

# **Bellingham Symphony Orchestra ("BSO")**

## **Restricted Funds Policy**

### **A. Policy Purpose**

The Board of Directors ("Board") created the Restricted Funds Policy in 2021 to govern the management of restricted gifts made to the BSO. Restricted gifts are gifts from donors who specify the use of the funds. Restricted gifts shall be classified as either temporarily restricted or permanently restricted. If the donor-imposed restrictions are satisfied by the passage of a defined period of time, or by the completion of a defined purpose, the gift is classified as temporarily restricted. If the donor defined purpose is to be served in perpetuity the gift is classified as permanently restricted and is deemed a permanent endowment.

Funds established by temporarily restricted gifts shall be classified as short term if the donor defined period or purpose is expected to be realized in three years or less, intermediate term if the period or purpose is expected to be realized in more than three years but less than ten years, and long term if the defined period or purpose is expected to be realized in more than ten years. Any temporarily restricted fund assets that are residual on completion of the donor defined purpose or donor defined period become unrestricted assets of the BSO.

The policy represents the consensus of the Board and is reviewed and revised as needed to ensure it continues to reflect the Board's attitudes, expectations and objectives. The Policy is designed to be specific enough to give a meaningful basis for evaluation of portfolio management and flexible enough to be practical.

### **B. Investment Objectives**

#### **1) Temporarily Restricted Funds**

- **Short Term**
  - The primary objective of short-term restricted funds is to provide the cash needed to achieve the donor defined purpose of the fund within the donor defined time period (if applicable).
  - The performance objective is to achieve a total return at least equal to prevailing returns of high-quality cash equivalents.
  - Maximum stability of market value is a key objective based on the short-term nature of these funds.
- **Intermediate Term**
  - The primary objective of intermediate term restricted funds is to provide the cash needed to achieve the donor defined purpose of the fund within the donor defined time period (if applicable).
  - The performance objective will vary based on expected duration of the fund. A shorter duration fund will be comprised of shorter duration assets and a longer duration fund will initially be comprised of a combination of short and longer duration assets that may transition to shorter duration as the fund approaches the end of the donor defined time period or completion of the

donor defined purpose. The fund shall be structured to meet the cash requirements that may be reasonably expected. The total return objective will be equal to or exceed the capital market returns of the asset classes held in the fund proportional to their allocation.

- Unreasonable market value volatility is to be avoided through diversification of asset classes and risk management strategies appropriate to the expected duration of the fund.

- **Long Term**

- The primary objective of long-term restricted funds is to provide the cash needed to achieve the donor defined purpose of the fund in the donor defined time period (if applicable).
- The performance objective will vary based on expected duration of a long term fund. However, given the long term expected duration of a fund its composition will initially be weighted more heavily to longer duration assets with a higher expected total return. As the defined purpose of a fund approaches realization the fund may transition to shorter duration assets. Long term funds shall be structured to meet the cash requirements that may be reasonably expected. The total return objective will be to equal to or exceed the capital market returns of the asset classes held in the fund proportional to their target allocations net of investment fees and expenses.
- Given the long term nature of the funds, market value volatility is expected to be higher in the initial years in relation to the asset diversification. Diversification of asset classes and risk management strategies appropriate to the expected duration of the fund will be employed.

## **2) Permanently Restricted Funds (Permanent Endowments)**

- A donor may designate the purpose of the gift is to support general operations of the BSO or a specific program in perpetuity.
  - The primary objective of a permanent endowment is to achieve a long-term total return sufficient to provide ongoing support to the donor designated program without depleting value of the gift.
  - The total return objective (before contributions and withdrawals) is to equal or exceed the capital market returns of the asset classes held in the fund proportional to their allocation net of fees and expenses over rolling three-year periods.
  - Based on the perpetual nature of these funds a relatively aggressive allocation may be employed resulting in relatively higher short-term volatility. Diversification of asset classes and risk management strategies appropriate to the perpetual nature of the funds will be employed.

