SPARC Cash Reserves & Use of Funds Policy

Revision History:

- Original draft, December 30, 2014
- Revised August 31, 2017
- Revised July 29, 2019

1) Purpose of Reserves Policy

The SPARC reserves policy is intended to ensure the stability of SPARC's mission, programs, and ongoing operations. It also provides an internal source of funds for organizational priorities, such as program opportunities and capacity building.

The policy establishes operating reserve guidelines that will allow SPARC to operate in the event of short-term cash shortfalls and unexpected expenses. This policy documents the protocols for cash management and the investment of SPARC funds, with the primary investment objective of capital preservation and liquidity.

2) Definitions & Goals

a) Operating Reserve

The Operating Reserve is intended to provide an internal source of funds to cover short-term cash flow deficits due to one-time, unbudgeted expenses or unanticipated funding disruptions. The Operating Reserve is intended to cover short-term funding gaps, not to replace a permanent loss of funding or to cover an ongoing budget gap.

i. SPARC will maintain a cash Operating Reserve that will be no less than 3 months' and no more than 6 months' average operating expenses.[1] The minimum Operating Reserve target will be calculated annually based on the previous year's results. The Executive Director will report to the Steering Committee annually on the status of these reserves to ensure that the organization is in compliance with this policy.

ii. The Operating Reserve will be funded with surplus unrestricted operating funds. The Executive Director, with the Steering Committee's consent, may from time to time direct that a specific source of revenue (such as one-time grants or gifts) be set aside for the Operating Reserve. Unless otherwise approved by the Steering Committee, at least 50% of the increase in each year's unrestricted net assets will be transferred to the Operating Reserve until the maximum reserve balance has been reached. The Executive Director's annual budget will include a line item that maintains the Operating Reserve at the stipulated level.

iii. The Operating Reserve funds will be held as cash or liquid investment instruments in accordance with the Investment Policy (Section 3, below), as approved by the Steering Committee and reviewed on an annual basis.

iv. Any withdrawal from the Operating Reserve must comply with the authorization and use terms specified in Section 4 of this policy.

b) Agility Reserve

In addition to the Operating Reserve, SPARC will maintain a cash Agility Reserve that allows SPARC to act on unforeseen program opportunities that advance SPARC's mission, but that may not carry a specific

[1] Operating expenses are based on total SPARC expenses for the prior year.

expectation of increased program income. The Agility Reserve is also intended to provide a source of internal funds for organizational capacity building, such as staff development or investment in infrastructure that contribute to long-term capacity.

i. The Agility Reserve target amount will be based on the recommendation of the Executive Director. Unless the Executive Director recommends otherwise, the Agility reserve will represent 3-months' expenses. The Agility Reserve target will be calculated annually based on the previous year's results. The Steering Committee will review the operating budget annually to ensure that the organization is in compliance with this policy.

ii. The Agility Reserve will be funded with surplus unrestricted operating funds. The Agility Reserve may also be funded with occasional special designations made by the Steering Committee at the recommendation of the Executive Director. The Executive Director's annual budget should include a line item for the Agility Reserve.

iii. The Agility Reserve funds will be held as cash or liquid investment instruments in accordance with the Investment Policy (Section 3, below), as approved by the Steering Committee and reviewed on an annual basis

iv. Any withdrawal from the Agility Reserve must comply with the authorization and use terms specified in Section 4 of this policy.

c) Investment Reserve

At the Executive Director's discretion, any surplus operating income available after the cash Operating and Agility Reserves have been funded may be invested in interest-generating accounts as described below.

i. The Investment Reserve target amount will be based on the recommendation of the Executive Director. The Steering Committee will review the operating budget annually to ensure that the organization is in compliance with this policy.

ii. The Investment Reserve may be funded with occasional special designations made by the Steering Committee at the recommendation of the Executive Director. The Executive Director's annual budget should include a line item for the Investment Reserve.

iii. The Investment Reserve funds will be invested in accordance with the Investment Policy (Section 3, below), as approved by the Steering Committee and reviewed on an annual basis.

iv. Earnings from the Investment Reserve investments will be added to the fund's balance until the target reserve balance has been reached. Once the Investment Reserve target balance is attained, investment earnings may be added to the fund's balance or added to SPARC's unrestricted cash operating reserves, at the Executive Director's discretion.

v. Any withdrawal from the Investment Reserve must comply with the authorization and use terms specified in Section 4 of this policy.

3) Investment Policy

SPARC shall seek to realize competitive rates of return on its cash assets designated for investment with a conservative investment profile presenting minimal risk. As capital preservation and liquidity are the principal objectives for investing SPARC's Reserve funds, SPARC will apply the following guidelines for investing its Investment Reserve funds:

a) Maturity for each investment should be no more than 3 years.

b) At least 25% of the portfolio should have a maturity of less than 360 days.

c) Permissible investments include liquid money market funds, certificates of deposit, government bonds, and government bond mutual funds.

d) The portfolio should be invested in an environment governed by the SIPC (Security Investor Protections Corporation), preferably in a no-cost institutional account. Assets will be invested with institutions that are FDIC or SIPC insured.

e) All investments should be made through and with the advice of an SEC-registered investment advisor, appointed by the Executive Director in consultation with New Venture Fund.

f) The Executive Director will report on the investment portfolio performance at least annually.

4) Authorization & Use

A resolution of the SPARC Steering Committee, ratified by the New Venture Fund Board, shall authorize the SPARC Executive Director to implement this investment policy.

a) Appropriate Use

The Executive Director will identify the need to access Reserve funds and ensure that the use is consistent with the purposes of the Reserves described in this policy. This will step will include an analysis of the reason for the shortfall (for the Operating Reserve) or the opportunity (for the Agility Reserve), the availability of other fund sources before resorting to the Reserves, and an evaluation of the time period required for the funds to be used and replenished.

b) Authority to Use Reserves

The Steering Committee delegates authority to use the Reserves to the Executive Director. The Executive Director will report use of the Reserves to the Steering Committee at the Committee's next scheduled meeting, accompanied by a description of the need and use for the funds and plans for replenishing the Reserves to the targeted levels. The Executive Director will seek prior approval from the Steering Committee if use of the Operating Reserve will require longer than 12 months to replenish to the minimum level.

The Executive Director will consult with the Steering Committee prior to any non-grant expenditure over $120,000. The Executive Director has authority to make any non-grant expenditure less than this amount.

The annual SPARC budget submitted to NVF will serve as authorization to NVF to draw down SPARC's unrestricted cash balance as necessary and appropriate.

c) Reporting

The Executive Director is responsible for ensuring that the Reserve funds are maintained and used in conformance with this policy. The Executive Director will maintain records of the use of the funds and the plans for replenishment and will report to the Steering Committee on progress to restore the Reserves.

5) Policy Review

The SPARC Steering Committee will review this policy every other year, at minimum, or sooner if warranted by events. Changes to the policy will be recommended by the Executive Director to the Steering Committee.