FINANCIAL STATEMENTS

To the Members of Association of Professional Engineers of Ontario:

We have audited the balance sheet of the Association of Professional Engineers of Ontario as at December 31, 2007 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, 2007 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
January 31, 2008

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Balance Sheet

Year Ended December 31, 2007

			2007	2006
ASSETS	CURRENT	Cash	**$ 674,572**	$ 1,097,649
		Investments (market value–as stated, 2006–$17,272,814)	**20,413,749**	17,093,045
		Accounts receivable	**565,149**	557,182
		Prepaid expenses	**280,905**	309,361
			21,934,375	19,057,237
	CAPITAL ASSETS (Note 4)		**599,809**	660,048
			$ 22,534,184	$ 19,717,285
LIABILITIES	CURRENT	Accounts payable and accrued liabilities	**$ $851,212**	$ $804,833
		Fees in advance and deposits	**8,048,718**	7,712,096
			8,899,930	8,516,929
	EMPLOYEE FUTURE BENEFITS (Note 5)		**3,728,365**	2,859,262
			12,628,295	**11,376,191**
OPERATING RESERVE	INVESTED IN CAPITAL ASSETS		**599,809**	660,048
	INTERNALLY RESTRICTED		**9,306,080**	7,681,046
			9,905,889	**8,341,094**
			$ 22,534,184	$ 19,717,285

On behalf of the Council: *Member–Walter Bilanski, P.Eng.; Member–David Adams, P.Eng.*

Statement of Revenue and Expenses

Year Ended December 31, 2007

		2007			2006
		OPERATING FUNDS (NOTE 3)	DISCRETIONARY RESERVE FUND (NOTE 3)	TOTAL	TOTAL (NOTE 13)
REVENUE	P.Eng. revenue	$ 11,877,724	$ –	**$ 11,877,724**	$ 11,763,373
	Application, registration, examination and other fees	4,220,539	219,680	**4,440,219**	3,750,017
	EIT Financial Credit Program	–	(219,680)	**(219,680)**	–
	Investment income	767,704	–	**767,704**	510,677
	Advertising income	593,435	–	**593,435**	632,035
		17,459,402	**–**	**17,459,402**	16,656,102
EXPENSES	Full-time staff salaries and benefits (Note 6)	6,908,378	48,103	**6,956,481**	6,520,637
	Retiree and full-time staff future benefits	1,014,156	–	**1,014,156**	1,006,522
	Occupancy costs	1,272,542	–	**1,272,542**	1,294,898
	Purchased services	1,197,861	3,654	**1,201,515**	986,271
	Legal and tribunal	648,062	15,542	**663,604**	900,838
	CCPE	741,665	–	**741,665**	731,618
	Volunteer business expenses	628,972	41,717	**670,689**	660,191
	Contractors and temporary staff	429,245	–	**429,245**	462,127
	Chapters (Note 12)	509,558	–	**509,558**	435,560
	Postage and courier	485,130	445	**485,575**	462,054
	Consultants	229,006	172,630	**401,636**	426,398
	Amortization	305,489	–	**305,489**	335,927
	Computers and telephone	268,035	–	**268,035**	250,916
	Transaction fees and commission	371,162	–	**371,162**	360,605
	Insurance	123,572	–	**123,572**	118,223
	Advertisement	89,455	19,317	**108,772**	180,486
	Printing and photocopying	200,998	–	**200,998**	220,575
	Office supplies	140,043	–	**140,043**	121,457
	Staff business expenses	135,459	2,208	**137,667**	121,593
	Recognition, grants and awards	118,356	545	**118,901**	155,715
	Training and development	57,880	1,275	**59,155**	76,412
		15,875,024	**305,436**	**16,180,460**	15,829,023
Excess of revenue over expenses (expenses over revenue)		**$ 1,584,378**	**$ (305,436)**	**$ 1,278,942**	$ 827,079

