



FINANCIAL STATEMENTS

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, 2004 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Deloitte.

Chartered Accountants
Toronto, Ontario
February 11, 2005

Balance Sheet

December 31, 2004

		2004	2003	
ASSETS	CURRENT	Cash	\$704,453	\$27,603
		Marketable securities (market value \$5,372,587; 2003—\$2,948,616)	5,328,508	2,925,135
		Accounts receivable	593,405	625,092
		Prepaid expenses	275,082	307,838
		6,901,448	3,885,668	
		PORTFOLIO INVESTMENTS (market value \$7,991,882; 2003—\$8,916,092)	7,894,645	8,776,228
	CAPITAL ASSETS (Note 5)	795,239	836,697	
		15,591,332	13,498,593	
LIABILITIES	CURRENT	Accounts payable and accrued liabilities	799,953	1,144,145
		Fees in advance and deposits	6,752,032	6,027,015
		7,551,985	7,171,160	
		DEFERRED LEASE INDUCEMENT	-	81,533
	EMPLOYEE FUTURE BENEFITS (Note 3)	1,797,171	931,204	
		9,349,156	8,183,897	
OPERATING RESERVE		INVESTED IN CAPITAL ASSETS	795,239	836,697
		UNRESTRICTED	5,446,937	4,477,999
		6,242,176	5,314,696	
		\$15,591,332	\$13,498,593	

On behalf of the Council: Member—George R. Comrie, P.Eng.; Member—Robert A. Goodings, P.Eng.

Statement of Revenue and Expenses

Year Ended December 31, 2004

		2004	2003
REVENUE	Annual fees	\$11,094,151	\$10,104,235
	Application, registration, examination and other fees	3,475,450	3,290,163
	Investment income	554,089	572,049
	Advertising income	646,736	477,002
	15,770,426	14,443,449	
EXPENSES	Administrative Services	1,196,530	874,974
	Amortization	377,425	364,407
	Governance	701,933	700,143
	Human Resources	328,916	132,470
	Information and Technology Services	327,486	393,001
	Licensing and Registration	646,820	435,720
	Policy and Communications	1,649,417	1,592,771
	Regulatory Compliance	682,748	797,226
	Standards and Regulations	13,422	20,507
	Rent	1,181,937	1,162,245
	Salaries and benefits (Note 4)	7,009,432	6,689,422
	14,116,066	13,162,886	
	EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS BELOW	1,654,360	1,280,563
	CONTRIBUTION TO ONTARIO SOCIETY OF PROFESSIONAL ENGINEERS	-	2,117,430
	CONTRIBUTION TO CANADIAN COUNCIL OF PROFESSIONAL ENGINEERS	726,880	566,511
	EXCESS (DEFICIENCY) OF EXPENSES OVER REVENUE	\$927,480	\$(1,403,378)

Statement of Changes in Operating Reserve

Year Ended December 31, 2004

	2004			2003
	INVESTED IN CAPITAL ASSETS	UNRESTRICTED	TOTAL	TOTAL
Balance, beginning of year	\$836,697	\$4,477,999	\$5,314,696	\$6,718,074
Excess (deficiency) of revenue over expenses	(377,425)	1,304,905	927,480	(1,403,378)
Additions to capital assets, net	335,967	(335,967)	-	-
Balance, end of year	\$795,239	\$5,446,937	\$6,242,176	\$5,314,696

Statement of Cash Flows

Year Ended December 31, 2004

		2004	2003		
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES	OPERATING	Excess (deficiency) of revenue over expenses	\$927,480	\$(1,403,378)	
		Items not involving cash or marketable securities	Amortization	377,425	364,407
			Amortization of deferred lease inducement	(81,533)	(82,000)
			Employee future benefits	865,967	706,404
			2,089,339	(414,567)	
		Change in non-cash working capital items (Note 9)	445,268	903,462	
			2,534,607	488,895	
	INVESTING	Additions to capital assets	(335,967)	(454,938)	
		(Increase) decrease in portfolio investments	881,583	(2,305,185)	
			545,616	(2,760,123)	
INCREASE (DECREASE) IN CASH AND MARKETABLE SECURITIES		(3,080,223)	2,271,228		
CASH AND MARKETABLE SECURITIES, BEGINNING OF YEAR		2,952,738	5,223,966		
CASH AND MARKETABLE SECURITIES, END OF YEAR		6,032,961	2,952,738		
CASH AND MARKETABLE SECURITIES IS COMPRISED OF	Cash	704,453	27,603		
	Marketable securities	5,328,508	2,925,135		
		\$6,032,961	\$2,952,738		

