

Financial Statements of Association of Professional Engineers of Ontario

To the Members of the Association of Professional Engineers of Ontario

We have audited the balance sheet of the Association of Professional Engineers of Ontario as at December 31, 2001 and the statements of revenue and expenses, changes in operating reserve and cash flows for the year then ended.

These financial statements are the responsibility of the association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the association as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

(signed) Deloitte & Touche,
Chartered Accountants
Toronto, Ontario, January 23, 2002

**Deloitte &
Touche**



Balance Sheet

December 31, 2001

	2001	2000
ASSETS		
CURRENT		
Cash	\$ 55,879	\$ 91,009
Marketable securities, at cost which approximates market value	3,336,201	4,967,670
Accounts receivable	643,604	1,444,981
Prepaid expenses	216,387	239,420
	4,252,071	6,743,080
PORTFOLIO INVESTMENTS (market value \$8,789,770; 2000—\$6,823,591)	8,509,964	6,795,200
DEFERRED EMPLOYEE FUTURE BENEFITS (Note 3)	45,400	235,700
CAPITAL ASSETS (Note 4)	740,534	850,348
	\$13,547,969	\$14,624,328
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 705,404	\$ 585,089
Fees in advance and deposits	4,767,196	4,073,026
	5,472,600	4,658,115
DEFERRED LEASE INDUCEMENT	245,533	327,533
	5,718,133	4,985,648
OPERATING RESERVE		
INVESTED IN CAPITAL ASSETS	740,534	850,348
UNRESTRICTED	7,089,302	8,788,332
	7,829,836	9,638,680
	\$13,547,969	\$14,624,328

On behalf of the Council

Member—G.G.M. Sterling, P.Eng.
Member— R.W Braddock, P.Eng.

Statement of Revenue and Expenses

Year ended December 31, 2001

	2001	2000
REVENUE		
Annual fees	\$ 7,551,704	\$ 7,390,068
Application fees, registration fees, examination fees, other fees and income	2,604,101	2,826,977
Investment income	642,992	758,592
Advertising income	596,380	532,341
	11,395,177	11,507,978
EXPENSES		
Administration	897,629	931,455
Amortization	311,091	470,269
Building occupancy costs, including leasehold amortization of \$13,851 (2000 – \$13,851)	986,330	962,640
Canadian Council of Professional Engineers	561,428	553,157
Chapters and Regions	428,362	423,315
Communications	709,596	592,737
Council and committees	600,424	618,387
Dimensions, sundry publications	663,889	695,450
Examination and registration	103,301	169,590
Professional services	845,748	582,969
Salaries and staff benefits	5,786,230	5,025,033
	11,894,027	11,025,001
EXCESS OF (EXPENSES OVER REVENUE)		
REVENUE OVER EXPENSES BEFORE OTHER ITEM	(498,849)	482,977
CONTRIBUTION TO OSPE AND COMMITMENT (NOTE 9)	1,309,995	933,277
DEFICIENCY OF REVENUE OVER EXPENSES	\$ (1,808,844)	\$ (450,300)

Statement of Changes in Operating Reserve

Year ended December 31, 2001

	2001			2000
	Invested in Capital Assets	Unrestricted	Total	Total
BALANCE, BEGINNING OF YEAR	\$850,348	\$8,788,332	\$9,638,680	\$10,088,980
DEFICIENCY OF REVENUE OVER EXPENSES	(324,942)	(1,483,902)	(1,808,844)	(450,300)
ADDITIONS TO CAPITAL ASSETS	215,128	(215,128)	-	-
BALANCE, END OF YEAR	\$740,534	\$7,089,302	\$ 7,829,836	\$9,638,680

Statement of Cash Flows

Year ended December 31, 2001

	2001	2000
NET (OUTFLOW) INFLOW OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Deficiency of revenue over expenses	\$(1,808,844)	\$ (450,300)
Items not involving cash or marketable securities:		
Amortization	324,942	484,880
Deferred employee future benefits	190,300	197,716
	(1,293,602)	232,296
Change in non-cash working capital items (Note 8)	1,638,895	(1,042,002)
	345,293	(809,706)
FINANCING		
Amortization in deferred lease inducement	(82,000)	(82,000)
INVESTING		
Additions to capital assets	(215,128)	(579,019)
(Increase) decrease in portfolio investments	(1,714,764)	289,318
	(1,929,892)	(289,701)
DECREASE IN CASH AND MARKETABLE SECURITIES	(1,666,599)	(1,181,408)
CASH AND MARKETABLE SECURITIES, BEGINNING OF YEAR	5,058,679	6,240,087
CASH AND MARKETABLE SECURITIES, END OF YEAR	\$ 3,392,080	\$ 5,058,679
CASH AND MARKETABLE SECURITIES IS COMPRISED OF:		
Cash	\$ 55,879	\$ 91,009
Marketable securities	3,336,201	4,967,670
	\$ 3,392,080	\$5,058,679

Notes to the Financial Statements

December 31, 2001

1. NATURE OF OPERATIONS

The Association of Professional Engineers of Ontario is incorporated by an Act of the Legislature of Ontario. Its principal activities include regulating the practice of professional engineering, and establishing and maintaining standards of knowledge, skill and ethics among its members. The Association of Professional Engineers of Ontario is incorporated as a non-profit organization under the *Income Tax Act*.

2. SIGNIFICANT ACCOUNTING POLICIES

MARKETABLE SECURITIES AND PORTFOLIO INVESTMENTS

Investments are reported at cost adjusted by the amortization of any discount or premium arising on the purchase of fixed term securities over the period to their maturity. Marketable securities include investments which mature on or before December 31, 2002 whereas portfolio investments include those investments which mature after December 31, 2002.

