

Q's and A's

What has caused this crisis?

Expenditures exceeded Revenues in the 2009 year.

Why was this not explained to the membership earlier than March of 2010?

During 2009 there were indicators that our bottom line was 'soft'. This is not unexpected in an economic downturn but historically during periods of recession, the CKC's finances have improved. 2009 did not follow that pattern. Masking the situation was a stable number of litter registrations which should normally translate to revenues in individual registrations. That number dropped dramatically and in a not for profit situation, that drop translates to a significant challenge in meeting the bottom line. Compounding this fact was a drop in membership (not uncommon during economic downturns) and a very soft market for the Dogs Annual with reduced advertising sales. As many of these revenue streams are evident only in the last quarter, the indicators of a vastly decreased profit margin were not evident until the Audit Committee's November meeting where they were presented with the September financial information. At that time, a deficit was forecast that was manageable within our existing resources. We did not have the indicators from APEX that their bottom line was likely to be severely compromised until our year end was complete and the CKC deficit by that time had ballooned as well. The Board received the full financial picture in March and this information was immediately provided to the membership.

What is the deficit figure?

In 2009, CKC lost \$451,475 while APEX experienced a loss of \$150,024 for a total of \$601,499

What measures did staff take to control expenses through the year if revenues were so soft?

Salaries were frozen for the second consecutive year; staffing and back staffing of vacant positions did not go forward; 6 employees have been laid off indefinitely including 4 from CKC and 2 from APEX; the potential for outsourcing further services was explored. An RFP for our printing and mail room services was executed resulting in a decreased cost from \$46,000/month to \$26,000 per month beginning in May of 2010. The net impact of these decisions will result in a saving of \$330,000 in 2010. In 2009, expenditures were managed with discretionary spending stopped in the first quarter of the year and new items scheduled for delivery from the Strategic Plan put on hold until revenues were available.

What measures has the Board taken to improve this financial position?

At the March Board meeting, several financial decisions were taken. The \$2.00 non-member surcharge was removed at the request of Ontario and Western clubs who were concerned that the charge would negatively impact their entries for summer shows. The recording fees for show and trial entries were increased by \$1.50 across the Board effective June 1.

Is the Board not considering expenditure reductions as well?

The CEO is the individual responsible for the operation of the CKC. His responsibilities and accountabilities are provided under the By Laws Section 14 and with the extent of responsibility vested in the CEO by the members the Board is limited in its' potential to direct operations. However, in this extraordinary circumstance in the life of the organization, the CEO has requested that a Committee be formed to assist in the management of the

financial crisis. This Committee is working in partnership with the CEO, providing him advice and guidance as we work through the challenges we are facing.

What are the responsibilities of the CEO under the By Laws?

CHIEF EXECUTIVE OFFICER

14.1 RESPONSIBILITY AND AUTHORITY OF CEO

The Chief Executive Officer shall be the chief administrative, Operating and financial officer of the Club and in such capacity shall have overall responsibility and authority for the day-to-day operations of the Club. Such authority and responsibility shall, interalia, include the following:

- (a) The administration of all Club operations and without limitation shall include all divisions, departments and areas of such operations;
- (b) The administration of all matters relating to the Club's finances, including all matters relating to budget preparation and administration, ensuring the Club's investment portfolio is properly administered, that monies are appropriately deposited in the bank account of record, ensuring that the accounts of the Club are reviewed and paid within the prescribed time limit and ensuring that all financial records are maintained in accordance with generally accepted accounting principles;
- (c) Full and complete signing authority with respect to all legal and financial matters relating to the Club, subject at all times to the overall limitations of the approved budget and the general discretion of the Board;
- (d) The administration of all matters relating to staffing and without limitation shall include the hiring and termination of staff, reviewing the performance of staff, setting levels of compensation and benefits, designation of titles and the assignment of duties;
- (e) Act in the capacity as the official Board Secretary and as such shall be responsible for the preparation, assembly and distribution of agenda material, receiving official responses to items published for comment, ensuring that the minutes of Board meetings are recorded, distributed and published and generally ensuring that the Board is kept informed of matters requiring their attention;
- (f) Provide advice and guidance to the Board on matters which may affect the operations of the Club and to recommend to the Board any course of action which, in the opinion of the Chief Executive Officer, requires a decision from the Board as required by these By-laws;
- (g) Report to the Board as a whole and shall at all regular meetings of the Board, provide the members of the Board with a report on the general operations of the Club and such report shall include a record of the revenues and expenses of the Club in the form of a budget analysis.

