

ChildFund Australia Reserves Policy

Purpose

The Directors are mindful of the responsibility that the organisation has to apply donor funding towards the purposes for which the funds were given as soon as possible. However, the Directors also have a responsibility to ensure the long term sustainability of the organisation.

The organisation faces many risks that could result in a short-term or longer term decline in revenue and/or increase in operating costs. In order to be able to maintain services during a difficult period, Directors believe that it is prudent to retain some donor funds in reserve.

The purpose of this document is to articulate why reserves are necessary, the different types of reserves, how the levels of reserves will be determined, how frequently the level of reserves is to be reviewed and what action will be taken when the level of reserves exceeds or falls short of the agreed target.

Policy Statement

ChildFund Australia's reserves enable the organisation to make long-term commitments to programs, protect the work being carried out from financial fluctuations and provide a degree of security from unanticipated events. Each year the directors consider the financial risks associated with income and expenditure streams and balance sheet items, and determines the level of reserves sufficient to protect ongoing programs (much of which is long term in nature) and to re-structure in the event of a major downturn. The policy is to not hold more reserves than needed for these purposes in order to maximise the amount available to spend on today's vulnerable children.

The amount of unrestricted reserves to be held will be determined each year based on assessing the risks of a sudden and significant fall in revenue or an unexpected increase in expenses. Any unrestricted reserves in excess of what the directors determine to be appropriate will be allocated towards a specific purpose or location and transferred to restricted reserves. Any shortfall in unrestricted reserves will be made good over time by achieving operating surpluses.

While the assessment of the amount of reserves will be made based on the information available at the time of the annual review, the general guidance is that the level of unrestricted reserves should cover at least three months and no more than six months of general operating costs including program monitoring expenses.

Restricted Reserves

These reserves are tied to particular purposes or locations, as specified by the donor or as identified at the time of a public appeal. They are not available for use in other ChildFund Australia work. The organisation has limited control over the level of restricted reserves as donors of such funds determine the time period over which such funds are to be spent.

Designated Reserves

Designated reserves are those unrestricted reserves that have been allocated by the directors for particular purposes. These are generally amounts allocated to long term investments, such as buildings. In terms of the strategic plan, these funds are not intended to be realised in the short-term and therefore not available in the event of an unforeseen risk eventuating. They would otherwise form part of unrestricted funds.

Endowment Reserves

Endowment funds are required to be invested in perpetuity and only the income is to be used, either as restricted or as unrestricted funds. These funds are generally permanently restricted by the donor and not available for use.

Unrestricted Reserves

Unrestricted funds are not restricted or designated for use on a particular purpose or location and may be allocated according to the discretion of the directors.