

Treasurer's Report and Financial Statement Analysis

As of December 31, 2005

PEO again strengthened its financial position by ending the 2005 fiscal year with an excess of revenue over expenditure of \$1,270,000, the second consecutive year for an operating surplus after a series of operating deficits. This positive performance, which is mainly attributable to reduced expenditures of 8 per cent, moves PEO toward a solid financial position with an enhanced balance sheet and an improved operating reserve of \$7.5 million.

In 2005, PEO realized a revenue of \$16 million as budgeted. Revenue from miscellaneous fees exceeded budget by 13 per cent. This was mainly due to significant increases in foreign applications and a more efficient Experience Requirements Committee (ERC) interview process. This increase was offset by lower than targeted revenue from the membership, *Engineering Dimensions* advertising, and investment income. Total expenditures were \$14.7 million. Reasons for the major expenditure variances are noted below.

COST CONTROLS

Cost reductions, efficiencies in procurement of goods and services, and prudent management practices resulted in tightly controlled costs in the following areas:

- Vacant positions not filled and modifications of actuarial assumptions for Employee Future Benefit expenses resulted in a total cost saving of \$760,000.
- Although staff engaged in a greater number of activities representing PEO, e.g. building codes, government liaison program, the total staff travel expenses were reduced by \$99,000.
- Review and re-negotiation of contracts with suppliers through the procurement process resulted in savings of \$88,000.
- Insurance expenditures were reduced by \$72,000, due to the creation of the Directors & Officers insurance program through the Canadian Council of Professional Engineers.
- Accommodation and mileage costs for chapter events were \$55,000 lower than expected.

2005 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 member-focused organization. PEO incurred a total cost of \$197,000 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, 2005, the total 2005 accumulated volume of online credit card fee payments reached \$6.9 million, representing 33,812 transactions. The high cost of this service was partially offset by a reduced cost of \$30,000 for manual cheque processing and mail handling. In addition, online bill payment, as a more cost-effective revenue collection method, became fully operational for members, at a cost of \$0.05/transaction to PEO. With the promotion of this payment method, PEO will be able to reduce the cost for credit card payments and cheque processing and achieve fewer P.Eng. licence cancellations. PEO's various maintenance contracts were reviewed and areas of improvement identified to enable PEO to operate more cost-effective and efficient operations and achieve cost savings.

PEO's activity-based costing (ABC) system concluded its second year of operation in 2005. A Council workshop was conducted to analyze the policy choice of fees and dues PEO is currently charging based on the preliminary results from the ABC model. In addition, ABC helped PEO streamline business processes and facilitate cost-control initiatives.

Governance

Savings from corporate general legal costs (\$76,000) and CCPE's Directors & Officers insurance program (\$73,000), as initiated by the CEO/Registrar, contributed to the overall favourable financial results. In addition, the improved internal control system also saved annual audit fees of \$15,000. As a result of management control to reduce the expenses for safeguarding measures, the costs for privacy implementation were \$22,000 lower than budgeted.

Human Resources

PEO further explored ways and means to control the costs of its employee future benefits. The actuarial assumptions were reviewed and modified to better reflect PEO's reality. As a result, employee future benefit cost was reduced by \$392,000. More cost-effective recruitment methods were deployed. The volunteer recognition program and the Equity & Diversity workshop phase II program were deferred to 2006 due to the need to further investigate better options. This deferral resulted in a saving of \$27,000.

Information and Technology Services

PEO enhanced its services to staff, chapters and other volunteers to increase efficiency through greater desktop support, web portal management and numerous enhancements to the technology infrastructure.

Licensing and Registration

The department expenditure was slightly under budget. In 2005, PEO licensed 2486 professional engineers, 370 more than in 2004. The number of new P.Eng. licences issued to graduates of Canadian Engineering Accreditation Board (CEAB)-accredited universities increased from 957 in 2004 to 1076 in 2005, the highest level since 2001. In addition, for the first time, the number of licences issued to non-CEAB graduates exceeded the number of licences issued to

CEAB graduates, reaching an all-time high of 1137 in 2005. Process improvements, the dedicated contributions of Academic Requirements Committee and Experienced Requirements Committee (ERC) members (especially the streamlined two-person ERC interviews), and the continued efforts of staff, all contributed to this accomplishment. The number of professional practice and technical exams written by applicants increased by more than 20 per cent, which resulted in an increased cost of \$56,000, as compared to budget. On the other hand, PEO received 3342 P.Eng. applications—13 per cent fewer than in 2004.

Policy and Communications

The 2005 expenditures were \$194,000, or 6 per cent below budget. Costs for the AGM and Order of Honour were favourable to budget by \$125,000. Hosting the event outside the GTA lowered accommodation, meal, speaker, entertainment and advertising costs. *Engineering Dimensions* achieved cost savings of \$66,000, due to a reduced reliance on freelance writers and photographers, and the production of fewer pages of the magazine. A greater number of *Gazette* pages was correspondingly produced. A downsized 2004 Annual Report, written and designed entirely inhouse, combined with deferred activities in communications, resulted in savings of \$41,000. Branding costs were under budget by \$47,000 due to a change in media monitoring supplier and a new method of media release distribution. All the cost savings were partially offset by the Awards program (\$249,000), which was not budgeted but directed by Council to be funded by savings from other areas.

Regulatory Compliance

An increased volume of discipline activities (23 hearing days vs. 20 budgeted, one eight-day hearing and two decisions appealed to divisional court) resulted in a higher than budgeted cost of \$139,000. Two registration hearings were held, and one multi-day hearing led to an expenditure that was \$6,000 greater than anticipated. Enforcement expenditures were slightly under budget because of fewer prosecutions.

Standards and Regulations

The Standards and Regulations department achieved a favourable result of \$139,000, or 16 per cent below budget. This was largely contributed by \$100,000 less than budgeted costs for administrative law counsel. In addition, due to the introduction of the Government Liaison Program, \$20,000 in budgeted government consultation fees were not incurred.

COUNCIL-DIRECTED NEW INITIATIVES

In 2005, Council approved the 2005-2009 PEO Strategic Plan with a dedicated fund of \$5.4 million to implement 34 initiatives to achieve PEO’s strategic goals. The strategic plan is a multi-year effort. In 2005, PEO completed the project planning process for 14 initiatives (projects) and 12 project teams started their work. Additional costs of \$26,000 were incurred in 2005 to carry out these projects.

In addition, Council directed PEO to take on other initiatives to fulfill its regulatory mandate. One example was the introduction of the Government Liaison Program with a total cost of \$136,000. The program provides awareness to the government of PEO’s role and the function of a self-regulating engineering profession in serving the public interest. The program will be further integrated into PEO operations in 2006.

Staff and volunteers contributed greatly in carrying out these Council-directed initiatives. In 2005, a total of \$105,000 in staff salaries and benefits costs were directly attributable to these initiatives, in addition to staff’s unpaid overtime contributions.

SUMMARY

The association has managed its financial affairs responsibly and leaves 2005 with an enhanced balance sheet and a stronger operating reserve to carry out its regulatory mandate based on Council’s approved five-year financial plan.



Questions about PEO’s 2006 Financial Statements may be directed to Daria Babaie, MASc, 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.