## **C. Roles and Responsibilities**

### **1) Board of Directors/Finance Committee**

The Board has the authority to delegate responsibility for the management of the Endowment to a third-party investment firm or to retain the management of the assets in-house. The Finance Committee is charged with developing investment allocation target recommendations for the different funds for Board approval as well as providing performance and regulatory reporting. The finance committee is responsible for reviewing the entirety of this policy at least every three years and recommending to the Board any changes felt to be appropriate. The Board may delegate the responsibilities of the Finance committee to the Executive Committee in cases where timing of a decision is critical.

### **2) Investment Management Firm**

Any external firm engaged to manage temporary or permanently restricted funds must be a registered investment advisor under the Investment Advisors Act of 1940, and the firm is given full discretion to make all investment decisions for the assets placed under its jurisdiction while observing and operating within all applicable policies, guidelines and constraints outlined in this document or addendums.

The investment management firm has the discretion to execute securities transactions with brokerage firms of their choosing. The choice of a brokerage firm must be based on the quality of the execution, the value of research information provided, transaction costs, the financial health and integrity of the firm and the overall efficiency in transacting business.

The investment management firm will provide the BSO a report detailing commission dollars paid to brokerage firms as well as any cross-trades.

### **3) Custodian**

The BSO, in consultation with the investment management firm, will select a custodian to be responsible for physically (or through an agreement with a sub-custodian) maintaining possession of securities owned by the BSO, collecting dividends and interest payments, redeeming matured securities and effecting receipt and delivery of securities following a purchase or sale transaction. The custodian is required to provide statements detailing holdings and activity directly to the BSO on a monthly basis.

### **4) Internal and External Reporting**

The BSO's financial statements and Schedule 990 reflect the applicable transaction activity and investment and cash balances and shall comply with FASB Statement 116

## **D. Regulatory Guidance**

Management of restricted funds shall adhere to the Washington Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which was signed into law by Governor Christine Gregoire on May 11, 2009. The Board can delegate the management of the investments held in restricted funds and not be liable for the investment management firm's actions if they:

- Selected the investment management firm
- Established scope and terms of delegation
- Periodically reviewed the actions of the firm

The duty and care under UPMIFA are to manage and invest with the care an ordinary prudent person in a like position would exercise under similar circumstances.

The investment management firm must:

- Diversify the funds unless special circumstances exist.
- Make decisions in context of the portfolio as a whole and as part of the overall investment strategy.
- Only incur costs that are appropriate and reasonable in relation to assets, purposes of the institution and skills available to the institution.
- Make a reasonable effort to verify facts relevant to management and investment of the fund.

## **E. Contributions to Restricted Funds**

### **1) Acknowledgement and Naming**

The BSO shall have donors sign a Restricted Gift Agreement for restricted gifts valued at \$10,000 or more. The Agreement shall stipulate BSO's understanding of the donor defined restrictions and stipulate that any balances remaining in temporary restricted funds at the termination of the restricted period or completion of the purpose shall become unrestricted assets of the BSO. A copy of the Agreement shall be provided to the donor or the donor's legal representative. A restricted gift acknowledgement letter shall be provided to donors of restricted gifts less than \$10,000 in value. The letter for temporarily restricted gifts shall contain the same information noted above.

Donors of restricted gifts valued at \$100,000 or more may designate the name of the fund established by the gift.

### **2) Gift Acceptance**

The BSO shall only accept restricted gifts that meet and/or further the purposes of the institution.

## **F. Stock Contributions to the Endowment**

### **1) Unrestricted Securities**

Unrestricted securities will only be accepted if traded on a public exchange in the United States. All unrestricted securities shall be sold within ten (10) business days of receipt unless the Board or the investment manager, at their sole discretion, elects to hold the asset. The security cannot be held in restricted funds if it violates any of the investment limitations or restrictions.

