FIRST LIGHT

FINANCIAL POLICIES AND PROCEDURES

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General Purpose

The purpose of these policies is to establish guidelines for developing financial goals and objectives, making financial decisions, reporting the financial status of First Light and managing First Light's funds.

Financial Responsibilities

It is the responsibility of the Board of Directors to formulate financial policies and review operations and activities on a periodic basis. The Board delegates this oversight responsibility to the Treasurer of the Board and the Finance Committee of which the Treasurer is the Chair. This responsibility is shared through delegation with the First Light Executive Director, the Operations Director, and a CFO retained by First Light.

The First Light Executive Director acts as the primary fiscal agent, implementing all financial policies and procedures. The First Light Executive Director, with oversight of The Finance Committee is responsible for the coordination of the following: annual budget presentation, management of investments, selection of the outside auditors, and approving revenue and expenditure objectives in accordance with the Board approved long-term plans. The First Light Executive Director with oversight by the Finance Committee has the day-to-day operations responsibility for managing First Light funds, ensuring the accuracy of the accounting records, internal controls, financial objectives and policies, financial statement preparation, and bank reconciliation review and approval.

The Operations Director is directly supervised by the First Light Executive Director and, in conjunction with a CPA retained by First Light, is responsible for the preparation and/or coordination of the Chart of Accounts, Reporting Formats, Accounts Payable Processing, Payroll input and Payroll processing, Cash Receipts input, and Journal Entries for General Ledger. The chosen CPA is responsible for Bank Reconciliations and monthly management reports for the Board of Directors.

Basis of Accounting

First Light uses the accrual basis of accounting. The accrual basis is the method of accounting whereby revenue and expenses are identified with specific periods of time, such as a month or year, and are recorded as incurred. This method of recording revenue and expenses is without regard to the date of receipt or payment of cash

Segregation of Duties

First Light will have reasonable (consistent with agency size) and adequate segregation of duties with regard to all aspects of the financial operations. Their policy includes but is not limited to the segregation of responsibilities over receipts, bank deposits, bank statement reconciliations, invoice approval, check preparation, check signing, and expense reimbursement approvals.

Budget Process

Annual Budget

It is the policy of First Light to maintain an annual budget. The Executive Director and Operations Director are responsible for preparing the budget and submitting it to the Finance Committee for review and comment. The Finance Committee shall review budget and submit it to the Board of Directors for approval.

Monthly Budget Variance Reporting

Monthly budget variance reports shall be prepared and presented to the Board for review. Actual results shall be compared to budgeted amounts and all variances shall be explained in detail.

Budget Amendments

Budget amendments for First Light shall be prepared only when deemed necessary by the Executive Director and the Finance Committee. Any changes are submitted to the Board of Directors for approval.

Financial Processes Involving Assets

Revenue Recognition

First Light's primary sources of revenue are contributions and grants. Controls over contributions and grants shall ensure that amounts are properly billed, collected and accounted for.

Bank Reconciliations

The bank reconciliation process is an important element in the internal control over cash. The Executive Director shall receive the bank statement and all financial correspondence in the mail, review, initial and forward to a CPA retained by First Light for reconciliation. The CPA will reconcile the accounts monthly, track all outstanding items, and will resolve discrepancies in a timely manner. The Executive Director will review and forward the reconciliation to the Board Treasurer for their review. Upon approval, the Treasurer will initial the reconciliation and return to the Executive Director for filing.

Fixed Assets

First Light's fixed asset policy shall ensure that non-expendable personal property is acquired, safeguarded, controlled, disposed of and accounted for in accordance with applicable accounting pronouncements, governmental regulations and in a manner that adequately supports First Light's projects and programs.

Financial Processes Involving Liabilities

Accounts Payable

The Operations Director, under the direction of the Executive Director, shall be responsible for overseeing the payment process of First Light, including oversight of appropriate payment methods, the approval process, and disbursement controls. First Light will maintain control over the disbursement of funds by requiring proper approval and consistent application of procedures for payment transactions.

