



# Operating Reserve Policy

## Purpose

The purpose of the Operating Reserve Policy for Performing Arts Connections Australia is to ensure the delivery of the mission and the stability of programs, employment, and ongoing operations of the organisation. The Operating Reserve is intended to provide an internal source of funds for situations such as operational revenue growth, a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. The Reserve may also be used for one-time, nonrecurring expenses that will build long-term capacity, such as staff development, research and development, or investment in infrastructure. Operating Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention that Operating Reserves will be used and replenished within a reasonable period of time as determined by the Board of Management. The Operating Reserve Policy will be implemented in concert with the other governance and financial policies of Performing Arts Connections Australia and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

## Definitions and Goals

The Operating Reserve is defined as a designated fund set aside by action of the Board of Management. 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 30% of average of total revenue from normal operating activities from the previous three years. The amount of the Operating Reserve Fund target minimum will be calculated each year after approval of the annual budget, reported to the Finance Committee & Board of Management, and included in the regular financial reports.

## Accounting for Reserves

The Operating Reserve will be recorded in the financial records as Operating Reserve. The Reserve will be funded and available in cash or cash equivalent funds. Operating Reserves will be commingled with the general cash and investment accounts of the organisation.

## Funding of Reserves

The Operating Reserve will be funded with surplus unrestricted operating funds. The Board of Management may from time to time direct that a specific source of revenue be set aside for Operating Reserves. Examples may include one-time gifts or bequests, special grants, or special appeals.

## **Use of Reserves**

Use of the Operating Reserves requires three steps:

### **1. Identification of appropriate use of Operating Reserves.**

The Executive Director and staff will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserves as described in this Policy. This step requires analysis of the reason for the shortfall, the availability of any other sources of funds before using reserves, and evaluation of the time period that the funds will be required and replenished.

### **2. Authority to use operating reserves**

The Executive Director will submit a request to use Operating Reserves to the Finance Committee of the Board of Management. The request will include the analysis and determination of the use of funds and plans for replenishment. The organisation's goal is to replenish the funds used within the shortest time possible and restore the Operating Reserve Fund to the target minimum amount. The Finance Committee will recommend the request to the Board of Directors.

### **3. Reporting and monitoring.**

The Executive Director is responsible for ensuring that the Operating Reserve is maintained and used only as described in this Policy. Upon approval for the use of funds from the Operating Reserve, the Executive Director will maintain records of the use of funds and plan for replenishment. He/she will provide regular reports to the Finance Committee/Board of Management of progress to restore the Fund to the target minimum amount.

## **Relationship to Other Policies**

Performing Arts Connections Australia shall maintain the following board approved policies, which may contain provisions that affect the creation, sufficiency, and management of the Operating Reserve Fund.

- Financial Policies and Procedures
- Investment Policy
- Credit Card Policy

## **Review of Policy**

This Policy will be reviewed every other year from 2020, at minimum, by the Finance Committee, or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the Finance Committee to the Board of Management.

Document History:

11<sup>th</sup> February, 2020 - adopted by the Board of Management