

**Subject: Message from the President of CAEAL**

**Date:** Thursday, November 27, 2003 12:12 PM

**From:** Webmaster <webmaster@caeal.ca>

**To:** CAEAL

**Cc:** CAEAL Board

Message from the President of CAEAL

Russ Calow, B.Sc., CChem

November 27, 2003

Hello again from CAEAL. Before beginning I would like to wish all of our members a very Merry Christmas and a safe, peaceful, and prosperous 2004!

In my message of November 14, I discussed CAEAL's 2004/2005 budgeting process and the large forecast deficit. Louise Morin, CAEAL CFO and the special Finance Committee have spent the last two weeks analyzing the 2004/2005 financial forecast. Unfortunately, I must now advise the membership that the 2004/2005 forecast has not changed. Without significant program cuts, i.e., staff cuts, and/or price increases CAEAL will post a loss approaching \$150,000 in 2004/2005.

I have spent the last few days with Louise Morin and Rick Wilson analyzing how CAEAL got to this point. It is now clear that CAEAL's pricing structure for the Site Assessment Program has never reflected its delivery cost and the problem has been sharply magnified the last two years as more small labs (less than five appendices) have joined the program. In 2003/2004 the Site Assessment Program is running at a projected deficit of \$240,000. This calculation includes all assessor, travel and administration costs. Profits from the PT Program and International Projects, careful cost control and the surcharge for Ontario labs have managed this deficit down to a forecast breakeven for the whole budget this year.

The other issue that has contributed to the large 2004/2005 forecast deficit has been the Board's reluctance to raise program prices. CAEAL's last price increase occurred in 1995 and those prices were held for a five-year period. CAEAL fees were again revisited in the year 2000 at which time the Board approved fee reductions. Positive results of operations provided for greater than anticipated surpluses and members have benefited from these lower prices for the past three years.

The combined effect of fee erosion, significant cross subsidization of the Site Assessment Program (especially for small labs) and inflation has created the 2004/2005 forecast deficit.

Presented with the above facts and analysis the Board has approved an extensive package of program fee increases for 2004/2005.

When looking at the fee increases the Board needed to relieve the deficit by raising an additional \$150,000, but also needed to address the five-year downward spiral in the accumulated surplus.

As I discussed in my October 28th message CAEAL Board policy dictates that CAEAL must maintain enough funds on-hand to wrap up the organization in an orderly fashion in the event that the membership votes to dissolve. Board policy states that the cost for a six-month shut down should be the target. Members would be obligated to fund any shortfall in the event of a windup. Unfortunately, the surplus has steadily eroded from the mandated amount available in 1999 to an unacceptable level as projected by end of the 2004/2005 fiscal year. Our CFO has computed our current required reserve amount to be approximately \$685,000 against our present available cash reserve of approximately \$565,000. As a result, the Board has voted to begin addressing this serious shortfall in the 2004/2005 year by approving an overall fee increase that would generate approximately an additional \$216,000 in revenue. This would cover the operational deficit and provide about \$66,000 for the reserve fund. It is also the Board's intention to continue to address the shortage in the financial surplus every year until the operational reserve is fully restored.

Presented below is a brief review of the Board approved fee increases and their net effect on CAEAL 2004/2005 revenue.

<b>Item or Program.....</b>	<b>Amount.....</b>	<b># of Labs Affected...</b>	<b>Additional Revenue</b>
Ontario SDWA Surcharge.....	\$900.....	50.....	\$45,000
Small labs-increase first year.....	\$1,400.....	20.....	\$28,000
Assessment Program base fee increase.....	\$350.....	145.....	\$51,000
PT inflationary increase.....	3%.....	All.....	\$54,000
PT multiple set application fee.....	\$30.....	150.....	\$ 5,000
Corporate membership increase.....	\$50.....	All.....	\$18,000
Verification visits.....	\$1,500.....	10.....	\$15,000
(those not charged previously)			
<b>.....TOTAL</b>			<b>\$216,000</b>

You will soon receive the CAEAL 2004/2005 program description package. The package will contain detailed information about all 2004/2005 programs and the new fees.

I understand that the magnitude of these increases may alarm many of our members. This decision has not been made lightly, or without extensive analysis and review. I have attached a memo from Ms. Louise Morin, CFO CAEAL, that discusses in detail the 2004/2005 financial budget and analyzes the forecast deficit and its root causes.

The last thing I wanted to be faced with in 2003/2004 was announcing a major price increase to the membership. However, I have no other option. Failure to respond to the forecast 2004/2005 deficit will put CAEAL at significant financial risk. Similarly, failure to address CAEAL's escalating shortfall in operating surplus puts all members at significant financial risk. Finally, implementing severe austerity measures or outright program cuts is also not an option. CAEAL's role in protecting the health of the public is too important a duty to be jeopardized.

I sincerely hope that the membership will understand and support the actions of the Board in this regard. I would once again encourage you to contact Rick Wilson, or myself with any questions and concerns. If you feel strongly about anything that we are doing, have said, or not said please email or call us. I promise that we will listen and respond in a timely manner.