What are the responsibilities of the Board under the By Laws?

9.12 BOARD AUTHORITY

The improvement of stock being an important factor on the advancement of the breeding and registration of purebred dogs, the Club, with the authority of these By-laws, may:

- (a) Adopt, amend and enforce rules and regulations governing the exhibiting, training, racing, speed trials, obedience trials, field trials, and other competitive events for purebred dogs where clubs, associations, or others staging such events desire to hold same under rules and regulations adopted by this Club;
- (b) Adopt, amend and make effective codes of ethics and codes of practice in respect to the breeding, buying, selling, judging, grading, handling, trading, marketing, advertising and exportation of purebred dogs;
- (c) Adopt, amend and enforce rules, regulations, policies and procedures governing the setting up and maintenance of a registry system for purebred dogs;
- (d) Adopt, amend, and enforce rules governing the setting up and maintenance of an advanced registry and of a system of inspection and grading of purebred dogs;
- (e) Adopt, amend and carry out policies designed to assist those interested in purebred dogs where these people, regardless of age, desire to associate with those interested in activities intended to further the interests of purebred livestock generally;
- (f) Adopt, amend and carry out rules, regulations, and policies relating to training dogs for purposes involving the security, welfare and property of the country and its inhabitants, and to assist and co-operate with national and other authorities in these matters;
- (g) Adopt, and amend, a standard for each recognized breed, as provided in Section 25.4 of these By-laws;
- (h) Adopt and carry out policies designed to further the activities referred to in this section and to publish and otherwise disseminate information relating to such activities;
- (i) Adopt, amend and enforce rules, regulations, policies and procedures with respect to kennel names, their registration and their use.

9.13 POLICIES AND PROCEDURES

- (a) All proposals for new policies and procedures and all proposed amendments to existing policies and procedures shall be presented to the Board for consideration at any regular meeting of the Board;
- (b) Upon approval, policies and procedures shall become effective on the date designated by the Board;
- (c) The Board, or its designate, shall be responsible for the maintenance and enforcement of policies and procedures.

How many employees work at the CKC?

Beginning in 2009, there were 60 employees at CKC and 13 at APEX with 2 of this number on lay off. As at April 14, 2010, there were 57 staff at CKC. As at April 13, there are 56 with 4 of this number on lay off. .

Why do we continue to be housed in premium office space in Toronto?

The building in Toronto that houses the CKC is Class B office space – the norm for a not-for-profit membership organization. It sits in an industrial area of Etobicoke not far from the Toronto airport. This building was chosen for the CKC as the result of a private sector analysis of affordability for our organization. The Board of the day was offered several options including build, lease-build, lease all within the area in which we are currently housed or the impacts of a move to another area of the country. As a not-for-profit with few tangible assets (the exception being intellectual property in the form of APEX) the option of a loan sufficient in size to receive a mortgage was not a possibility. That left the lease/rental option. Because of the demographic of our staff (largely second income earners, unable to relocate) and the limited savings that could be realized based upon the market survey, a decision was taken to locate at 200 Ronson Drive. As is the case presently, we would be unable to undertake a move outside this area unless we were in a position to pay severance pay to the majority of the staff. Given their length of time in position (on average 15 years) this is an extremely costly undertaking and drives any decision with respect to location of our office.

As CKC is reducing in number, are we able to free up space in the building?

Yes, this is a potential expenditure reduction and as we determine our final structure space will be identified for sub-lease to the landlord. That is a provision of our existing lease. This is a good potential since the building, which was largely empty at the time we moved in, is now full so swing space may well be required by other tenants.

What is the salary of the staff including the CEO and all Managers reporting to him?

Under the terms of the By Laws, the following information is to be provided on an annual basis:-

REPORT TO THE ANNUAL GENERAL MEETING

The membership, in attendance at each Annual General Meeting shall be provided with the following reports:

- (a) A complete report of the affairs of the Club;
- (b) A detailed statement duly audited of the Receipts and expenditures of the preceding year of the assets and liabilities of the Club, together with such supplementary statements as the auditors consider necessary so that the members may be fully informed on the financial condition of the Club.
- (c) A statement disclosing the compensation paid to any employee of the Club during the year, where the compensation is in excess of \$100,000.00. The statement shall set out the name and position of the employee as well as details of that employee's compensation, such as remuneration earned through base salary, variable or performance-related income or bonuses, benefits in kind, and any other incentive or

benefit received by the employee, including any salary, remuneration or benefit of any kind received from a corporation or other entity controlled directly or indirectly by the Club.

