

[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, 2008 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, 2008 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
Licensed Public Accountants
January 26, 2009

FINANCIAL STATEMENTS

BALANCE SHEET

YEAR ENDED DECEMBER 31, 2008

			2008	2007
ASSETS	CURRENT	Cash	\$ 294,776	\$ 674,572
		Marketable securities at market value	22,753,692	20,413,749
		Accounts receivable	216,981	565,149
		Prepaid expenses and refundable deposits	926,124	280,905
			24,191,573	21,934,375
	Capital assets (Note 7)	539,836	599,809	
		\$ 24,731,409	\$ 22,534,184	
LIABILITIES	CURRENT	Accounts payable and accrued liabilities	\$ 651,109	\$ 851,212
		Fees in advance and deposits	8,222,737	8,048,718
			8,873,846	8,899,930
		Employee future benefits (Note 8)	4,281,274	3,728,365
		13,155,120	12,628,295	
	OPERATING RESERVE	11,576,289	9,905,889	
		\$ 24,731,409	\$ 22,534,184	

On behalf of the council: J. David Adams, P.Eng., president; Catherine Karakatsanis, P.Eng., president-elect; K.J. Allen, P.Eng., CEO/registrar

STATEMENT OF REVENUE AND EXPENSES

YEAR ENDED DECEMBER 31, 2008

		2008			2007	
		OPERATING RESERVES (NOTE 4)	DISCRETIONARY RESERVE (NOTE 5)	DISCRETIONARY BUILDING RESERVE (NOTE 6)	TOTAL	TOTAL
REVENUE	P.Eng. revenue	\$ 12,418,541	\$ —	\$ 741,845	\$ 13,160,386	\$ 11,877,724
	Application, registration, exam and other fees	4,301,800	—	—	4,301,800	4,220,539
	Investment income	1,079,766	—	—	1,079,766	767,704
	Advertising income	603,074	—	—	603,074	593,435
		18,403,181	—	741,845	19,145,026	17,459,402
EXPENSES	Full-time staff salaries and benefits (Note 9)	7,369,121	60,957	—	7,430,078	6,956,481
	Retiree and full-time staff future benefits	1,042,754	—	—	1,042,754	1,014,156
	Occupancy costs	1,313,612	—	—	1,313,612	1,272,542
	Purchased services	1,011,832	12,854	—	1,024,686	1,201,515
	Legal and tribunal	688,858	103,588	—	792,446	663,604
	Engineers Canada	760,553	—	—	760,553	741,665
	Volunteer business expenses	717,877	1,107	—	718,984	670,689
	Contractors and temporary staff	399,574	27,192	—	426,766	429,245
	Chapters (Note 14)	540,450	—	—	540,450	509,558
	Postage and courier	531,871	234	—	532,105	485,575
	Consultants	327,712	32,609	—	360,321	401,636
	Amortization	290,897	—	—	290,897	305,489
	Computers and telephone	588,463	—	—	588,463	268,035
	Transaction fees and commission	386,142	—	—	386,142	371,162
	Insurance	122,216	—	—	122,216	123,572
	Advertisement	101,731	10,811	—	112,542	108,772
	Printing and photocopying	197,238	—	—	197,238	200,998
	Office supplies	138,449	—	—	138,449	140,043
	Staff business expenses	166,258	2,967	—	169,225	137,667
	Recognition, grants and awards	139,263	648	—	139,911	118,901
Training and development	60,160	—	—	60,160	59,155	
	16,895,031	252,967	—	17,147,998	16,180,460	
Excess of revenue over expenses (expenses over revenue)		\$ 1,508,150	\$ (252,967)	741,845	\$ 1,997,028	\$ 1,278,942

STATEMENT OF CHANGES IN OPERATING RESERVE

YEAR ENDED DECEMBER 31, 2008

	COUNCIL INTERNALLY RESTRICTED RESERVES (NOTE 4)	COUNCIL DISCRETIONARY RESERVE (NOTE 5)	COUNCIL DISCRETIONARY BUILDING RESERVE (NOTE 6)	2008 TOTAL	2007 TOTAL
Balance, beginning of year	\$ 9,387,889	\$ 518,000	\$ –	\$ 9,905,889	\$ 8,341,094
Excess of revenue over expenses (expenses over revenue)	1,508,150	(252,967)	741,845	1,997,028	1,278,942
	10,896,039	265,033	741,845	11,902,917	9,620,036
Reclassification adjustment for gains recognized during the year in the statement of operations	(2,858)	–	–	(2,858)	–
Change in unrealized losses on available for sale financial assets	(323,770)	–	–	(323,770)	285,853
	\$ (326,628)	–	–	\$ (326,628)	\$ 285,853
Internally imposed restrictions					
Capital asset additions	230,924	(230,924)	–	–	–
Inter-reserve transfer	(595,891)	595,891	–	–	–
	(364,967)	364,967	–	–	–
Balance, end of year	10,204,444	630,000	741,845	11,576,289	9,905,889