Statement of Changes in Operating Reserve

Year Ended December 31, 2007

	2007							2006
	COUNCIL INTERNALLY RESTRICTED FUNDS FOR LONG-TERM PURPOSES			MEMBERSHIP FEE STABILIZATION FUNDS			TOTAL	TOTAL
	INVESTED IN CAPITAL ASSETS	COUNCIL INTERNALLY RESTRICTED FUND	TOTAL	COUNCIL DISCRETIONARY RESERVE FUND	COUNCIL GENERAL FUND	TOTAL		
Balance, beginning of year	$ 660,048	$ 2,339,952	$ 3,000,000	$ 1,100,000	$ 4,241,094	$ 5,341,094	$ 8,341,094	$ 7,514,015
(Deficiency) Excess of revenue over expenses	(305,489)	–	(305,489)	(305,436)	1,889,867	1,584,431	1,278,942	827,079
Additions to capital assets	245,250	–	245,250	(245,250)	–	(245,250)	–	–
Change in fair value of assets classified as available for sale (Note 2b)	–	–	–	–	285,853	285,853	285,853	–
Internally imposed restrictions (Note 7)	–	760,239	760,239	(31,314)	(728,925)	(760,239)	–	–
Balance, end of year	$ 599,809	$ 3,100,191	$ 3,700,000	$ 518,000	$ 5,687,889	$ 6,205,889	$ 9,905,889	$ 8,341,094

Statement of Cash Flows

Year Ended December 31, 2007

NET (OUTFLOW) INFLOW OF CASH RELATED TO THE FOLLOWING ACTIVITIES				2007	2006
	OPERATING	Excess of revenue over expenses–General funds		$ 1,584,378	$ 1,230,952
		Excess of revenue over expenses–Discretionary reserve funds		(305,436)	(403,873)
		Items not involving cash or marketable securities	Amortization	305,489	335,927
			Employee future benefits	869,103	899,206
				2,453,534	2,062,212
		Change in non-cash working capital items (Note 8)		403,490	676,369
				2,857,024	2,738,581
	INVESTING	Increase in marketable securities		(3,320,704)	(1,955,490)
		Change in fair value of marketable securities classified as available-for-sale		285,853	–
		Additions to capital assets		(245,250)	(142,887)
				(3,280,101)	(2,098,377)
(DECREASE) INCREASE IN CASH				(423,077)	640,204
CASH, BEGINNING OF YEAR				1,097,649	457,445
CASH, END OF YEAR				$ 674,572	1,097,649

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Notes to Financial Statements

December 31, 2007

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 in order to protect the public interest. As a not-for-profit professional membership organization it is exempt from tax under section 149(1) of the *Income Tax Act*.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Change in accounting policies–Adoption of new accounting standards

On January 1, 2007, the association adopted the Canadian Institute of Chartered Accounts' (CICA) revised standards on recognition and measurement and presentation of financial instruments. These standards include section 3855, Financial Instruments–Recognition and Measurement, and section 3861, Financial Instruments–Disclosure and Presentation. In addition, the organization adopted the amendments to section 4400, Financial Statement Presentation by Not-for-profit Organizations.

In accordance with these revised standards, the association has classified each of its financial instruments into accounting categories effective January 1, 2007. The category of an item determines its subsequent accounting under the revised standards.

Effective January 1, 2007, the association has classified its cash as "held-for-trading." Held-for-trading items are carried at fair value, with changes in fair value recognized in the Statement of Operations in the current period. Effective January 1, 2007, the organization has classified its marketable securities as "available for sale." Available-for-sale items are measured at fair value. Unrealized gains and losses incurred on available-for-sale items are recognized in the Statement of Changes in Net Assets until realized through disposal or impairment. Effective January 1, 2007, the association classified all of its accounts receivable as "loans and receivables." Loans and receivables are carried at amortized cost, using the effective interest method, net of any impairment. Due to the short-term nature of the association's receivables, the effective interest method results in no differences from the book value. Effective January 1, 2007, the association has classified all of its accounts payable and accrued liabilities as "other liabilities." Other liabilities are carried at amortized cost, using the effective interest method. Due to the short-term nature of the association's payables and accrued liabilities, the effective interest method results in no differences from the book value. As required, the revised standards have been applied retrospectively as at January 1, 2007, without restatement of the comparative amounts.

The association selected January 1, 2003 as its transition date for accounting for embedded derivatives. Based on a review of the organization's financial instruments as at January 1, 2007, there were no embedded derivatives at that date that were required to be accounted for separately as derivatives.

Transaction costs related to the acquisition or sale of financial assets or liabilities are expensed as incurred.

(b) Impact on Statement of Changes in Operating Reserve

As a result of adopting the revised standards, an adjustment of $285,853 was made in the Statement of Changes in Operating Reserve to increase the carrying value of marketable securities to their fair value as of December 31, 2007.