(d) A detailed statement setting out the remuneration, allowance and benefits of any kind paid or provided by the Club, or any corporation or other entity controlled directly or indirectly by the Club, to each director during the year.

In 2010, at the AGM, Items A and B were provided members in attendance. In the case of Item 'c' the sole employee with a salary in excess of the \$100,000 disclosure requirement is the CEO, Mr. Joe Mauro. His salary in 2009 (not increased for 2010) is \$132,860. There was no performance pay bonus awarded based on 2009 performance. There are no benefits to which the CEO is entitled beyond the standard benefits provided all employees within the CKC.

Why are we not given a full copy of the CEO's employment contract?

The contract itself is a confidential document. The By Laws outline the areas of the contract that are considered 'public information'.

Who are the members of the Working Group and how were they chosen?

The members of the Group were chosen as advisors to the CEO by the CEO and were considered to have both strong business and financial skills that would assist in moving the organization away from this crisis. As a Board, we are pleased to have the CEO share his responsibility in this area and pleased that the Group is in a position to provide the guidance necessary to ensure that the organization will be back on a stable foundation as quickly as possible. The members include the Interim Chair, Lee Steeves, the CEO, Mr. Mauro, The Chair of Audit Mrs. Champagne and Mr. Michael Shoreman. Mr. Shoreman is a former Chair of Audit, is conversant with the workings of the organization and has a strong and valued background in the private sector. He is resident in Barrie so has volunteered to do his analysis in the office as a support to the organization.

Why are members and clubs being asked for donations?

At the time we began work to mitigate the cash flow crisis, there was uncertainty that we would be able to raise a sufficient amount of cash quickly enough to meet payroll. Our membership is one of our few resources to whom we can turn to support the efforts of the Board and staff in supporting this deficit. There was an amount set aside from previous Boards in GIC's and that amount has been used to pay down the 2009 debt load but additional funds are necessary to ensure continued operations through the traditionally slow revenue generation period of January – May. As those funds are arriving, we are better able to assure staff that salaries will be able to be paid, our obligations met and a plan developed for operations to continue through the end of the year and into the future. These donations are critical to our success in moving this plan forward at a reasonable rate and to solidify our financial position as quickly as is possible. The money provides the opportunity to take restructuring decisions that will better support the Operations and reduce our financial obligations.

How are donations coming?

We are seeing mixed support with some areas of the country fully behind the parent club while others are taking a 'wait and see' approach. That is somewhat disappointing since the sooner we turn the corner on the cash flow crisis, the sooner we will be able to move

forward with initiatives to change the organization and turn our energies to stabilizing the operations.

What are some of the initiatives being considered for the future to ensure this situation does not repeat?

While none of us has a crystal ball, a combination of restructuring, expenditure reduction, the potential to sub-let space and opportunities to improve revenues by exercising a more 'user-pay' philosophy are initiatives that will be employed. We are looking at the drain on our scarce resources and determining which activities we are able to continue and at what cost, how to improve on our service delivery and where we are losing funds. A cost benefit analysis is being carried out by Sector to ensure the direction we are heading can be supported by the various sectors within the organization and to ensure that our restructuring plan will be financially viable. Changes will be made to our Committee structures to save scarce dollars while respecting the By Law requirements, membership fees and the fee structure will be reviewed as will our costly judging approval process. Again, we will be required to examine all areas for potential savings while realizing the client service must be maintained.

What is the plan of the Working Group?

We will be taking a three phase approach in the development of a business, operational and structural review of the Canadian Kennel Club and its subsidiary Apex Publishing leading to a complete short, medium and long range business plan

Immediate Phase - analysis of the situation, identify and take actions to alleviate short term cash flow requirement

Short Term Phase - situational and business analysis to identify business opportunities and operational and structural changes, the nature of which to not require: changes to objects or by-laws; longer lead times; or further in-depth analysis or investigation. We will also develop, in this phase a mid-long term operational/business plan that identifies required changes to by-laws. This phase to be completed by mid-summer of the current year.

Mid to Long Term Phase - take necessary actions as described in the operational and business plan requiring longer lead times and by-law changes as discussed above

Why do we need 50 + staff to run an operation of this size?

The CKC revenue streams are largely transactional in nature that requires data input and data capture by support staff. In addition, Shows and Trials is still a significant manual workload with data entry being a significant burden. Because of the scarcity of funds in previous years, investment in computer technology has been very limited. We have only 3 IT staff to manage all of our systems requirements. As we look to the future, investment in IT will bring significant gains and replace many of these manual operations.