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2008

		2008	2007
OPERATING ACTIVITIES	Excess of revenue over expenses (expenses over revenue)		
	Operating reserve	\$ 1,508,150	\$ 1,584,378
	Discretionary reserve	(252,967)	(305,436)
	Discretionary building reserve	741,845	
	Amortization	290,897	305,489
	Employee future benefits	552,909	869,103
		2,840,834	2,453,534
	Change in non-cash working capital items (Note 10)	(323,135)	403,490
		2,517,699	2,857,024
	INVESTING ACTIVITIES	Increase in marketable securities	(2,339,943)
Change in fair value of marketable securities classified as available-for-sale		(326,628)	285,853
Additions to capital assets		(230,924)	(245,250)
		(2,897,495)	(3,280,101)
Decrease increase in cash		(379,796)	(423,077)
Cash, beginning of year		674,572	1,097,649
Cash, end of year		\$ 294,776	674,572

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

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 to not-for-profit organizations, and reflect the following accounting policies:

(a) Financial instruments

- 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 Revenue and Expenses in the current period;
- The association 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 Operating Reserve until realized through disposal or impairment;
- 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 difference between the book value and the carrying value; and
- 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 between the book value and carrying value.

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, management has determined that 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 and liabilities are expensed as incurred.

(b) 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.

(c) 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.

(d) 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;
- Fair market value is used when calculating the expected return on plan assets;
- Based on an actuarial assessment that is conducted every three years, 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; and

- 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.

(e) 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%

(f) 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. CHANGES IN ACCOUNTING POLICY

Adoption of accounting policies

Effective January 1, 2008, the association adopted the amendments to sections 4400 to 4470 of the CICA handbook. The adoption of the amended sections has not resulted in any change to the association's recording for its transactions and balances. The association has elected to include its investment in capital assets as part of council internally restricted reserves, as opposed to a separate component of operating reserve, which was previously required.

Future accounting changes

Not-for-profit organizations are permitted to defer adoption of sections 3862 and 3863 until fiscal years beginning on or after October 1, 2008. In the meantime, they would continue to apply section 3861. The association has decided to defer application of these standards.

4. COUNCIL INTERNALLY RESTRICTED RESERVES

The operating reserves of the association are internally restricted and are made up as follows:

	2008	2007
	\$	\$
Restricted for long-term purposes	1,268,319	3,100,191
Membership stabilization	8,396,289	5,687,889
Investment in capital assets	539,836	599,809
	10,204,444	9,387,889

Internally imposed restrictions have been made to adjust the restricted reserve for long-term purposes and the membership stabilization reserve to amounts in the council-approved operating reserve policy.

5. COUNCIL DISCRETIONARY RESERVE

The discretionary reserve is used at the discretion of council to record expenses related to special projects approved by council.

6. COUNCIL DISCRETIONARY BUILDING

During the year, the association amended its bylaws in order to increase its membership fee. The fee increase was confirmed by the members in accordance with the *Professional Engineers Act*. The incremental amount will be used to finance the acquisition of a building for its head office.

7. CAPITAL ASSETS

	2008		2007	
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Furniture, fixtures and microfilm equipment	1,377,853	1,233,560	144,293	182,996
Computer equipment	3,051,118	2,680,726	370,392	381,393
Leasehold improvements	198,159	173,008	25,151	35,420
	4,627,130	4,087,294	539,836	599,809

8. 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, 2008 was as follows:

	Pension plans	Other benefit plan	Total 2008
Accrued benefit obligation	(13,773,049)	(8,013,825)	(21,786,874)
Plan assets at fair value	11,598,733	–	11,598,733
Funded status - plan surplus (deficit)	(2,174,316)	(8,013,825)	(10,188,141)
Unamortized transitional obligation	6,361	817,999	824,360
Unamortized net actuarial gain	2,900,975	2,181,532	5,082,507
Accrued benefit asset (liability)	733,020	(5,014,294)	(4,281,274)

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Details of the accrued benefit obligation are as follows:

	Pension plans	Other benefit plan	Total 2008
Accrued benefit obligation, beginning of year	(14,646,557)	(7,244,609)	(21,891,166)
Current service cost	(798,208)	(344,687)	(1,142,895)
Contributions by the employees	(236,894)	–	(236,894)
Interest cost on accrued benefit obligation	(762,428)	(376,902)	(1,139,330)
Benefit payments	629,310	102,529	731,839
Actuarial gain (loss) on accrued benefit obligation	2,041,728	(150,156)	1,891,572
Accrued benefit obligation, end of year	(13,773,049)	(8,013,825)	(21,786,874)

The plan expense for the year is determined as follows:

	Pension plans	Other benefit plan	Total 2008
Current service cost	798,208	344,687	1,142,895
Interest cost on accrued benefit obligation	762,428	376,902	1,139,330
Expected return on plan assets	(873,474)	–	(873,474)
Amortization of transitional obligation	3,685	90,889	94,574
Amortization of net actuarial gain	62,440	100,532	162,972
Benefit expense	753,287	913,010	1,666,297

The employer contributions to the plans amounted to \$1,113,386.

