

OAK HERITAGE CONSERVANCY
P. O. Box 335
Hanover, Indiana 47243

FINANCIAL POLICY

Spending

The Oak Heritage Conservancy manages accounts for its assets through an internal fund structure consisting of the operating fund, the stewardship and enforcement fund, and the endowment fund. Each of these funds has a separate purpose that directs how monies from each should be spent.

It is the policy of OHC to spend monies from each of these internal funds as follows:

Operating Fund: Monies from the operating fund can be spent in accordance with an annual operating budget prepared by the Executive Director/Treasurer and approved by the Board of Directors each Fiscal year.

Stewardship and Enforcement Fund: Up to 5% of the value of the stewardship and enforcement fund, as of the end of the prior fiscal year, can be spent annually to meet ongoing stewardship needs and obligations. With the approval of the Board of Directors, monies can be used to meet extraordinary expenses associated with managing, upholding or defending an easement or other interest in land held by the OHC. Monies can be transferred to the operating fund for these purposes.

Endowment Funds: Up to 5% of the value of the unrestricted fund, as of the end of the prior fiscal year, can be spent annually to meet general operating needs of the OHC. Monies can be transferred to the operating fund for this purpose.

The Executive Director/Treasurer is authorized to act on behalf of the OHC with regard to specific financial transactions and to undertake the ministerial actions necessary to implement this policy. The President is to appoint a member of the Board of Directors each April to audit OHC books before the first day of May.

Rational

In conjunction with the investment policy, this spending policy provides for the annual operating needs of the OHC while preserving its long-term assets to meet future needs. It also provides the Executive Director/Treasurer with guidance and authority necessary to carry out the day-to-day activities of OHC.

Specific allocations from the stewardship and enforcement fund and from the unrestricted endowment fund will be made each year through the annual budgeting process. The 5% spending authorization sets the maximum amount that can be budgeted for spending each year.

In future years, it may be necessary to use an average fund value, over a number of years, as the base against which to draw on an unrestricted endowment. This action will provide a hedge against major fluctuations in the market. Our use of the value of the OHC unrestricted endowment fund, at the end of the previous year, recognizes that (a) our stewardship and enforcement fund is expected to grow fairly rapidly through new contributions each year, and (b) that we also have an immediate need to provide for our growing annual operations. Any major market changes can be taken into account each year through the specific allocation set in the budgeting process.

Investing

From time to time, OHC may receive securities as donations. OHC's policy is to not hold these securities, but to sell them and then reinvest the proceeds according to the guidelines of the particular fund.

Operating Fund: The operating fund is the amount needed to maintain a positive cash flow to cover normal business operations, as outlined in the annual budget, plus a contingency of 10%. OHC should use interest-bearing bank accounts, short-term money market accounts, an overnight sweep vehicle tied to government-backed or agency obligations of the U.S. government, and/or high quality corporate bonds.

All checks received will be deposited into the operating fund checking account within 3 working days of receipt. Checking account balances that exceed the amount necessary to cover service charges will be transferred to a money market fund or overnight sweep vehicle on a periodic basis consistent with banking practices for "sweep" accounts.

Short-term Investments: Short-term investment (money in the operating fund above immediate cash flow needs) decisions are the responsibility of the president. All other investment decisions are the responsibility of the executive director/treasurer. In their order of priority, the investment objectives are preservation of capital, liquidity, and yield. Two (2) years or less is the duration of time required for a short-term investment.

OHC's portfolio should be diversified and may include the following types of investments:

- Federally insured certificates of deposit not to exceed individually \$100,000;
- Money market funds that invest in instruments backed by the full faith and credit of the U.S. government;
- Repurchase agreements with financial institutions for the purchase of government-backed or agency obligations of the U.S. government.
- A1P1 commercial paper; and
- Investment grade corporate bonds.

The President shall have the authority to make investment decisions within these guidelines, based on input from the Executive Director/Treasurer. The Executive Director/Treasurer shall provide a schedule of investments for review by the Finance Committee at each committee meeting, or a minimum of three times per year. At least once a year, the investments will be compared to relevant market indices.

Endowment Funds: Endowment funds may be restricted or unrestricted. Restricted funds are those that can be expended only for a purpose or purposes designated by the donor. Unrestricted funds provide for the general operating needs of OHC. These funds are established to provide financial stability in perpetuity for the operation of OHC or its programs through annual distributions of a portion of the market value of the fund. The target return objective is a minimum of 5% above the annual rate of inflation.

Distribution from the unrestricted fund will be determined by using the market value at the end of the prior fiscal year (or partial year if the fund has been in existence less than a year). A payout of up to 5% of the unrestricted fund value for the prior year, or part thereof, each year can be made to the operating fund.

The management of these funds will be dictated by the following principles:

- These funds will be invested in a manner providing for the best total return without regard for income or dividends.
- The funds will be managed to ensure long-term protection and growth of principal.
- The minimum target performance over time will be growth adequate to cover inflation and distributions.
- The fund will be invested in a diversified portfolio consisting of money market funds, bonds and equities.
- The fund shall not be leveraged for investment purposes.
- Performance will be judged based on appropriate investment benchmarks over time.

To provide for growth of the fund over time, it is necessary to assume some investment risk. This will be done prudently by OHC, which acknowledges and accepts that investment performance will vary from year to year depending on market conditions.

OHC will not attempt to time its investments to the market, but rather will develop and adhere to a long-term strategy subject to periodic review.

The Finance Committee shall have the authority to make investment decisions within these guidelines, based on input from the President and Executive Director/Treasurer.

The Executive Director/Treasurer shall provide a schedule of investments for review by the Finance Committee at each committee meeting, or a minimum of three times per year. At least once a year, investments will be compared to relevant market indices.

Approved by the Board of Directors: June 7, 2005