

November 16, 2017

TO: Board of Directors
FROM: Paul Murray, Heller An Shapiro
RE: Reserve Policy for Review

Background:

In addition to the investment policy statement approved at the September 6, 2017 Board meeting, the Reserve Policy provides guidance to District Capital and our investment advisor Alvin Carlos, and governs how any reserve funds are managed. ArtStream's current investment plan is 40% income, 31% growth, and 29% stability.

Proposal:

The Short Term Reserve and Revenue Shortfall Reserve (Part I) will be invested by District Capital as part of the invested funds. The Board or a committee would determine an annual amount to invest for each Reserve, at a specific risk/liquidity level.

The Fund Reserve (Part II) will be invested by District Capital when, for example, ArtStream has high revenue during a short period, that won't be needed until revenue dips down several months later.

Rationale:

Designating fund amounts or percentages annually to the Reserve Funds will allow for the most beneficial investment strategy while protecting ArtStream against a budget shortfall due to timing.

District Capital would be better able to manage a Fund Reserve that should be more liquid than the invested funds described in part I, provide a higher return than the checking account, and be accessible as needed throughout the year. For example: In Fall 2016, we invested \$40,000 of revenue from the Gala and ITC Tuition fees into a one-year CD with a 1.05% return and a withdrawal penalty prior to November 2017. Then we struggled in August with unanticipated moving expenses.

**ArtStream
RESERVE POLICY
Draft as of 11/16/17**

I. A. SHORT TERM RESERVE FUND

Purpose

To provide funds to support short-term cash flow needs due to fluctuations in monthly revenue and expense patterns.

Amount

The amount of the Short Term Reserve Fund should be established by the Finance Committee or Board annually. The Finance Committee or Board will review monthly revenue and expense fluctuations for the previous two-year operating cycle. The Board will determine the amount to maintain in this reserve for the next 12-month period. The maximum amount to be placed in reserve is nine months of the current year budgeted expenses.

Investment Strategy

The Short Term Reserve Fund should have maximum liquidity and be subject to minimal market risk. Typical investment strategies are money market accounts, penalty free certificates of deposit and short-term bond mutual funds.

Fund Withdrawals

The Finance Committee/Board shall monitor use of reserve funds from the Short Term Reserve Fund to meet budgeted expenses. The Executive Director shall notify the Board two weeks prior to withdrawing reserve funds.

B. REVENUE SHORTFALL RESERVE FUND

Purpose

To provide funds needed to support operations due to a material shortfall in revenue caused by cutback or cancellation of revenue-raising programs.

Amount

The amount of the Shortfall Reserve Fund should be established by the Finance Committee/Board annually. The amount should be based generally on 10 percent of the projected budgeted expenses for the current fiscal year and no more than 9 months of the current year budgeted expense. The Committee/Board will review this amount annually and make a recommendation to the Board on the current year's reserve funding.

Investment Strategy

The Shortfall Reserve Fund should have moderate liquidity. Investment strategies would include a significant weighting toward income producing securities, but this fund need not be exclusively cash or cash equivalents, which are provided for

in the Short Term Reserve Fund. This fund is not prohibited from investing in equity securities and equity-based mutual funds.

II. FUND RESERVE (EXISTING GENERAL OPERATING ACCOUNT BALANCE)

A. Purpose

To provide funds to meet grant or project timing differences, (on a year-to-year, not month-to-month basis).

Amount

Cumulative, unexpended funds from the General Operating Account.

Investment Strategy

This reserve is a result of higher revenue at certain times of the year, typically in the first quarter of the Fiscal Year. These funds should have maximum liquidity and be subject to minimal market risk. Typical investment strategies are money market accounts or penalty free certificates of deposit.

ArtStream, Inc. Cash Flow
FYE '16

