

RED DEER CATALINA SWIM CLUB

OPERATING SURPLUS POLICY

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OPERATING SURPLUS POLICY

Amended Oct 2015

1.0 Preamble

1.1 The purpose of maintaining adequate levels of accumulated surplus and operating reserves is to mitigate current and future risks such as revenue shortfalls and unanticipated expenditures. The Income Tax Act provides an exemption from income tax for "*a club, society or association ... that was organized and operated exclusively for social welfare, civic improvement, pleasure or recreation or for any other purpose except profit*". The act also recognizes that an organization can earn revenues in excess of expenses, provided that it does not "*accumulate a material part of the excess each year and that the balance of the accumulated excess at any time does not exceed its reasonable needs to carry on its non-profit activities*". In practice many organizations interpret this to mean reserves of six to twelve months worth of expenditures as an acceptable practice.

1.2 CRA goes on to say that a NPO may earn a profit, but only if that profit is "*generally unanticipated and incidental to carrying out the entity's not-for-profit purposes*". As such a society may not "*intentionally earn a profit to finance future capital projects, nor may it accumulate excess funds to earn investment income that will be used to finance ongoing expenses, even if those funds were accumulated from members' contributions*".

1.3 Given the aforementioned the RDCSC should exercise caution in the planning and budgeting process, to ensure we follow a zero budgeting model once we have achieved the necessary operating surplus as highlighted in this policy. It is important that any annual surplus be allocated to maintain the levels of funding in the various areas outlined in this policy. In the event that the funds available to the club at the end of the fiscal year are in excess of that required to meet the obligations of this policy, the excess funds will be dispersed equally among the members who were in good standing during the fiscal year that the surplus was generated.

2.0 Definitions

2.1 In addition to the definitions that are defined in Article 2 of the RDCSC Bylaws, the following terms have these meanings in this Policy:

2.1.1 "NPO" - Non Profit Organization.

2.1.2 "CRA" - Canada Revenue Agency

2.1.3 "Board" - The Board of Directors of the RDCSC.

2.1.4 "Surplus" – Funds remaining at the end of the fiscal year that are over and above that required to cover the operating costs for that year.

2.1.5 "Operating Reserve" – Funds accumulated from surplus that are maintained at a given level for specific contingencies as outlined in this policy.

3.0 Application of this Policy.

Amended Oct 2015

3.1 This Policy will be maintained by the Board on behalf of the Membership. The policy may be amended from time to time if in the view of the Board the need for reserve funds in a certain category are no longer required, or there is a new reserve fund requirement or the amount of an existing reserve needs to be amended.

4.0 Operational Reserve Categories and Funding Requirements.

4.1 The total funds that are currently held under the Policy amount to \$247,000.00 and are allocated as follows:

4.1.1 Wages. Nine months wages will be held in reserve to meet the clubs payroll obligations for the Head Coach, Assistant Coaches and the Office Manager. Total reserve to be maintained will be \$130,000.00.

4.2. Property related expenses. Nine months operating costs to include rent, utilities and any other monthly expenses required to operate the office. Total reserve to be maintained will be \$17,000.00.

4.3 Office moving and set up expenses. Funds will be held in reserve to cover the costs associated with having to move offices and set up in a new location. Total reserve to be maintained will be \$5000.00.

4.4 Legal expenses. Funds will be held in reserve to cover the cost of any unforeseen legal expenses. Total reserve to be maintained will be \$10,000.00.

4.5 Equipment repair contingency fund. Funds will be held in reserve to cover any unforecasted repairs and maintenance of the Clubs IT and Meet timing equipment. Total reserve to be maintained will be \$10,000.00.

4.6 Coach hiring expenses. In the event that the club has to seek out and hire a new Head Coach or other coaching staff the costs of “Head Hunting” could be considerable. Total reserve to be maintained will be \$5000.00.

4.7 Coach relocation expenses. In the event that a new Head Coach or other coaching staff needs to be hired and they are not located in the Red Deer area, the club may need to offer, as an incentive, a relocation allowance. The extent of the allowance would have to be decided upon at the time based on the circumstances. Total reserve to be maintained will be \$10,000.00.

4.8 Timing equipment subsidization fund. When a new facility is built by the City of Red Deer or by another entity, funds will be held in reserve to purchase swim meet specific timing equipment that can be built in to the plans of the new pool. Such equipment could be in pool touch pads, digital lap counters, in pool video capability etc. If these items are funded under the pool CAPEX plan then this reserve fund will be dissolved. Total Reserves to be maintained will be \$50,000.00.

4.9 Bad Debt. In the event that a bad debt is incurred, and to ensure that such an occurrence does not negatively impact the clubs operating budget, a reserve will be maintained to offset any such loss. Total Reserves to be maintained will be \$10,000.00.

5.0 Reserve Fund Expenditures and Maintenance.

5.1 The funds that are held in reserve may be drawn upon under the direction of the Board. The funds may only be used for the purposes outlined in para 4.0. In the event that funds are drawn down it will be the responsibility of the Club Treasurer to ensure that the reconstitution of the Reserve is addressed in the next budget. The Board may

reallocate funds between reserve categories and adjust the funding levels up or down in order to meet the changing needs of the Club.