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

	Pension plans	Other benefit plan
	%	%
Discount rate	6.25	6.25
Expected long-term rate of return on plan assets	3.5-7	–
Salary projection	3.5	–
Medical benefits cost escalation		
Hospitalization	–	5
Extended health care	–	2.5
Dental benefits cost escalation	–	2.5

9. FULL-TIME SALARIES AND BENEFITS

During the year, the association incurred a total of \$7,430,078 (\$6,956,481 in 2007) for salary and benefits costs for its full-time staff, of which \$60,957 was directly attributable to special projects approved by council.

10. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2008 \$	2007 \$
Accounts receivable	348,168	(7,967)
Prepaid expenses	(645,219)	28,456
Accounts payable and accrued liabilities	(200,103)	46,379
Fees in advance and deposits	174,019	336,622
	(323,135)	403,490

11. TRUST ACCOUNTS

The association maintains a separate bank account for the Council of Ontario Deans of Engineering. Cash totaling \$69,851 (2007–\$66,671) are not reported on the association's balance sheet as they are held in trust for the council.

12. COMMITMENTS

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

	\$
2009	1,645,238
2010	318,000
2011	140,000
	2,103,238

13. CONTINGENT LIABILITIES

Various claims have been made against the association. The outcome of these claims is not determinable as at December 31, 2008, and, accordingly, no provision has been made in these financial statements for any liability that may result. Any loss resulting from these claims will be recognized in the year when they became known.

14. CHAPTERS OF THE ASSOCIATION

The financial information of the 36 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 \$540,450 (2007–\$509,588) including \$407,498 (2007–\$357,610) of allotments and other disbursements to individual chapters. In 2008, the association also incurred additional costs of \$417,033 (2007–\$452,804) related to chapter operations, including staff salaries and benefits and various support activities. These amounts have been included in the various operating reserve expenses reported on the Statement of Revenue and Expenses.

15. 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

DECEMBER 31, 2008

PEO had another very successful year financially. As of the end of 2008, the association had approximately \$23 million in cash or cash equivalents. The favourable cash position has enabled the association to pursue a building acquisition that can be used as its corporate head office.

In 2008, PEO generated an excess of revenues over expenses of \$1,255,179 and reported an increase in operating surplus, which may be attributed to higher than expected growth in revenues from professional engineer annual licence fees and application- and registration-related fees. Also, for the first time ever, PEO had more than \$1 million in investment income.

For this fiscal year, total revenues of \$18,403,180, net of building fund revenue, and expenses of \$17,147,998, were incurred. Revenue from application, registration and other fees increased by 4.2 per cent. As of the year end, the accumulated building reserve amounted to \$741,845, a result of the fee increase in May 2008. Investment income increased \$312,062, or 28.9 per cent, over 2007. The new balance in the operating reserve is \$11,576,291.

COST MANAGEMENT

Total expenditures for 2008 were \$17,147,998, which is 1.4 per cent higher than budget. Reasons for major expenditure variances versus budget are noted below:

- Contractors and temporary staff costs were \$193,888 over budget due to replacement employees to cover maternity leave, disability leave and other staffing needs;
- Costs for purchased services were \$81,943 lower than expected;
- Legal and tribunal expenses were \$60,396 higher than budget, including legal costs of \$99,068 associated with the building purchase and drawn from the funds reserved for council special projects;
- Expenses for consultants were \$127,251 higher than projected, due to \$88,000 of council special projects spending for the Certificate of Authorization project;
- Computers and telephone expenses were \$126,488 higher than estimated primarily due to higher than expected one-time transition costs for the outsource initiative; and
- Training and development costs were \$58,865 lower than expected.

2008 BUDGET VARIANCES BY BUSINESS UNIT

Administrative Services

For 2008, expenditures were \$74,697, or 2.1 per cent, below budget. This was due, in part, to the elimination of one regular finance staff position. Other factors include insurance cost savings of \$19,183 and building and facilities savings of \$26,665. Administration negotiated lower credit card fees in 2008 and expects further reductions in 2009. In 2008, Administrative Services became responsible for payroll and pension plan administration.