Notes to Financial Statements

December 31, 2004

1. NATURE OF OPERATIONS

The Association of Professional Engineers of Ontario is incorporated by an Act of the Legislature of the Province 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

These financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations, and reflect the following accounting policies:

Marketable securities and portfolio investments

Marketable securities are recorded at the lower of cost or market while portfolio investments are recorded at cost less a provision, if necessary, for decline in value that is considered to be permanent. Investments in bonds are reported at cost adjusted by the amortization of any discounts or premiums over the period to their maturity. Marketable securities include investments that mature on or before December 31, 2005 whereas portfolio investments include those investments that mature after December 31, 2005.

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 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 pro rated 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.
- Actual gain (loss) arises from the difference between actual long-term rate of return on plan assets for that year or from changes in actuarial assumptions used to determine the accrued benefit obligation. 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 active employees expected to receive benefits under the pension plans is 15 years and under the retirement benefit plan is 15 years.
- 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. 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 association measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at January 1 of each year. The most recent actuarial valuation of the plans for funding purposes was as of January 1, 2002 and the next required valuation will be as of January 1, 2005.

A reconciliation of the funded status of the association's pension plans and post-retirement benefit plan to the amounts recorded in the financial statements are as follows:

	Pension Plans	Other Benefit Plan	Total 2004
Accrued benefit obligation	\$11,620,242	\$4,659,932	\$16,280,174
Fair value of plan assets	9,555,399	-	9,555,399
Funded status—plan deficit	(2,064,843)	(4,659,932)	(6,724,775)
Unamortized transitional obligation	21,101	1,181,555	1,202,656
Unamortized net actuarial gains	2,387,973	1,336,975	3,724,948
Accrued benefit asset (liability)	\$344,231	\$(2,141,402)	\$(1,797,171)

Details of the accrued benefit obligation are as follows:

	Pension Plans	Other Benefit Plan	Total 2004
Accrued benefit obligation, beginning of the year	\$10,857,656	\$4,033,039	\$14,890,695
Current service cost	691,659	259,715	951,374
Contributions—employees	218,451	-	218,451
Interest cost on obligation	679,534	255,797	935,331
Benefit payments	(665,940)	(58,956)	(724,896)
Actuarial (gain) loss on obligation	(161,118)	170,337	9,219
Accrued benefit obligation, end of the year	\$11,620,242	\$4,659,932	\$16,280,174

The plan expense for the year is determined as follows:

	Pension Plans	Other Benefit Plan	Total 2004
Current service cost	\$691,659	\$259,715	\$951,374
Interest cost on obligation	679,534	255,797	935,331
Expected return on plan assets	(574,968)	-	(574,968)
Amortization of transitional obligation	3,685	90,889	94,574
Amortization of net actuarial loss	114,579	54,524	169,103
Plan expense	\$914,489	\$660,925	\$1,575,414

The employer contributions to the pension plans amounted to \$650,461 and \$58,956 to the other benefit plan.

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

	Pension Plans	Other Benefit Plan
Discount rate	6.00%	6.00%
Expected long-term rate of return on plan assets	3.50-7.00%	-
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%

4. SALARIES AND BENEFITS

Included in salaries and benefits is an amount of \$1,575,414 (2003 - \$1,367,738) relating to employee future benefit expense and \$101,255 (2003 - \$157,886) relating to severance payments.

5. CAPITAL ASSETS

	2004			2003
	Pension Plans	Other Benefit Plan	Total 2004	Net Book Value
Furniture, fixtures and microfilm equipment	\$1,283,056	\$1,073,484	\$209,572	\$223,316
Computer equipment	2,228,071	1,649,224	578,847	591,563
Leasehold improvements	147,017	140,197	6,820	21,818
	\$3,658,144	\$2,862,905	\$795,239	\$836,697

6. TRUST ACCOUNTS

The association maintains a separate bank account for the Council of Ontario Deans of Engineering. Funds totaling \$42,589 (2003 - \$35,694) are not reported on the association's balance sheet as they are held in trust for the Council.