Rick's and my contact details are listed below:

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Thank you and I look forward to hearing from all of you in the future.

Russ Calow  
President CAEAL



**MEMO TO:** Russ Calow, President  
John Lawrence, Treasurer

**FROM:** Louise Morin, CFO

**DATE:** Friday November 21, 2003

**SUBJECT:** Highlights of 2004-2005 Draft Budget for CAEAL

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### **Overview**

Our starting point for next year's draft budget was the approved budget for the current year 2003-2004, which, as presented to the Annual General Meeting, had a bottom line deficit of almost \$76,000. Through a variety of measures, including expenditure deferrals, the current forecast (October 2003) shows a reduced deficit of about \$38,000 (not counting the recently approved surcharge for Ontario Safe Drinking Water Act labs). Thus the changes referred to below are relative to this current forecast of revenue and expenditures to the end of March 2004.

Our accounting system is currently tracking revenue and expenses in each of the following departments:

- Site Assessments Program
- Proficiency Testing Program
- Training Program
- International Activities
- Administration

The obvious significant results of this process confirm that the Proficiency Testing Program is generating a large surplus and the Site Assessments Program is generating a large deficit.

## **2004-2005 Budget Highlights:**

### **Revenue**

Total revenue is forecast to increase by 7% (\$195,000) based on:

- Addition of petroleum hydrocarbon and residual chlorine to the proficiency testing (PT) program
- Additional growth of the PT program by 10%
- Site assessments already planned for 2004 plus new growth of 20 to 25 labs (similar to 2001 and 2002 but less than the record 48 in 2003)
- Training revenue as in 2003
- Project revenue reduced because nothing is currently planned to replace the \$72,000 revenue for the Panama accreditation project
- Membership is assumed to grow by 10%

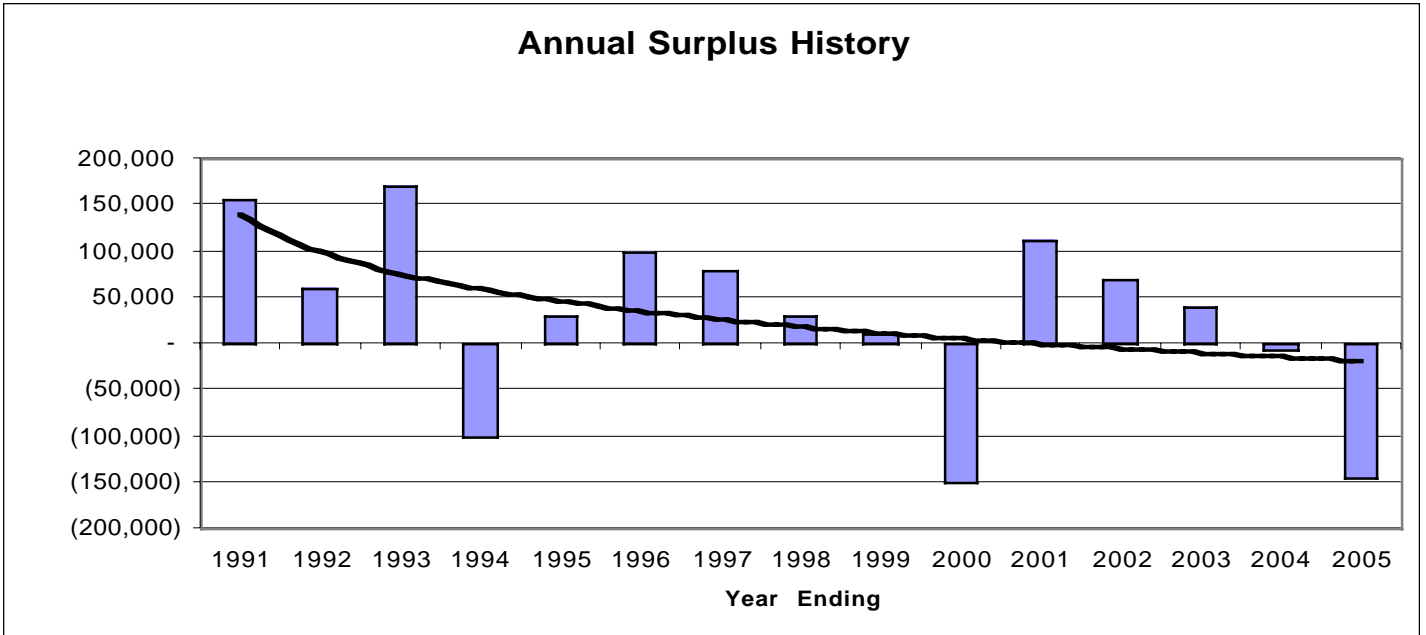
### **Expenses**

Total expenses are forecast to increase by 10% (\$302,000) based on:

