



# Reserves Standard

## Introduction

Cotton Seed Distributors Limited (CSD) was established to promote the development of Australian agricultural resources and in particular promote the development of Australian cotton growers. The Directors are mindful of the responsibility that CSD has to apply its funds towards its objectives as soon as possible. However, the Directors also have a responsibility to ensure the long term sustainability of the organisation.

CSD 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 funds in reserve.

This Standard is fundamental to sound risk management and supports CSD's Risk Policy. A separate fund invested with low risk institutions that is sufficient to meet a defined proportion of operating and research commitments as and when required.

## Policy

CSD has ongoing, relatively fixed obligations with respect to research funding, overheads and capital commitments. Contrary to CSD's fixed obligations, its income is variable, largely reliant on favourable weather and commodity prices. To ensure CSD is able to meet its fixed commitments from variable income, it has established a Reserves Standard to ensure adequate levels of surplus funds are maintained to:-

- a) Ensure ongoing solvency of CSD;
- b) Provide for a base level of funding which can support the stability of cotton planting seed production capability, contracted research and capital investment programs to achieve CSD's strategic objectives and to promote the development of Australian agriculture;
- c) Provide contingency or emergency funding to cover unforeseen events; and
- d) Provide a foundation for cash flow imbalance due to the timing of expenditure and receipts.

## Guidelines

The minimum level of reserves held in surplus funds will be determined annually by the CSD Board. The Board Audit Committee (BAC) will review the sufficiency of reserves annually and provide a recommendation to the Board prior to the approval of the annual accounts.

When determining the level of reserves to be held, the Board will consider;-

Item	2017-18 amount	2018-19 amount
1. Total wind up costs should the company cease to exist including staff entitlements & termination payments. (2018 balance sheet entitlements)	\$610,000	\$650,000
2. Total of all existing contracted commitments plus any MOU commitments (note 2 of 2017-18 financials + \$3m (Cotton Info Team)	\$104,500,000	\$78,400,000
3. 3 years overheads (excluding CBA commitments - provided for in 2) in case of prolonged drought or industry downturn(based on 2017-18 fixed overheads)	\$43,200,000	\$30,000,000
4. 3 years capital expenditure (less CBA - provided for in 2) in case of prolonged drought or industry downturn (based on 2017-18 capex)	\$4,800,000	\$4,800,000
5. Contingency allocation to cover any capital investment opportunity required to ensure the long term strategic objectives are maintained in the development of biotechnology products	\$20,000,000	\$20,000,000
<b>Total Reserve Requirement</b>	<b>\$173,110,000</b>	<b>\$133,850,000</b>

CSD's reserves have to be invested in accordance with the Investments Standard.