

May 21, 2018

TO: Board of Directors

FROM: Doreen Cronrath, Heller An Shapiro

RE: Reserve Amount Proposal (Reserve Policy attached for reference)

Background:

ArtStream currently has \$187,976 invested with District Capital. ArtStream's current investment plan is 40% income, 31% growth, and 29% stability.

From September 2015 to March 2018, ArtStream's annual expenses per month ranged from \$29,000 to \$84,000, with an average of \$33,710. In FY17, expenses per month ranged from \$43,496 to \$75,837 with an average of \$52,000 (see attached chart A).

The gap between revenue and expenses, *when expenses exceeded revenue*, ranged from \$6,524 to \$27,605, with an average of \$6,424 per month in FY17 (see attached chart B).

Proposal:

Option A: ArtStream should work toward a reserve fund of \$150,000 (3 months of expenses).

Option B: ArtStream should work toward a reserve fund of \$75,000 (3 months of average revenue shortfall).

\$67,000 (10% of FY18 expenses), is already invested by District Capital, and can be designated as the Revenue Shortfall Reserve Fund, which should have moderate liquidity. An additional \$83,000 (Option A) or \$8,000 (Option B) would be invested by District Capital as the Short Term Reserve Fund, which according to the Reserve Policy 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.

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. The funds will need to be built up with regular deposits.

The Fund Reserve holds the existing general operating account balance. When there is more than \$10,000 in this fund, it should be invested in a money market account or penalty-free certificates of deposit.

The amount of the Revenue Shortfall Reserve Fund should be established by the Board annually and designated as part of the District Capital invested funds. According to the Reserve Policy, the amount should be based generally on 10 percent of the projected budgeted expenses for the

current fiscal year (\$10% of FY18 expenses is \$67,000) and no more than 9 months of the current year budgeted expense. The Revenue 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. This fund is not prohibited from investing in equity securities and equity-based mutual funds.