Check Signing

The Executive Director, Board President, and Treasurer have the authority to sign checks. Individuals that prepare checks or reconcile bank statements shall never be check signers. All checks over $2,500 require two signatures. On occasions when the Executive Director is issued a check from the agency, an authorized board member shall sign.

Payroll, Payroll Expenses and Payroll Liabilities

First Light shall ensure that all employees are paid in a timely and accurate manner and that necessary data, records and reports are maintained in accordance with acceptable business and regulatory standards. Payroll is processed on the 15th and last day of each month.

Long Term Debt

Determination of the need to assume long term debt shall be made by management reviewed by the Finance Committee and appropriately authorized by the Board of Directors.

The issuance of all new debt as well as the extension of any existing debt shall be authorized by the Board of Directors and documented in the minutes of the Board of Directors meetings in the form a resolution. Long term debt is amounts owed on mortgages and notes payable that is not due within twelve months.

Net Assets

Net Assets

The accounting treatment and reporting requirements for First Light's net assets shall be in conformity with Generally Accepted Accounting Principles (GAAP). Net assets are defined as the excess or deficiency of assets over liabilities classified according to the existence or absence of donor-imposed restrictions.

Permanently restricted and temporarily restricted net assets are restricted by the donor and can only be used for the specific purpose intended. Unrestricted net assets are not subject to donor-imposed restrictions but can be designated by the Board of Directors for a specific purpose.

Investments

Scope: This document sets forth the general policies and investment guidelines to be followed by the Finance Committee and Investment Managers retained by the Finance Committee in administering the unrestricted funds (the "Fund") of First Light.

Purpose: This statement of investment policy is set forth by First Light Board of Directors in order to:

- Define and assign the responsibilities of all involved parties;
- Establish a clear understanding for all involved parties of the investment goals and objectives of Fund assets;
- Offer guidance and limitations to all Investment Managers regarding the investment of Fund assets;
- Establish a basis for evaluating investment results;
- Manage Fund assets according to prudent standards as established in common trust law; and
- Establish the relevant investment horizon for which the Fund assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

Delegation of Authority: The First Light Treasurer and/or Finance Committee is responsible for directing and monitoring the investment management of Fund assets on behalf of First Light. As such, the Treasurer and/or Finance Committee is authorized to delegate certain responsibilities to professional experts.

Investment responsibility and authority for the Fund has been delegated by the Board to the Treasurer and/or Finance Committee, subject to oversight by the Board's Executive Committee and the full Board.

The Treasurer and/or Finance Committee believes it can best discharge its responsibilities by:

- Defining investment objectives and goals;
- Hiring competent outside investment management (the "Investment Manager");
- Setting investment guidelines and monitoring the Investment Manager's compliance with them; and
- Periodically reviewing the Investment Manager's performance.

The Finance Committee will not make specific investment decisions, this being the responsibility of the Investment Manager.

The Finance Committee will not reserve any control over investment decisions, with the exception of specific limitations described in this statement. Investment Managers will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper the Investment Manager, the Investment Manager will request modifications that they deem appropriate.

Definitions:

- “Fund” shall mean the First Light investment portfolio under management.
- “Finance Committee” shall refer to the Committee authorized to administer the Fund.
- “Treasurer” shall refer to the board member authorized to administer the Fund in the absence of a Finance Committee.
- “Fiduciary” shall mean any third-party individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Fund assets.
- “Investment Manager” shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Fund assets.
- “Securities” shall refer to the marketable investment securities which are defined as acceptable in this statement.
- “Investment Horizon” shall be the period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Fund is 3 - 5 years.

Investment Portfolio Under Management: The investment portfolio shall be all cash and cash equivalents net of Board Designated Operating Reserves and cash sufficient for the daily operations of the organization. The Board Designated Operating Reserve is addressed in a separate policy statement. Cash and cash equivalents are considered all temporary cash investments purchased with a maturity of three months or less.

General Investment Principles:

Investments shall be made solely in the interest of the Fund.

The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.

Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.

Investment Management:

Preservation of Capital - Consistent with their respective investment styles and philosophies, the Investment Manager will make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.

Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the Finance Committee recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Fund's objectives. However, the Investment Manager is to make a reasonable effort to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.

Adherence to Investment Discipline - Investment Managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

Liquidity — First Light requires the ability to deposit and withdraw funds on an as needed basis. The Investment Manager therefore will make decisions that will maximize returns through short term investments, while understanding the need for liquidity.

Long Term Investments — a portion of the Fund's overall portfolio will be invested in long term growth mechanisms. This amount will be determined either as a percentage of the overall fund or a fixed amount of the fund by the Finance Committee on the advice of the Investment Manager.

Investment Objectives: To meet its needs, First Light investment objective emphasizes income with some focus on capital growth. First Light seeks preservation of principal and to provide a dependable and reasonable rate of long-term investment return consistent with moderate investment risk. Ambitious goals of profit maximization and market timing through short-term and/or speculative investments will not be considered. The Investment Manager will be given flexibility within the guidelines of the Investment Policy to use their/her expertise toward the achievement of investment goals.

Investment Goals: First Light' primary goals for its fund is preservation of principal and to maximize income within a framework of moderate risk assumption. The general level of income necessary to support First Light's programs will be communicated to the Investment Manager on an annual basis. Secondary goals for the Fund are (1) growth of income, and (2) capital appreciation. Given First Light's tax-free status, tax considerations do not play a role in First Light's investment decisions.

Definition of Risk: The Finance Committee realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing First Light's assets understands how it defines risk so that the assets are managed in a manner consistent with the Fund's objectives and investment strategy as designed in this statement of investment policy. The Finance Committee considers the tolerance for risk to be classified as medium. That is, comfortable with fluctuations in the portfolio, and the possibility of larger declines in value, in order to grow the portfolio over time. First Light's risk/return tradeoff is classified as moderate.

Asset Class Guidelines: First Light believes that long-term investment performance, in large part, is primarily a function of asset class mix. The Agency has reviewed the long-term performance characteristics of the broad asset classes, focusing on balancing the risks and rewards.

Theirtory shows that while interest-generating investments, such as bond portfolios, have the advantage of relative stability of principal value, they provide little opportunity for real long-term capital growth due to their susceptibility to inflation. On the other hand, equity investments, such as common stocks, clearly have a significantly higher expected return but have the disadvantage of much greater year-by-year variability of return. From an investment decision-making point of view, this year-by-year variability may be worth accepting, provided the time horizon for the equity portion of the portfolio is sufficiently long (three years or greater).

Asset Classes

The following asset classes were selected:

1. Cash and Cash Equivalents

2. Fixed-Income (generally - CDs, domestic and international governments, corporations, high yield and specifically - insured certificates of deposit, US government bonds, international government bonds, US government agency bonds, US government income funds, international government income funds, US corporate bond income funds, international corporate bond income funds, US government high yield corporate income funds, international government high yield corporate income funds, exchange-traded funds)
3. Equities (generally - individual equities, mutual funds, exchange-traded funds and specifically - US large market capitalization stocks, international large market capitalization stocks, US growth and income mutual funds, international growth and income mutual funds, US large capitalization mutual funds, international large capitalization mutual funds, exchange-traded funds)

Asset Allocation Ranges: To attain the stated investment goals, an Income/Growth asset allocation will be used for the Fund with the following ranges:

- Cash Equivalents 0-10%
- Fixed Income 0-60%
- Equities 0-50%

Due to the need for fund liquidity, it may be necessary to make investments on short term deposits that are lower return/lower risk. This may necessitate balancing the fund with higher risk investments for the remainder of the fund in order to achieve the desired rates of return.

The Investment Manager may deviate from these ranges with the prior approval of the Finance Committee. In addition, if in the opinion of the Investment Manager market conditions so require, the Investment Manager may deviate from these ranges for a period of up to ninety days without prior approval by the Finance Committee.

Fixed Income Guidelines
Quality of Issue: Individual bond purchases will be A rated or higher by Standard & Poor's or Moody's.