7. LEASE COMMITMENTS

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

2005	\$672,795
2006	\$672,795
2007	\$672,795
2008	\$672,795
2009	\$672,795
	\$3,363,975

8. CONTINGENT LIABILITIES

Various claims have been made against the association totaling approximately \$100,000. 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. The association is vigorously defending these claims.

9. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2004	2003
Accounts receivable	\$31,687	\$21,520
Prepaid expenses	32,756	(58,314)
Account payable and accrued liabilities	(344,192)	366,224
Fees in advance and deposits	725,017	574,032
	\$445,268	\$903,462

10. CHAPTERS OF THE ASSOCIATION

The financial information of the 38 chapters of the association has not been consolidated in these financial statements as chapters are considered financially insignificant on an individual chapter basis. Furthermore, the effort and cost required to prepare financial statements of each chapter for consolidation far exceed the benefits from doing so.

During the year the association paid chapter allocations totaling \$301,895 (2003 - \$303,750) to individual chapters and incurred costs of \$366,854 (2003 - \$332,167) related to chapter operations. These amounts have been included in Policy and Communications expenses reported on the Statement of Revenue and Expenses.

11. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

Treasurer's Report and Financial Statement Analysis

As of December 31, 2004

PEO strengthened its financial position by ending the 2004 fiscal year with an excess of revenue over expenditure of \$927,000, after four years of incurring a deficit, cumulatively amounting to \$4.7 million. This positive performance, which is within a reasonable and acceptable threshold of 5 per cent, moves PEO toward a stronger financial position with an enhanced balance sheet and an improved operating reserve of \$6.2 million.

In 2004, PEO realized revenue of \$15.7 million, which exceeded the budget target by \$196,000. Revenues from miscellaneous fees, including application, registration, technical exam, consulting designation and Professional Practice Exam fees, exceeded budget. This was mainly due to significant increases in foreign applications and a more efficient Experience Requirements Committee (ERC) interview process. In addition, *Engineering Dimensions'* advertising revenue exceeded target. These two revenue streams accounted for the favourable overall revenue results.

Total expenditures were \$14.8 million (95 per cent of the approved budget). Reasons for the major expenditure variances are noted below.

COST CONTROLS

Staff undertook initiatives to tightly control costs in the following areas:

- Salaries and benefits were 91 per cent of the 2004 budget, leading to cost savings of \$695,000.
- Corporate legal expenses budgeted at \$320,000 relating to PEO Governance were reduced to \$214,000.
- Meeting expenses for PEO functions were reduced by \$52,000.
- Legal costs for counsel to represent PEO in Discipline and Registration Hearings and for Enforcement activities were reduced by engaging a contract litigator. PEO also employed more junior counsel as the Independent Legal Counsel to hearing panels. Innovative approaches were used for PEO's representation at Discipline Hearings and in court appearances for Enforcement. Together, these proactive initiatives resulted in an estimated \$40,000 in cost savings.
- Adopting an online recruitment process in place of conventional newspaper advertising helped PEO achieve cost savings of \$42,000 for staff recruitment.
- Chapters achieved \$31,000 in decreased expenditures through a Chapter Business Planning Process.
- Implementation of process improvements in financial services achieved cost savings of \$14,000 in budgeted audit fees.

2004 BUDGET VARIANCES BY BUSINESS UNIT

Below is a summary of additional budget variances within each business unit.

Administrative Services

The deployment of advanced technologies and the introduction of automation in PEO's accounts receivable process increased convenience to members, improved PEO's cash flow position, and enhanced the association's image as a customer-focused organization. PEO incurred total costs of \$150,000 associated with transactions for online membership fee payment, which was higher than anticipated, due largely to the popularity of this new service among PEO members. As of December 31, 2004, 25,615 online membership fee transactions had been processed, leading to the collection of \$5.1 million, or 46 per cent of the annual fee revenue. Benefits will be realized by reduced costs for manual cheque processing.

