

RESERVES POLICY

May 2022

1. Purpose

The purpose of the Reserves Policy for Philanthropy Australia (PA) is to ensure financial stability and allow PA to meet its commitments, continue to undertake work and deliver services, even when unexpected events or costs arise.

The Reserves may also be used for nonrecurring expenses that will support long-term capacity or organisation growth, such as technology projects, key staff recruitment or research costs.

Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap.

The Reserves Policy will be implemented in concert with the other governance and financial policies of PA and is intended to support PA's strategic and operational plans.

2. Reserves – Definitions

2.1. Restricted Reserves

PA often receives funding for specific projects or commitments (including Chapter Groups) spread across more than one financial year.

Where accounting standards do not allow income to be deferred into the years in which the work will be undertaken, any surplus in any financial year is included within Restricted Reserves. In future years when the funds are expended the net amount is reduced from the Restricted Reserve balance. Restricted Reserves are not to be used for any other purpose.

2.2. Minimum Operating Reserve

The minimum Operating Reserve will be established in an amount sufficient to maintain ongoing operations and programs for a set period, measured in months. The Operating Reserve serves a dynamic role and will be reviewed and adjusted in response to internal and external changes.

The target minimum Operating Reserve is equal to the higher of:

- **three months of budgeted operating costs.** The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, travel, and program costs. The calculation of average monthly expenses excludes in-kind expenses and one-time project costs
- **estimated costs to wind up the organisation** in an orderly manner.

The amount of the target minimum Operating Reserve will be calculated each year as part of the approval of the annual budget, reported to the FARCC quarterly, and included in the regular financial reports.

The Operating Reserve will be funded with surplus unrestricted operating funds.

2.3. Maintenance of Reserves

The Executive Director – Business Services is responsible for ensuring that the **Minimum level of Reserves** is maintained and will be calculated in accordance with this policy on a quarterly basis and reported to the FARCC. If at any time, the reserve balance falls outside the target minimum the Executive Director – Business Services must immediately inform the Chair of the FARCC and a plan should be established to ensure the Reserves are returned to the minimum target level.

This Policy will be reviewed every other year, at minimum, by the FARCC, or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the FARCC to the Board.

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Policy Approved: May 2022

Policy next Reviewed: October 2023