### **2) Restricted Securities**

No restricted securities will be accepted.

## **G. Asset Contributions to Restricted Funds**

### **1) Illiquid Assets**

If a donor gifts an illiquid asset (e.g., real estate, art), the gift cannot be accepted until the Finance Committee engages a firm to provide a Phase I Environmental study (if applicable), develops a plan for disposal of the asset within a reasonable period of time, calculates the cost to dispose do not exceed the value of the asset and confirms that the BSO has the ability to secure the asset during the disposal period. The Finance Committee recommends to the Board whether or not to accept the illiquid asset.

## **H. Withdrawals**

Withdrawals from temporarily restricted funds shall be made to fund the donor defined purpose and/or in accordance with the donor defined duration of the fund. The Finance Committee shall annually recommend to the Board amounts to be withdrawn from short and intermediate term restricted funds to meet the donors purpose considering the donor's expected duration of the fund.

Withdrawals from long term restricted funds shall be made to fund the donor defined purpose and/or in accordance with the donor defined duration of the fund. The Finance Committee shall annually recommend

to the Board amounts to be withdrawn from long term restricted funds to meet the donor's purpose. Given the long-term nature of the fund the Finance Committee shall incorporate the following six factors in their annual withdrawal recommendation:

1. Donor define duration of the restricted fund (if applicable) and preservation of the fund for that period
2. Purpose of the fund
3. General economic conditions
4. Effect of inflation or deflation
5. Expected total return from income and appreciation of investments
6. Investment Policy of the Foundation

A permanently restricted gift (permanent endowment) may be established to fund the general operation of the BSO in perpetuity or may be established to fund a specific program of the institution in perpetuity. The Finance Committee shall annually recommend to the Board amounts to be withdrawn from permanent endowments. The withdrawals can be in a lump sum or spread out over the fiscal year. In determining the total possible amount to withdraw from a permanent endowment in any given year, the Finance Committee shall incorporate the following seven factors as outlined in UPMIFA:

1. Preservation of the endowment fund
2. Purpose of the endowment fund
3. General economic conditions
4. Effect of inflation or deflation
5. Expected total return from income and appreciation of investments
6. Other resources of the BSO
7. Investment Policy of the BSO

Given the intent of a perpetual fund, withdrawals recommendations should be based on a percentage of the average year end value of a fund over the preceding 3 years adjusting for additions to the fund during the three years.  $((\text{year end value year 1} + \text{year 2} + \text{year 3} - \text{additions}) / 3) \times x\%$ . This assures that additions are allowed the possibility of growing for three years before withdrawals impact the additional funds. The percentage applied shall not exceed 5%, and will normally be between 2% and 4%. The percentage may be zero based on the factors noted above.

## **I. Investment Guidelines**

The Board will establish an overall risk profile and tolerance for loss of value through investments of any given restricted fund in any given year. This shall inform the Finance Committee's asset allocation target recommendations (per Roles and Responsibilities above). On an annual basis, the risk profile is reviewed and any changes communicated to all Finance Committee members as well as the third-party manager (if applicable).

The BSO may own cash equivalents, exchange listed individual securities, no-load open-end mutual funds or exchange traded funds and insured certificates of deposit. Any security purchased will not contradict the values and philosophy of the BSO. If at any point a contracted investment management firm believes the limitations outlined below need to be modified in order to properly manage a restricted fund, a written proposal must be submitted to the Finance Committee. If the Finance Committee concurs, the recommendation is forwarded to the Board for approval.