The opening fair market value and the change in fair market value during the year are as shown below:

Opening fair market value adjustment as of January 1, 2007	**179,789**
Change in fair market value during the year	**106,064**
Change in fair market value as of December 31, 2007	**285,853**

(c) Revenue recognition

Licence fee revenue is recognized as income on a monthly basis over the licence period. Other revenues are recognized when the related services are provided.

(d) 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.

(e) 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.
- Based on an actuarial assessment that is conducted every three years (which is currently underway for the pension plan assets as of January 1, 2008), the asset base of the pension plan may have to be topped up. The amount of the top-up could be material.
- 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 per cent 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 for active employees is 14 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.

(f) 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	**10% to 33%**
Leasehold improvements	**10% to 33%**

(g) Use of estimates

The preparation of financial statements in conformity with Canadian 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. OPERATING FUNDS AND DISCRETIONARY RESERVE FUND

General operating revenues and expenses of the association are recorded in the Operating Funds in the Statement of Revenue and Expenses. These activities are authorized through the Council-approved budget. The Discretionary Reserve Fund is used at the discretion of Council to record expenses related to special projects approved by Council.

4. CAPITAL ASSETS

	2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture, fixtures and microfilm equipment	$1,377,694	$1,194,698	$182,996	$210,489
Computer equipment	2,826,724	2,445,331	381,393	415,343
Leasehold improvements	191,604	156,184	35,420	34,216
	$4,396,023	$3,796,213	$599,809	$660,048

5. EMPLOYEE FUTURE BENEFITS

The association's pension plans, covering substantially all employees (full-time and retirees), 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, 2007 was as follows:

	Pension Plans	Other Benefit Plan	Total 2007
Accrued benefit obligation	$(14,646,557)	$(7,244,609)	$(21,891,166)
Plan assets at fair value	12,860,781	–	12,860,781
Funded status– plan surplus (deficit)	$(1,785,776)	$(7,244,609)	$(9,030,385)
Unamortized transitional obligation	10,046	908,888	918,934
Unamortized net actuarial gain	2,251,179	2,131,908	4,383,087
Accrued benefit asset (liability)	$475,449	$(4,203,813)	$(3,728,365)

Details of the accrued benefit obligation are as follows:

	Pension Plans	Other Benefit Plan	Total 2007
Accrued benefit obligation	$(13,384,540)	$(6,661,790)	$(20,046,330)
Current service cost	(779,117)	(328,273)	(1,107,390)
Past service costs	–	–	–
Contributions by the employees	(235,592)	–	(235,592)
Interest cost on accrued benefit obligation	(702,688)	(347,187)	(1,049,875)
Benefit payments	455,380	92,641	548,021
Accrued benefit obligation, end of year	$(14,646,557)	$(7,244,609)	$(21,891,166)

The plan expense for the year is determined as follows:

	Pension Plans	Other Benefit Plan	Total 2007
Current service cost	$779,117	$328,274	$1,107,391
Interest cost on accrued benefit obligation	702,688	347,187	1,049,875
Expected return on plan assets	(838,649)	–	(838,649)
Amortization of transitional obligation	3,685	90,889	94,574
Amortization of net actuarial gain	11,554	112,748	124,302
Benefit expense	$658,395	$879,098	$1,537,493

The employer contributions to the pension plans amounted to $575,749 and $92,641 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	5%	5%
Expected long-term rate of return on plan assets	3.5-7%	–
Salary projection	3.5%	–
Medical benefits cost escalation–hospitalization	–	5%
Medical benefits cost escalation–extended health care	–	2.5%
Dental benefits cost escalation	–	2.5%

6. FULL-TIME SALARIES AND BENEFITS

During the year, the association incurred a total of $6,956,481 ($6,520,637 in 2006) for salary and benefits costs for its full-time staff, of which $48,103 was directly attributable to special projects approved by Council.

7. INTERNALLY IMPOSED RESTRICTIONS

Internally imposed restrictions have been made to adjust the Council Internally Restricted Funds for Long-Term Purposes and the Council Discretionary Reserve Fund portion of Membership Fee Stabilization Funds to amounts approved in the Council-approved operating reserve policy.

8. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2007	2006
Accounts receivable	**$(7,967)**	$26,653
Prepaid expenses	**28,456**	(5,860)
Accounts payable and accrued liabilities	**46,379**	(50,194)
Fees in advance and deposits	**336,622**	705,770
	$403,490	$676,369

9. TRUST ACCOUNTS

The association maintains a separate bank account for the Council of Ontario Deans of Engineering. Funds totaling $66,671 (2006–$63,683) are not reported on the association's balance sheet as they are held in trust for the committee.

