Deaf Village Ireland - Financial Reserve Policy

To be discussed/agreed at the audit committee on 29 September 2020 and approved at the board meeting on 13 October 2020

Deaf Village Ireland's (DVI) reserve policy requires that:

- Reserves are maintained at a level which ensures that DVI's core activity could continue during a period of unforeseen difficulty; and
- A proportion of reserves are maintained in a readily realisable form.

The calculation of the required level of reserves is an integral part of the organisation's annual planning, budget, and forecast cycle. The level of reserves is kept under review through ongoing financial reporting and production of annual audited accounts.

1. Rational for the reserve policy:

1.1 Financial Planning: The reserves per the audited accounts of DVI at 31 December 2019 were €367k. For financial planning and budgeting purposes, the board and the manager need to know which portion of these reserves are 'free' to undertake strategic or unexpected activity and which portion of reserves need to be ring-fenced to cater for an unexpected fall in DVI's income sources or in the event of a winding- up of the Charity.

DVI has a predictable income stream and it's unlikely that all income will collapse at once but it needs to be assessed against the inherent risk of limited diversification income opportunities and other potential risks and contingencies that may arise from time to time.

2.2 Winding-Up Scenario: Section 4 of the Memorandum of Association states that in the event of a winding-up of DVI, the members are liable to meet the expenses of winding-up for an amount not exceeding €1. Owing to the limited members' financial liability, funds must be available to meet the liabilities of DVI to cover staff payments, payments to the Revenue (for PAYE, PRSI & VAT) and run off of contractual obligations (e.g. leases/employee notice periods) etc**.**

2.3 Strategic Spend: The Reserve Policy should serve as a tool to enable DVI to strategically plan and finance undertaking such as specific approved activities and other investments to pursue DVI's mission and objectives. Where DVI received a financial windfall (such as a gift, inheritance or bequest) the board has the discretion to decide how and when the windfall should be deployed in line with DVI's mission and objectives.

2. Reserve calculations:

In calculating the reserves to be included or 'ring fenced' in the Reserves Policy two scenarios have been considered:

Scenario A - where DVI's income falls short of expectations and management had to run the charity for 6 months to give the manager and board time to develop replacement income strategies. We have estimated six months' worth of all running costs to be considered in agreeing the reserves to be ring-fenced. Based on the 2019 financial statements the annual costs of running DVI was €259k (this excludes the wage costs for the

CE scheme as these are funded by the Department of Social Protection’s restricted grant). The 6 months of running costs/reserves under this scenario is €130k.

Scenario B - in the event of a winding-up of DVI. The figures in Scenario B are an estimate and would require further work to determine more accurate winding-up scenario costs but the estimate include salaries, redundancy, notice period of 6 months to tenants, the resulting costs of running DVI for that 6 month period and professional fees (legal, HR, tax). The total costs/reserves under this scenario is estimated at €160k.

3. Reserve amount

The board agreed the implementation of the Reserve Policy whereby €160k of DVI’s reserves are ‘ring fenced’ to meet the costs to continue running DVI in the event of an unexpected decline in income or in the event of a winding-up of the charity.

The reserves that are ‘free’ to undertake strategic or unexpected activity at 31 December 2019 are €207k. These ‘free’ reserves comprise a once off bequest of €171k received in 2016 and cumulative retained net income of €36k from DVI’s activities.

The end.