### 1) Individual Securities Limitations

- No more than 5% may be invested in a single security other than cash equivalents and insured CD's with values not exceeding insured limits).
- No more than 5% may be invested in securities from a single issuer other than Treasury securities issued by the U. S. Government, cash equivalents, and Insured CD's.
- No more than 25%, or 1.5 times the Industry Sectors' weighting (whichever is less) may be invested in any specific S&P Global Industry Classification Industry Sector. There are currently eleven (11) sectors, which are defined as Energy, Materials, Industrials, Consumer Discretionary, Consumer Staples, Health Care, Financials, Information Technology, Communication Services, Utilities and Real Estate. Due care shall be exercised to avoid significant overweighting of individual Industry Groups within a Sector.
- No more than 5%, may be in fixed income securities rated below investment grade. If a security is not rated, it will be treated as if rated below investment grade. The 5% limit incorporates individual securities, mutual funds and exchange traded funds.
- No more than 5% may be invested in fixed income securities with a duration exceeding 7 years. The 5% limit incorporates individual securities, mutual funds and exchange traded funds.
- If a restricted fund is managed internally no individual securities other than insured CD's are eligible to be purchased.

### 2) Open-End Mutual Funds or Exchange Traded Funds Limitations

- No more than 80% of the equity portion of a restricted fund may be invested in funds focused on large capitalization stocks (defined as those with a market value in excess of \$10 billion).
- No more than 30% of the equity portion of a restricted fund may be invested in funds focused on medium capitalization stocks (defined as those with a market value between \$2 billion and \$10 billion).
- No more than 15% of the equity portion of a restricted may be invested in funds focused on small capitalization stocks (defined as those with a market value under \$2 billion).
- No more than 15% of the equity portion of a restricted fund may be invested in funds focused on international equities (defined as excluding U.S. firms).
- No portion of a restricted may be invested in a fixed income fund with an average duration exceeding 7 years.
- No portion of a restricted fund may be invested in a fixed income fund that has more than 5% of its assets in high yield securities. Non-rated securities will be included in the 5% limitation.
- Open-ended mutual funds must not contain an upfront or back-end fee.

### 3) General Limitations

- Short term temporarily restricted funds may only hold cash equivalents, CD's and investment grade fixed income securities with maturities of three years or less.
- Maturities of fixed Income securities held in intermediate and long term restricted funds shall not exceed the expected duration of the fund.

- No more than 25% of a permanently restricted endowment may be invested in cash or cash equivalents. Cash must be invested in FDIC insured bank accounts or approved brokerage accounts. A cash equivalent represents funds available within 1 - 90 days.
- Up to 75% of a permanently restricted endowment may be invested in equity securities or equity mutual funds.
- No more than 50% of a permanently restricted endowment may be invested in fixed income instruments or fixed income mutual funds.
- Any Certificate of Deposit ("CD") held in the portfolio must be FDIC insured.

#### **4) Restrictions**

The restricted funds may not hold any of the following investment types:

- Levered exchange traded funds
- Short position in any security
- Commodities
- Foreign currencies
- Derivatives
- Futures
- Levered loans
- Warrants
- Options, including covered calls
- Private placements
- Unregistered securities
- Private equity
- Hedge funds

#### **J. Reporting**

On a monthly basis, the Finance Committee will review the balances and change in value of all restricted funds. On a quarterly basis the Finance Committee shall review the performance relative to benchmarks, asset allocations relative to targets, trading activity, and unrealized gains/losses of all restricted funds.

The Treasurer will report to the Board on a quarterly basis the performance of restricted funds, current allocation and any contributions and withdrawals. Any compliance violations will be reported to the President of the Board within 5 business days and to the full Board of Directors at the next scheduled meeting.

### **AMENDMENTS TO POLICIES**

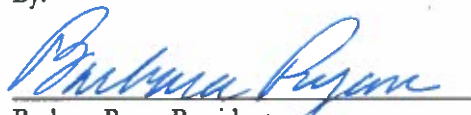
These Policies and Procedures may be modified at any time by a simple majority of the Board of Directors present and voting.

This edition of the BSO Policies was approved by majority vote of the Board present at its meeting on the date set forth below.

DATED the 26th day of April 2021.

**Bellingham Symphony Orchestra**

By:

  
Barbara Ryan, President

Attest:

  
Patrick Roulet, Secretary