10. LEASE COMMITMENTS

The association has obligations under non-cancelable operating leases for its premises and equipment. The future lease payments to the expiry of the leases are as follows:

2008	1,365,238
2009	1,365,238
2010	38,000
	$ 2,768,476

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11. CONTINGENT LIABILITIES

Various claims have been made against the association. According to management, none of the claims, once settled, are likely to result in loss to the association.

12. CHAPTERS OF THE ASSOCIATION

The financial information of the 37 chapters of the association has not been consolidated in these financial statements, as such information is considered to be insignificant. Furthermore, management believes that the effort and cost required to prepare financial statements from each chapter for consolidation purposes far exceed the benefits from doing so.

During the year, the association paid chapter expenses totaling $509,588 (2006–$435,560) including $357,610 (2006–$334,297) of allotments to individual chapters. In 2007, the association also incurred additional costs of $456,693 (2006–$450,843) related to chapter operations, including staff salaries and benefits, staff and volunteer business expenses, Start II and support activities. These amounts have been included in the various Operating Fund expenses reported on the Statement of Revenue and Expenses.

13. COMPARATIVE FIGURES

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

Treasurer's Report and Financial Statement Analysis

As of December 31, 2007

In 2007, PEO generated an excess of revenues over expenses of $1,278,942 and reported an increase in operating surplus for the fourth consecutive year. This strong performance, which may be attributed to improvements in operational efficiencies and reduced expenditures of 2.6 per cent, leaves PEO with an enhanced balance sheet to discharge its mandate of regulating the engineering profession in order that the public interest may be served and protected.

For this fiscal year, total revenues of $17,459,402 and expenses of $16,180,460 were incurred. Revenue from application, registration and other fees increased by 7.5 per cent. This increase was partially offset by lower than budgeted advertisement and investment revenues, which decreased by 1.1 per cent and 1.6 per cent, respectively. The new balance in the operating reserve stands at $9,905,889.

COST MANAGEMENT

Cost reductions, efficiencies in the procurement of goods and services, and prudent management services resulted in tightly controlled costs. Reasons for major expenditure variances are noted below.

- Staff salaries were $415,595 lower than budgeted due to an unfilled position, an employee on maternity leave, partial salary for an employee returning from long-term disability, and also due to the fact that the budgeted figure was based on the assumption that the yearly employee performance appraisals would be assessed from January 1, 2007, regardless of the actual anniversary date. However, the appraisals in 2007 were done based on the actual employee anniversary date;
- Costs for employee future benefits (calculated by actuaries) were $215,280 higher than budgeted;
- Costs for purchased services were $121,987 lower than expected;
- Volunteer business expenses were $66,346 lower than expected;
- Costs for accommodation, mileage and meals for chapters were $53,342 lower than expected; and
- Legal and tribunal expenses were $53,941 lower than expected.

2006 BUDGET VARIANCES BY BUSINESS UNIT

Administrative Services

For 2007, expenditures were $189,496 or 5.3 per cent below budget. The deployment of advanced technologies has enabled PEO to provide better services to its members and, at the same time, improve its cash flow position. In addition to offering members payment options such as credit card, PC banking and telephone banking, in 2007, Administrative Services implemented an automated electronic funds transfer (EFT) solution for secure, quick and timely payments to volunteers and vendors. As of December 2007, payments over $241,414 have been made using the EFT solution, resulting in savings.

The total volume of payments from credit card transactions reached $7,613,307, an increase of 13.6 per cent over the payments made in 2006. The increase in the number of online payments along with the EFT solution has resulted in savings of over $20,339 in postage, printing and mailing costs.

Facilities maintenance costs were $32,840 lower than budgeted. Savings of $19,643 were also realized for printing and mail room services, primarily due to the renegotiation of a contract for mailroom equipment. In the document management centre, costs for records scanning for data storage were $37,677 lower than expected.

Chapters and Communications

For 2007, expenditures were $147,803 or 5.1 per cent below budget. This was primarily due to costs for the Government Liaison Program being $52,368 lower than expected. Costs associated with hosting the Order of Honour Service Awards and PEO's participation in the Ontario Professional Engineers Awards were $32,298 lower than expected. Committee expenditures were $37,287 lower than budgeted. Additional savings were realized in reduced expenditures for PEO advertising, printing and other core operations.

