



New England Foundation for the Arts Endowment & Reserve Policy

The Board of Directors of The New England Foundation for the Arts (NEFA) recognizes the importance of continually improving the organization's long-term capitalization, in support of its mission.

The Board further recognizes that an appropriate capitalization strategy will allow NEFA to be: (1) nimble and responsive in the face of strategic opportunities, (2) resilient to unexpected financial setbacks, and (3) constant in its ability to cover ongoing operations with reliable revenue.

This policy governs the establishment, maintenance and growth of two unrestricted, board-designated Funds: a 1) Quasi-Endowment and 2) Strategic Opportunity & Risk Reserve.

The investment and management of NEFA's invested assets is governed by a separate Investment Policy.

I. DEFINITIONS & PURPOSE

Quasi-Endowment:

The Quasi-Endowment is invested with the objective of preserving the long-term, real purchasing power of the Fund's assets, while providing NEFA with annual funds to support its programmatic and administrative operations. As a source of recurring funds, a percentage of the Quasi-Endowment is intended to offset a portion of ongoing expenses, as approved by the Board of Directors in the annual budget.

The terms of the Quasi-Endowment are established by NEFA's Board, not by external donors. While the funds are meant to be retained rather than expended, the Board has authority to authorize withdrawals from the Quasi-Endowment for any purpose. The Quasi-Endowment is not subject to any legal guidance or restrictions governing the investment and expenditure of restricted endowments.

Strategic Opportunity & Risk Reserve (the "Reserve"):

The Reserve is intended to provide NEFA with an internal source of funds for periodic risk management and strategic risk-taking. The Reserve may be used for any purpose deemed a strategic opportunity or risk mitigation strategy by NEFA's Board of Directors and/or Executive Director, subject to Section III, Authorizations of Use.

Ordinarily, strategic opportunities will be those viewed as having good potential to be successful from both mission and business criteria. Examples of strategic opportunities include:

- Start-up, expansion or time-limited enhancement of program activities
- Episodic organizational capacity-building efforts, such as strategic planning, research & development, and investment in infrastructure
- Capital renovations



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Risk management strategies shall ordinarily be those viewed as responding to an emergency situation beyond the control of Management, such as:

- Temporary shortfalls in the operating budget arising from an unexpected revenue loss or unanticipated expense
- Payment for repair or replacement of fixed assets

The Strategic Opportunity & Risk Reserve is not intended for use to eliminate an ongoing budget gap, or to fund permanent budget expansion.

II. FUNDING SOURCES & BALANCES

Both Funds will initially be created from NEFA's audited unrestricted operating net assets balance as of May 31, 2015 at \$4,666,356. The Funds may be replenished and grown with operating surplus and/or through special fundraising earmarked by the Board of Directors or Executive Director.

Quasi-Endowment: NEFA will designate an amount equal to \$4,110,918 as a Quasi-Endowment. The Board expects the balance to increase/decrease based on the performance of its underlying investments with the overall expectation that it will increase over time.

Strategic Opportunity & Risk Reserve: NEFA will designate an amount equal to \$370,292 as the Strategic Opportunity & Risk Reserve. NEFA will endeavor to maintain a Reserve minimum balance equivalent to two months of average annual administrative expenses. Administrative expenses include all personnel, occupancy, general & administrative, and communications & development costs.

Amounts not designated as Quasi-Endowment or Strategic Opportunity & Risk Reserve shall remain in unrestricted operating net assets, free of designation, to serve as NEFA's working capital.

III. AUTHORIZATION OF USE

As part of the annual budgeting process, NEFA's Executive Director, in consultation with the Finance Committee, will identify and quantify priorities warranting the spending of the Quasi-Endowment and/or the Strategic Opportunity & Risk Reserve Funds. These priorities will be reflected in the proposed budget as the annual "endowment draw" and "reserve expenditure," respectively.

Quasi-Endowment: NEFA will take an annual draw toward operations of 3% to 5% of a three-year rolling average of the audited May 31st Quasi-Endowment balance. For years prior to the establishment of the Quasi-Endowment, a substitute Quasi-Endowment balance shall be used instead. This substitute balance shall be computed by reducing the audited May 31st unrestricted operating net assets balance by an amount equal to three months of average administrative expenses from the corresponding year's approved budget. Any expenditure in addition to this annual draw requires an affirmative vote by the majority of the Board.



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Strategic Opportunity & Risk Reserve: The Executive Director may submit special requests to access Reserve funds that were not included for use in the annual budget, as specified below:

- Up to twenty-five percent (25%) of the Reserve balance may be authorized by the Executive Director after informing the Finance Committee.
- Up to fifty (50%) of the Reserve balance may be authorized by a majority of the Executive Committee.
- Any amount above 50% must be authorized by the Board via affirmative majority vote.

IV. FUND REPLENISHMENT

NEFA's Board and executive leadership will make significant efforts to replenish expenditures of its Funds, as follows:

Quasi-Endowment: Any expenditure that *exceeds* the annual, planned draw will be repaid within 12 months, or according to a board-approved repayment plan.

Strategic Opportunity & Risk Reserve: The Reserve will be restored to its target minimum balance of two months of average annual administrative expenses within 12 months of usage, or according to a board-approved repayment plan.

Replenishment of the Quasi-Endowment and Strategic Opportunity & Risk Reserve will be made with surpluses from operations, contributed revenue designated to one or more Funds, and/or Board-directed transfers of unrestricted net assets.

As part of the annual budget cycle, NEFA's Executive Director, in collaboration with the Finance Committee, will recommend a strategy for the Funds' replenishment. At the end of each fiscal year, the Finance Committee, in consultation with the Executive Director, will evaluate NEFA's financial performance and recommend to the Board the amount(s), if any, to be transferred to either or both savings vehicles.

V. FINANCIAL REPORTING & MONITORING

The Quasi-Endowment and Strategic Opportunity & Risk Reserve will be presented in all of NEFA's financial reports, internally and externally, in accordance with accounting standards. Transfers of funds into, and uses of funds from, the Quasi-Endowment and Reserve will be clearly reported.

NEFA's Executive Director will maintain records of the use of the Funds and plans for their replenishment. The Executive Director will provide regular reports to the Finance Committee of NEFA's progress to restore the Funds to their target minimum amounts.

VI. INVESTMENT

Quasi-Endowment and Reserve funds will be held in one or more appropriate accounts and invested at the discretion of executive and Board leadership, in accordance with NEFA's **Investment Policy**.