CHART A

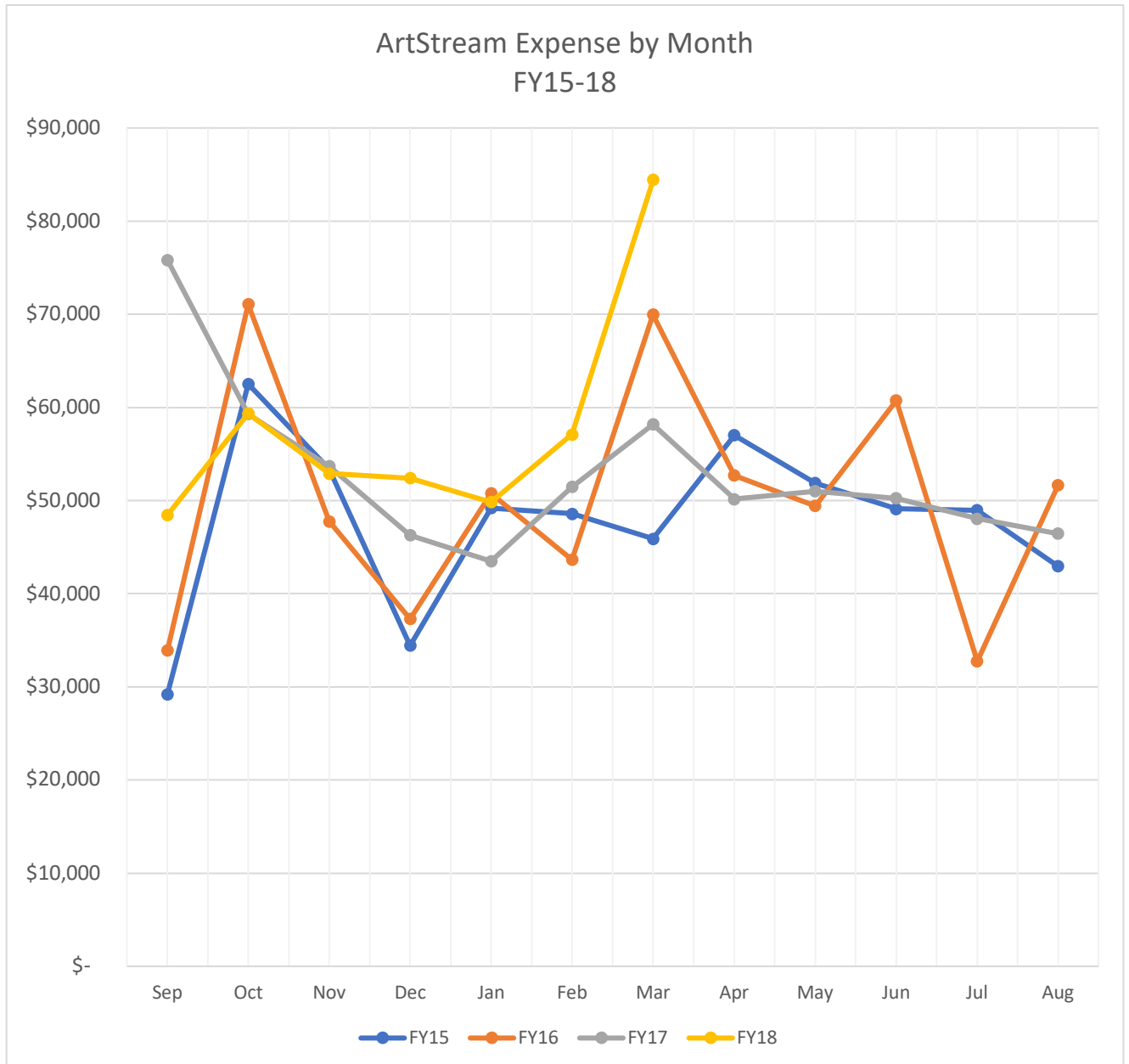
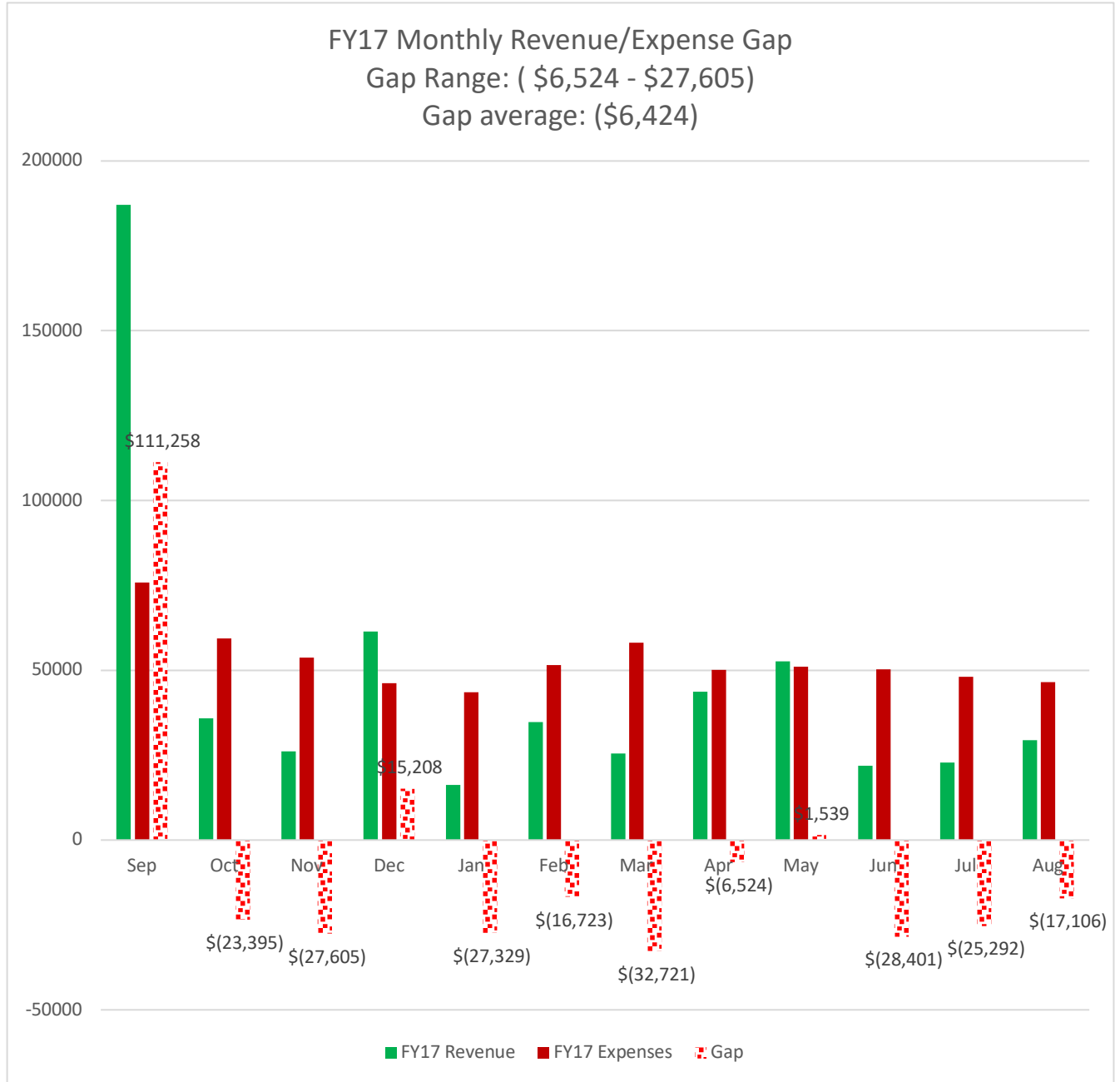


CHART B



ArtStream
RESERVE POLICY
Approved 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 Board annually. The 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 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 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

Board will review this amount annually and make a recommendation to the Board on the current year's reserve funding.

Investment Strategy

The Revenue 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.