Executive
For 2007, expenditures were $68,320 or 10.3 per cent above budget, primarily due to the costs of salaries and benefits, various grants, donations, sponsorships and expenses for travel, meals and accommodation while representing PEO at various events.

Governance
For 2007, expenditures were $98,110 or 10.9 per cent over budget. This was primarily due to the services of a temporary employee and higher than budgeted costs for Council elections because of the number of bylaw confirmations.

Human Resources
For 2007, expenditures were $58,445 or 3.7 per cent below budget, primarily due to lower expenses for volunteer development and recognition, committee expenses, recruitment costs and staff training costs.

Front row, from left: Wendy Zhou, CMA, manager, financial services and business planning; Chetan Mehta, manager, financial reporting and procurement. Back row: Oscar Polangco, accounts services administrator; Frank Borsi, CA, director, administrative services.

Information and Technology Services
For 2007, expenditures were $57,543 or 5.1 per cent over budget, primarily due to the use of unbudgeted contract resources to clean up academic data in License Ease, higher than projected depreciation costs, and annual maintenance costs (unbudgeted) for software acquired for the Engineers-in-Training (EIT) program. An initiative is underway (to be completed in 2008) to outsource PEO's core IT operations to a third-party vendor. This is expected to result in an enhancement in the IT infrastructure that will enable ITS to offer optimized services to staff, chapters and other stakeholders.

Licensing and Registration
For 2007, expenditures were $157,227 or 5.3 per cent lower than budget. PEO received 3849 P.Eng. applications, the highest level since 1998. In 2007, PEO licensed 2246 professional engineers. The number of new P.Eng. licences issued to non-CEAB (Canadian Engineering Accreditation Board) applicants increased from 1182 in 2006 to 1235 in 2007.

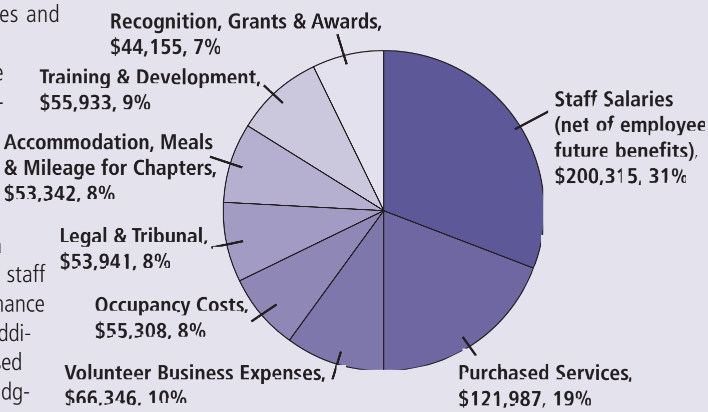
The dedicated contributions of the Academic Requirements Committee (ARC) members and the Experience Requirements Committee (ERC) members and the efforts of staff resulted in savings of more than $69,856 for meals, accommodation, travel and other related expenses. In addition, costs for the EIT program and limited licence program were $37,115 lower than expected.

Regulatory Compliance
For 2007, expenditures were $132,038 or 7.2 per cent lower than budget, primarily because of lower than expected costs for enforcement activities and complaints investigations.

Costs for registration-related activities and discipline prosecution were higher than budgeted. However, these were offset by lower than expected costs for enforcement and complaints investigations.

Standards and Regulations
The Standards and Regulations department achieved a favourable result of $197,450 or 18.9 per cent under budget. This was primarily due to a saving of $102,884 in employee salaries and benefits because no new staff was hired. An additional $40,209 of unused budget in the area of performance standards reflects the fact that no consultants were required this year. In addition, in the area of practice advisory, there was a surplus of $11,623 in unused legal budget. A further $38,864 surplus in the Registration Committee budget is because of a lower than anticipated number of hearings.

2007 Favourable Variances (vs. Budget)



Council-directed Initiatives
In 2007, the costs for the projects approved by Council amounted to $305,436. This figure includes $220,604 in expenses incurred by the Building Development Committee and $44,812 for the Future of Engineering Education and Licensure Conference.

Staff and volunteers contributed greatly in carrying out these Council-directed initiatives. In 2007, a total of $48,103 in staff salaries and benefits costs was directly attributable to these initiatives in addition to staff's unpaid overtime contributions.

CONCLUSION
The association has managed its affairs responsibly and leaves 2007 with an enhanced balance sheet and a stronger operating reserve to carry out its regulatory mandate.