Maturity Guidelines: No single maturity may be longer than 15 years, with the average maturity of fixed income investments not exceeding 5 years, except as approved by the finance committee.

Diversification: Investment in any one company will not exceed 10% of the equity or equity-related asset. Investments in individual industries will not exceed 25% of the equity or equity-related assets. While it is expected that most equities will be income producing, use of non-income producing equities will be permitted not to exceed 15% of the total portfolio.

Other Permitted Investments: Mutual funds or commingled funds will be permitted, especially to provide diversification in such areas as "Small/Mid Cap" or "International" equities. Mutual funds and commingled funds may be either equity, equity-related, or fixed income investments. Preference will be given to funds with no-load charges or where sales charges are waived by the Fund company.

Prohibited Investments

Investments in the following are prohibited without the prior written approval of the Committee:

- Fixed Income securities that are not denominated in U.S. dollars or Eurodollars
- Venture Capital
- Guaranteed Investment Contracts
- Commodities
- Precious Metals or Gems
- International Equities not traded on domestic exchanges or in over-the-counter markets
- Limited Partnerships
- Real Estate (other than through publicly traded REITS, or similar investment entities that satisfy the Equity Guidelines stated above).

Performance Review and Evaluation

Performance reports generated by the Investment Manager shall be compiled at least semi-annually and communicated to the Treasurer and/or Finance Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Treasurer and/or Finance Committee intends to evaluate the portfolio(s) over at least a three-year period, but reserves the right to terminate a manager for any reason including the following:

- Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
- Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
- Significant qualitative changes to the investment management organization.

Investment Managers shall be reviewed at least annually by the Finance Committee regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

The Finance Committee will provide a summary of the semi-annual performance report and review to the Board of Directors at a regularly scheduled meeting.

Performance Management: The Investment Manager will report to the Finance Committee quarterly on the Fund's performance. Such reports will compare the Fund's performance to the performance of the most appropriate indices on a quarterly, one, three and five-year basis. The Committee will evaluate the Investment Manager's performance, and, when the Committee deems it appropriate to do so, make recommendations to the Executive Committee concerning retention of the current Investment Manager, on the basis of such performance comparisons, taking into account differences between First Light's investment objectives and the objectives reflected in the market indices.

Review Process: The Investment Manager will meet with the Finance Committee a minimum of once a year to review investment performance and compliance with the Investment Policy. More frequent meetings may be scheduled at the discretion of either the Committee or the Investment Manager.

Investment Policy Review: To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Finance Committee plans to review this investment policy at least annually.

Operating Reserve Fund

The general purpose of the fund is to help to ensure the long-term financial stability of the organization and position it to respond to varying economic conditions and changes affecting the organization's financial position and the ability of the organization to continuously carry out its mission.

First Light will maintain a Board Designated Operating Reserve Fund to achieve the following objective(s):

1. To enable the organization to sustain operations through delays in payments of committed funding and to accept reimbursable contracts and grants without jeopardizing ongoing operations;
2. To promote public and funder confidence in the long-term sustainability of the organization by preventing chronic cash flow crises that can diminish its reputation and force its leaders to make expensive short term, crisis-based decisions;
3. To create an internal line of credit to manage cash flow and maintain financial flexibility.

The polices outlined in this section shall work in tandem with the strategic plan approved by the Board of Directors.

Board Designated Operating Reserve Fund Balance

The amount to be maintained for the Board Designated Operating Reserve Fund is a minimum Operating Reserve Ratio of 25 percent or three months of annual expenses less depreciation. The status of the funded Board Designated Operating Reserve will be calculated at the end of each fiscal year based upon audited financial results.

The Operating Reserve Calculation will be presented to the Executive Committee at their meeting following approval of the financial audit results by the Finance Committee. The Committee will consider the adequacy of the Operating Reserve amount and will recommend any changes as deemed necessary.

Use of the Board Designated Operating Reserve Fund

The Executive Director may access up to $30,000 for purposes as outlined above, as long as sufficient accounts or grants receivable are available to repay such usage within three months' time. The Executive Director will notify the Treasurer in writing, and usage will be acknowledged in writing by the Treasurer. E-mail shall be acceptable forms of notification and acknowledgment.