DONATED SERVICES

The association receives substantial donated services from its membership through participation on Council and committees and as chapter executives. Donations of services are not recorded in the accounts of the association.

EMPLOYEE FUTURE BENEFITS

The association prospectively adopted the new Canadian generally accepted accounting principles for employee future benefits effective January 1, 2000. The association accrues its obligations under employee benefit plans and the related costs, net of plan assets. The association has adopted the following policies:

- ◆ The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- ◆ For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- ◆ Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- ◆ The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees are 18 and 17 years for the pension plans and 18 years for the retirement benefits plan.
- ◆ When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

CAPITAL ASSETS

Capital assets are recorded at cost. Amortization is provided on a straight-line basis at the following annual rates.

Furniture, fixtures and microfilm equipment	10% to 20%
Computer equipment	20% to 33%
Leasehold improvements	10%

DEFERRED LEASE INDUCEMENT

The deferred lease inducement received is being amortized on a straight-line basis over the term of the lease.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. DEFERRED EMPLOYEE FUTURE BENEFITS

The association's pension plans, covering substantially all employees, are defined benefit pension plans.

The association has a contributory defined benefit final average pension plan. The pension plan provides pension benefits based on length of service and final average earnings.

Effective January 1, 1997, the association introduced a supplemental pension plan. The plan is a contributory defined benefit final average pension plan. The pension plan provides pension benefits based on length of service and best average earnings.

The association also provides extended health care, hospitalization and dental benefits to substantially all of its employees.

The funded status of the association's pension plans and post-retirement benefit plan using actuarial assumptions as of December 31, 2001 was as follows:

	Pension Plans	Other Benefit Plan	Total 2001
Accrued benefit obligation	\$ 8,040,600	\$ 2,428,600	\$ 10,469,200
Fair value of plan assets	7,759,500	-	7,759,500
Funded status – plan surplus (deficit)	(281,100)	(2,428,600)	(2,709,700)
Unamortized transitional obligation	32,300	1,454,200	1,486,500
Unamortized net actuarial gains	899,300	369,300	1,268,600
Accrued benefit asset (liability)	\$ 650,500	\$ (605,100)	\$ 45,400

The significant actuarial assumptions adopted in measuring the association's accrued benefit obligation are as follows:

	Pension Plans	Other Benefit Plan
Discount rate	6.75%	6.75%
Expected long-term rate of return on plan assets	3.50% to 7.00%	-
Rate of compensation increase	4.50%	-
Medical benefits cost escalation – hospitalization	-	5.00%
Medical benefits cost escalation – extended health care	-	2.50%
Dental benefits cost escalation	-	2.50%

Other information about the association's benefit plans is as follows:

	Pension Plans	Other Benefit Plan	Total 2001
Plan expense	\$ 415,200	\$ 374,600	\$ 789,800
Employer contributions	558,600	40,800	599,400
Employee contributions	178,200	-	178,200
Benefit payments	332,600	40,800	373,400

4. CAPITAL ASSETS

	2001			2000
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture, fixtures and microfilm equipment	\$ 942,082	\$ 656,730	\$ 285,352	\$ 340,702
Computer equipment	1,254,893	841,265	413,628	454,241
Leasehold improvements	138,515	96,961	41,554	55,405
	\$ 2,335,490	\$1,594,956	\$ 740,534	\$ 850,348

5. TRUST ACCOUNTS

The association maintains separate bank accounts for the Council of Ontario Deans of Engineering and the Millennium Fund. Funds totaling \$23,784 (2000 - \$21,794) are not reported on the association's balance sheet as they are held in trust for these groups.

6. LEASE COMMITMENTS

The association has obligations under long-term non-cancelable operating leases for its premises. The future minimum lease payments for each of the next five years and thereafter are as follows:

2002	\$ 609,000
2003	609,000
2004	746,700

2005	746,700
2006	746,700
Thereafter	2,240,100
	\$ 5,698,200

7. CONTINGENT LIABILITIES

Various claims have been made against the association. According to management some of the claims, once settled, are unlikely to result in a loss to the association while the outcome of the remaining claims cannot be determined at this time. A provision for certain of these claims has been made in these financial statements.

8. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2001	2000
Accounts receivable	\$ 801,377	\$ (447,170)
Prepaid expenses	23,033	21,329
Accounts payable and accrued liabilities	120,315	(209,563)
Fees in advance and deposits	694,170	(406,598)
	\$ 1,638,895	\$ (1,042,002)

9. CONTRIBUTION TO OSPE AND COMMITMENT

The Ontario Society of Professional Engineers (OSPE) was incorporated on April 5, 2000 for the purpose of separating member-services and non regulatory functions from PEO's primary regulatory role. Through an amendment to the *Professional Engineers Act* and Regulation 941, PEO is authorized to fund OSPE's start-up costs for a three-year period. The Regulation amendment allowed for a one-time grant to OSPE of \$933,277 (10% of the association's Unrestricted Operating Reserve as at December 31, 1999) and a grant equal to \$30 for each full-fee paying member of the Association, on renewal of membership. The estimated future commitment over the next two years is anticipated to be approximately:

2002	\$ 1,600,000
2003	1,900,000
	\$ 3,500,000

Notice

Any member with questions on the association's 2001 Financial Statements may direct them to Linda Prince, CA, Treasurer, or Ron Sparrow, CGA, Manager, Accounting, Professional Engineers Ontario. Contact (416) 224-1100 or 1(800) 339-3716, ext. 426 to reach Linda Prince or ext. 430 to reach Ron Sparrow. By email, contact lprince@peo.on.ca or rsparrow@peo.on.ca, or by mail, write to 25 Sheppard Avenue West, Suite 1000, Toronto, ON M2N 6S9.