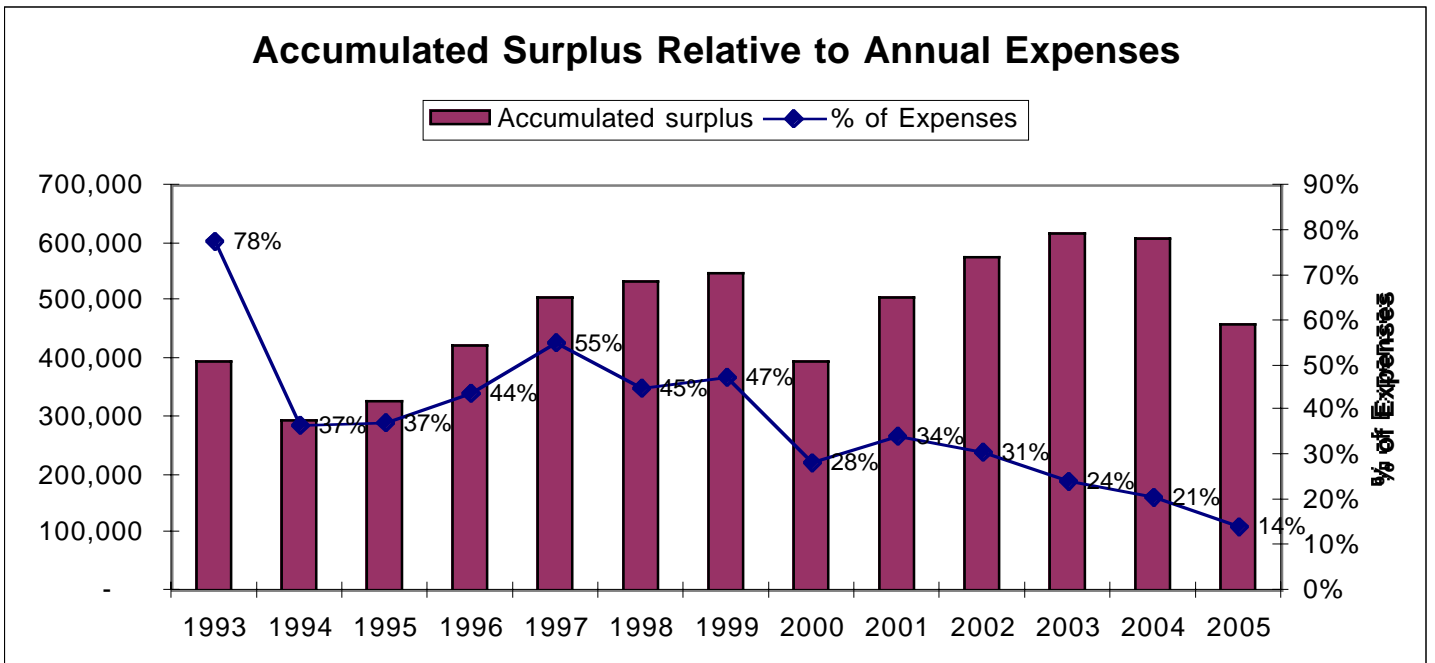
- Cost of the new PT test groups
- Assumed 10% growth of the PT program
- Sponsoring an international PT round for APLAC (\$15,000)
- 3.5% growth in site assessment expenses
- Development of a web-based training capability
- Office software replacement
- Revisiting our strategic plan
- Open workshops to discuss the CAEAL PT program
- Salary budget increase of 10.7% (\$89,000) to support moving the CFO to full time, the addition of a part-time (67%) assessments officer, a part-time (27%) general assistant, and normal increases for existing staff
- Operational expenses are expected to increase by a total of 15% (\$54,000). Roughly 88% of this is for additional office lease, while other expenses are generally assumed to increase by 10%. Board related and international travel expenses are expected to decrease, partly as a result of Executive Committee decision to hold all board meetings in Ottawa.

After careful review with the Finance Committee and further examination by the CFO and Executive Director, CAEAL's predicted deficit for the 2004-2005 year stands at approximately \$146,000. The size of this deficit is one of concern and denotes that the time has come to review all fees. Cost cutting measures alone would not provide CAEAL with the contribution required to its reserve funds.

As depicted by the graph below, CAEAL has experienced a consistent decline in annual surplus therefore depleting our reserve funds to an unacceptable level as required per CAEAL policy.



CAEAL policy is to maintain cash reserves with a general target of one-half year of full operations to cover all costs in the event of an orderly shutdown of the Association. The graph below indicates a steady decline in surplus that is being exacerbated by the deficit anticipated this year and next in the absence of fee increases.



Fee reduction over the years has been a CAEAL characteristic. The last revision made to CAEAL fees provided for a reduction in fees in the year 2000 and the last fee increase occurred back in 1995. Over the past few years, we have seen a significant reduction in our surplus as we continued to fund inflationary increases in overall program and operational expenditures. In addition, the mix of laboratories participating in our program has greatly affected the types of revenue generated. The increase in small laboratory participation has meant an increase in subsidized fees borne by CAEAL to process these laboratories through the accreditation program.

It is my recommendation that CAEAL adopt the proposed fee increase as approved by the Board of Directors. Note that due to a fee increase by our PT sample provider effective January 1, 2004, CAEAL should increase its PT fees as of this date. Other fee increases may be implemented as at April 1, 2004.

Louise Morin  
CFO  
CAEAL