Any funds borrowed from the Operating Reserve Fund for greater $30,000 and/or for longer than 90 days will be paid back through a prescribed repayment schedule/method. Approval of any such usage and the proposed repayment schedule shall be requested by the Executive Director from either the Board or the Finance Committee. If approved by the Finance Committee, such disbursement shall be reported at the next full Board meeting. Anytime that a borrowing from the Operating Reserve is outstanding, the status of the borrowing and payments made against the proposed repayment schedule will be reviewed at the regularly scheduled Board meetings.

Management of the Board Designated Operating Reserve Fund

Under the direction of the Treasurer and/or the Finance Committee, the Executive Director will establish a separate bank account for the Board Designated Operating Reserve Fund. Policies and procedures for handling deposits, reconciling statements, safeguarding access, etc. will be the same as established from time to time for any of the organization's other bank accounts. If feasible, the funds will be invested according to the guidelines set in the Operating Reserve Investment Policy.

The Operating Reserve Fund will be listed separately in the net assets section of the organization's statement of financial position as "Board Designated Operating Reserve" and longer-term borrowings from the reserve will be shown as a liability – "Due to Operating Reserve" – in internal financial reports.

Authorization of Draw Down* from the Board Designated Operating Reserve Fund

A draw-down from the fund that will not or cannot be replaced with operating funds in the time frame established in "Use of the Board Designated Operating Reserve Fund" above, must be approved by a majority of the Board, either by a majority of the votes of a quorum present at a regular Board meeting, or by a 2/3 majority of the Board if such vote is conducted by other means. A record of any such action will be maintained and be made a part of the Board meeting minutes. Any such action would remove the Board designation of "reserves" from these funds.

Note: this essentially decreases the fund from the established target level and is not recommended except under extraordinary circumstances.

Operating Reserve Shortfalls

If the Operating Reserve is and has been less than 75% of the targeted reserve level for two consecutive years, the Board of Directors, in the absence of any extraordinary circumstances, will adopt an operational budget that includes a projected surplus sufficient to rebuild the Operating Reserve Fund to its targeted reserve level over the following two years.

Operating Reserve Investments

The purpose of the Reserve is liquidity over income. Therefore, investments will be in the following types of cash and securities.

- Cash in a Federally Insured Deposit Account.
- Obligations of the United States government and other issues carrying its direct guarantee maturing in three-month increments.
- Obligations of agencies of the United States government, and issues carrying the direct guarantee of such agencies maturing in three-month increments.
- Certificates of Deposit of commercial bank and thrift organizations maturing in three-month increments.

Responsibilities of the Finance Committee

The Finance Committee will receive reports on the Board Designated Operating Reserve Fund and shall be charged with assuring that the funds are invested prudently in accordance with the guidelines stated above and that the organization receives a reasonable rate of return considering the size of the reserve fund, the instruments in which it is invested and other relevant factors.

The Treasurer will report the status of the Board Designated Operating Reserve Fund to the Board as part of the regular Treasurer's report.

The Finance Committee will review the Operating Reserve Policy every three years, or sooner if conditions warrant, and put forward any necessary changes to be reviewed by the Executive Committee and approved by the Board.

Risk Management

Asset Protection

It is First Light's policy to adopt best practices in the identification, evaluation and cost-effective control of risks to ensure that they are eliminated or reduced to an acceptable level.

Annual Financial Audit

It is First Light's policy to have a Board approved external Certified Public Accounting (CPA) firm audit the accounting procedures, practices and internal controls on a yearly basis, if First Light has annual revenues of more than $250,000 or is required by federal, state or grant requirements.

The Operations Director and Executive Director, in conjunction with the Finance Committee, will release requests for proposals (RFP) on audit, tax and reporting services. The Finance Committee shall review the proposals and submit a recommendation to the Board of Directors for approval. The request for proposal will be for a consecutive three-year period with an option to renew for another three-year period. The lead auditor will be changed every six years.