investments of SRCA 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.

Audit: SRCA 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.

Accounting Method: SRCA 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).

Investments

Delivery & Safekeeping: Prior to sending funds to a broker/dealer for an investment purchase, the Finance Committee (or a designee from the Finance Committee) will require a trade ticket listing the details of the transaction. Securities may be held by the broker/dealer in SRCA'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 shall be settled on a delivery versus payment basis. It is the intent of SRCA that all purchased securities shall be perfected in the name of SRCA. Sufficient evidence to title shall be consistent with modern investment and commercial practices.

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

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

1. US 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
2. Debt of the agencies and instrumentalities of the states of North Carolina, South Carolina, Georgia, and their political subdivisions, with at least AA rating by Moody's, Standard & Poor's or Fitch.
3. Time deposit open accounts, certificates of deposit, bank deposit, savings AND Money Market accounts
4. Corporate indebtedness of at least AA rating by Moody's, Standard & Poor's or Fitch.

Investment Parameters

Diversification: The investments shall be diversified by:

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

Maximum Maturities and Percentage of Investments by Type: The maximum percentages for direct investments of surplus funds are determined periodically by the Finance Committee, with approval by the Board, and set forth in the Addendum A 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. SRCA 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.

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 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 thirty-six (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 12 months and maximum of 36 months”.

Maturity scheduling shall be timed according to anticipated need.

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, are recommended to the Board and are set forth in the Addendum to this Policy.

Credit Ratings: Minimum credit rating levels apply to a 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 shall evaluate the downgrade on a case-by-case basis to determine if the security should be held or sold. The Finance Committee will notify the SRCA Board about the credit rating downgrade and whether the decision was made to sell or hold the security.

Securities Lending and Reverse Repurchase Agreements: SRCA will not lend securities nor directly participate in a securities lending or reverse repurchase program.

Competitively Priced Securities: Before any security purchase or sale is initiated by the Finance Committee, they 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.

Reporting

Methods: The Finance Committee or ISC will prepare an investment report quarterly including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the previous quarter. The report will be submitted to the SRCA Board for review. This management summary will be prepared in a manner that will allow the SRCA Board to ascertain whether investment activities during the reporting period have conformed to the investment policy. This investment report may come in the form of the monthly/quarterly statements provided by the Investment Advisor or Financial Institution in which investments have been made.

At a minimum, this report will include the following:

1. Listing of individual securities/funds held at the end of the reporting period.
2. Percentage of the total portfolio that each type of investment represents along with the percentages authorized in this policy.

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.

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

Addendum A to Investment Policy

Addendum A includes investment parameters that may be changed periodically by the Finance Committee in consultation with its investment advisor.

Maximum Maturities and Percentage of Investments by Type

Security	Maximum % of Total Portfolio	Maximum Maturity
US Treasury Bills, Notes, Bonds and Obligations Secured by the US Treasury	100%	<ul style="list-style-type: none"> • 18 Months for Operating Funds • 3 Years for Special Project Funds
US Government Agencies Instrumentalities	100%	<ul style="list-style-type: none"> • 18 Months for Operating Funds • 3 Years for Special Project Funds
US Government Sponsored Enterprises	100%	<ul style="list-style-type: none"> • 18 Months for Operating Funds • 3 Years for Special Project Funds
State and Local Government Securities	30%	<ul style="list-style-type: none"> • 18 Months for Operating Funds • 3 Years for Special Project Funds
Time Certificates of Deposit	50%*	18 Months
Corporate Indebtedness	35%	18 Months
Time Deposit Open Accounts, Bank Deposit, and Savings Accounts	100%	N/A
Money Market Accounts	100%	N/A

* Time Certificates of Deposits may be increased to 100% of the portfolio if the amount to be invested is not significant so that fees of other investments would greatly reduce earnings (typically an investment of less than \$100,000 may be 100 % invested in CDs)

To achieve issuer diversification, this policy sets limits on the maximum holdings by issuer for certain investment types.

- a. A limit of 35% of the portfolio held in securities issued by any single US government agency.
- b. Time certificates of deposit can all be issued by a single banking institution. To avoid over-concentration in a single banking institution, a limit of 10% for overall holdings of one institution or for insured deposits up to the federal deposit insurance limit.

Recommended to limit investment in a single corporate entity to no more than 5% of total surplus funds. Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular security. Securities need not be liquidated to realign the portfolio, but consideration should be given to this matter when future liquidations are made or when reinvestment occurs. Portfolio percentage limits are in place to ensure diversification in the investment portfolio; a small, temporary imbalance will not significantly impair that strategy.

Liquidity of Funds

The following maturity limits are designed to ensure liquidity in the portfolio:

Length of Maturity	Minimum % of Total Portfolio
Under 30 days	10%
Under 90 days	25%
Under 180 days	50%
Under 360 days	90%
Under 18 months	100%

If these maturity limits are inadvertently exceeded at the time of a specific investment, the purchase does not need to be liquidated. The Finance Committee may alter the length of maturity and percentage of the portfolio based on anticipated timing of need and in accordance with this policy.

END OF ADDENDUM A