Communications and Chapters

For 2008, expenditures were \$37,404, or 1.3 per cent, below budget. This was due to costs for the government communications program being \$53,885 lower than expected and chapter spending being \$37,404 below budget. This was offset by higher costs for salaries and benefits (\$51,976).

Executive

For 2008, expenditures were \$46,791, or 7.0 per cent, above budget, primarily due to the costs of representing PEO at various functions, including provincial AGMs (\$10,696), council meetings (\$7,401), distributing grants and awards (\$6,960), and management team meetings (\$3,177).

Governance

For 2008, expenditures were \$216,957, or 24.5 per cent, over budget. This was primarily due to staffing expenses that were not included in the budget (\$169,369), including one governance director. Council and committee meeting and workshop expenditures also contributed to the over-spending (\$42,977).

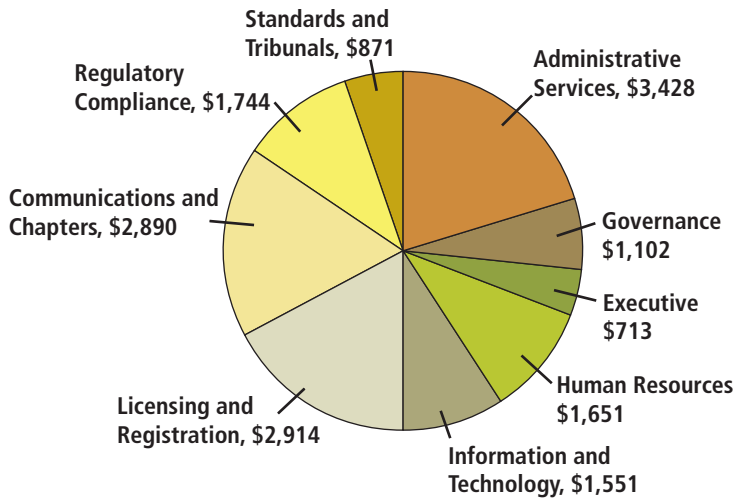
Human Resources

For 2008, expenditures were \$158,705, or 8.8 per cent, below budget, primarily due to lower than budgeted expenses for consultants (\$24,070), training and development (\$58,351), and recognition grants and awards (\$20,935).

Information and Technology Services

For 2008, expenditures were \$257,723, or 19.9 per cent, over budget, primarily due to higher than expected one-time transition costs for the outsource initiative, plus later than expected outplacement of one employee associated with the outsource initiative.

2008 BUSINESS UNIT COSTS (\$000s)



Licensing and Registration

For 2008, expenditures were \$120,090, or 4.0 per cent, lower than budget. Outsourcing and salaries and benefits costs were lower than expected. In 2008, PEO licensed 2374 new professional engineers, the highest number of licences issued since 1991.

In addition, PEO received its highest number of applications in 10 years with 3375 paid applications, and 1074 free applications, under the EIT Financial Credit Program. Not surprisingly, PEO also received the highest number of applications from graduates of Canadian Engineering Accreditation Board (CEAB) programs since 1998, with 2238 CEAB applications received.

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 \$7,450 for meals, accommodation, travel and other related expenses. In addition, costs for the EIT and limited licence programs were \$35,975 lower than expected.

Regulatory Compliance

For 2008, expenditures were \$19,438, or 1.1 per cent, over budget. Legal costs associated with discipline and enforcement prosecutions were higher than budgeted, but this was offset to some degree by lower

complaint investigation costs and lower than anticipated use of the alternative dispute resolution process. Full-time salaries and benefits were notably lower than expected, primarily due to the retirement of the deputy registrar in Q2. However, contract staff costs were higher due to the six-month extension of the Proactive Enforcement Program.

Standards and Tribunals

For 2008, the Standards and Tribunals unit achieved a favourable result of \$195,593, or 18.3 per cent, under budget. This was primarily due to not filling the approved staff position, resulting in a saving of \$77,931 in employee salaries and benefits. An additional \$4,500 of unused budget in the area of performance standards reflects the fact that no consultants were hired this year. In addition, in the area of tribunal operations, there was a surplus of \$57,298, reflecting a lower than anticipated number of registration hearings with an additional \$9,081 in discipline, both due to lower spending on independent counsel.

Council-directed initiatives

For 2008, the costs for the projects approved by council amounted to \$282,457. This figure includes \$132,065 for the Building Development Committee, \$90,132 for the Certificate of Authorization project and \$41,513 for the Ontario Centre for Engineering and Public Policy.

Staff and volunteers contributed greatly in carrying out these council-directed initiatives. In 2008, a total of \$27,192 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 2008 with an enhanced balance sheet and a stronger operating reserve to carry out its regulatory mandate.