Implementation of a new activity-based-costing system (at a cost of \$30,000) and upgrading of the Financial System (at a cost of approximately \$81,000) will help PEO better understand, track, and manage the costs of its activities and processes. This will help streamline business processes and facilitate cost-control initiatives. The activity-based management system has enabled PEO to establish and maintain an effective budgeting process in which the Finance Committee, staff, and Council were fully engaged. Generally, three annual cycles are required to achieve the full benefit of this improved planning, budgeting and tracking method.

Increased postage costs of \$98,000 were incurred due to a higher volume of correspondence associated with the licensing process, the result of an increased number of licence applicants and an additional mailing of reminder letters to members (two letters in 2004 vs. one letter in 2003). The mailing of an extra reminder letter and the convenience of online fee payment contributed to 49 per cent fewer P.Eng. licence cancellations (1109 cancellations in 2004 vs. 2190 cancellations in 2003) and an improved licence fee revenue stream.

The strategic planning initiative (at a cost of \$12,000) enabled PEO to conduct a broadly based consultation with its stakeholders, including members, Councillors, chapters, staff and other regulators, with the aim of developing a robust Strategic Plan to shape PEO's future.

Governance

A privacy policy and supporting subpolicies were developed and implemented to enable PEO to comply voluntarily with federal privacy legislation. In addition, privacy safeguards were established, educational brochures on the new Privacy Policy were developed and sent to members, and training on the policy was conducted for staff and some volunteers (at the cost of \$135,000). Development of a voluntary PEO Privacy Policy was necessary if PEO is to be recognized as an "investigative body" under the federal privacy legislation.

Human Resources

PEO conducted a detailed cost analysis of its employee future benefits and a Council workshop dealing with this subject matter, at an additional cost of \$22,000. The Human Resources and Compensation Committee and the Awards Committee were more active, increasing costs by \$36,000. A plan for volunteer programs, including recruitment, development, and recognition, was delayed to late in 2004, resulting in reduced costs of \$72,000.

Information and Technology Services

PEO enhanced its services to staff, chapters and other volunteers to increase efficiency through greater desktop support and Web Portal Management, at a cost of \$144,000.

Licensing and Registration

In 2004, PEO admitted 2109 new and transferred P.Engs and reinstated 1054 P.Engs. The improved ERC interview process, where the committee almost doubled the number of interviews conducted to more than 1500, expedited the admission process. This increased number of interviews, combined with a greater number of applicants sitting the PPE and the technical exams, increased costs by \$150,000.

Policy and Communications

The 2004 costs were \$136,000, or 8 per cent, below budget. START II experienced under-spending of \$91,000 for IT and consulting services. The Education Committee experienced reduced costs of \$38,000 by deferring a number of planned activities. Branding costs were under budget because the requirement for media monitoring was lower than anticipated, because of fewer engineering-related issues in the media in 2004 than in 2003. Increased *Engineering Dimensions'* advertising sales resulted in sales commissions that were \$51,000 over budget, which was more than offset by the higher advertising revenue noted above. PEO's Annual General Meeting costs were higher than budget by \$31,000, because of the use of a contract meeting planner, which was offset by the elimination of a staff position.

Regulatory Compliance

Enforcement expenditures were \$132,000 under budget because of fewer prosecutions (two in 2004 vs. three in 2003) and the deferring of an industry outreach program. Fewer independent engineers' reports required as part of complaint investigations and fewer registration hearings (one in 2004 vs. three in 2003) decreased expenditures by \$88,000. Higher than budgeted costs of \$121,000 were attributable to an increased volume of discipline activities and additional postage costs for *Gazette*, due to a Canada Post re-classification of postage rates. *Gazette* was immediately redesigned to enable it to re-qualify for its previous postage rate.

SUMMARY

The association has managed its financial affairs responsibly and leaves 2004 with a strong balance sheet. For 2005, PEO established a budget using activity-based costing, which was unanimously approved by Council in its November 2004 meeting.



Questions about PEO's 2004 Financial Statements may be directed to Daria Babaie, M.A.Sc., P.Eng., director, administrative services, and treasurer, by email at dbabaie@peo.on.ca, or by phone at 416-840-1120 or 800-339-3716, ext. 1120.