TO THE MEMBERS OF ASSOCIATION OF PROFESSIONAL ENGINEERS OF ONTARIO

We have audited the accompanying financial statements of the Association of Professional Engineers of Ontario, which comprise the balance sheet as at December 31, 2010, and the statements of revenue, expenses, and changes in the operating reserve and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Association of Professional Engineers of Ontario as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte.

Chartered Accountants
Licensed Public Accountants
February 24, 2011

BALANCE SHEET
YEAR ENDED DECEMBER 31, 2010

			2010	2009
ASSETS	CURRENT	Cash in interest-bearing accounts	$ **2,245,695**	$ 3,223,931
		Marketable securities at market value	**12,113,603**	13,052,373
		Accounts receivable	**258,241**	209,770
		Prepaid expenses and deposits	**189,070**	231,032
			14,806,609	16,717,106
	Capital assets (Note 3)		**28,559,805**	25,182,118
	Derivative asset (Note 5)		**20,970**	423,900
			43,387,384	42,323,124
LIABILITIES	CURRENT	Accounts payable and accrued liabilities	**1,711,683**	1,211,136
		Vendor mortgage (Note 5)	–	1,000,000
		Fees in advance and deposits	**8,698,335**	8,448,936
		Current portion of long-term debt (Note 5)	**808,000**	786,000
			11,218,018	11,446,072
	LONG TERM	Long-term debt (Note 5)	**11,930,000**	12,738,000
		Employee future benefits (Note 6)	**5,787,807**	5,234,791
			28,935,825	29,418,863
	Operating reserve (Note 7)		**14,451,559**	12,904,261
			$ **43,387,384**	$ 42,323,124

On behalf of the council: Diane Freeman, P.Eng., FEC, president; David Adams, P.Eng., FEC, president-elect; and Kim Allen, P.Eng., FEC, CEO/registrar

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2010

			2010	2009
	OPERATING ACTIVITIES	Excess of revenue over expenses	$ **1,374,163**	$ 209,835
		Discretionary reserve over expenses from operations	**(774,138)**	(804,418)
		Discretionary building reserve additions	**1,292,085**	1,240,370
		Add (deduct) items not affecting cash		
		Amortization	**921,461**	657,364
		Employee future benefits	**1,400,622**	1,801,146
		Loss (gain) on disposal of marketable securities	**(432,356)**	6,448
		Change in non-cash working capital items (Note 11)	**743,437**	1,488,529
			4,525,274	4,599,274
	FINANCING ACTIVITIES	Proceeds from mortgage	–	14,100,000
		Proceeds from vendor mortgage	–	1,000,000
		Repayment of mortgages	**(1,786,000)**	(576,000)
		Employee future benefit payments	**(847,606)**	(847,629)
			(2,633,606)	13,676,371
	INVESTING ACTIVITIES	Proceeds of disposal of marketable securities	**1,429,244**	10,355,000
		Acquisition of marketable securities	–	(401,844)
		Additions to capital assets	**(4,299,148)**	(25,299,646)
			(2,869,904)	(15,346,490)
Increase (decrease) in cash			**(978,236)**	2,929,155
Cash, beginning of year			**3,223,931**	294,776
Cash, end of year			$ **2,245,695**	$ 3,223,931

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN THE OPERATING RESERVE

YEAR ENDED DECEMBER 31, 2010

		2010 Operating reserve (Note 7)	2009 Operating reserve (Note 7)
REVENUES	P.Eng. revenue	**$ 12,683,268**	$ 12,530,989
	Application, registration, examination and other fees	**5,120,789**	4,414,770
	Investment income	**474,878**	531,649
	Advertising income	**459,684**	490,359
	40 Sheppard revenue (Note 4)	**2,863,881**	2,388,035
		21,602,500	20,355,802
EXPENSES	Full-time staff salaries/Retiree and staff future benefits	**8,989,331**	9,156,807
	Occupancy costs	**617,580**	1,356,761
	Purchased services	**1,241,046**	1,066,337
	Legal and tribunal	**654,131**	643,835
	Engineers Canada	**802,812**	781,494
	Volunteer business expenses	**800,534**	806,889
	Contractors and temporary staff	**247,072**	261,938
	Chapters (Note 14)	**550,902**	539,497
	Postage and courier	**550,254**	522,083
	Consultants	**286,322**	329,144
	Amortization	**514,568**	329,223
	Computers and telephone	**694,687**	711,942
	Transaction fees and commission	**394,809**	361,883
	Insurance	**136,199**	142,803
	Advertisement	**127,385**	134,842
	Printing and photocopying	**211,965**	217,537
	Office supplies	**140,446**	138,020
	Staff business expenses	**171,676**	172,811
	Recognition, grants and awards	**165,635**	143,632
	Training and development	**106,561**	48,449
	40 Sheppard expenses (Note 4)	**2,824,422**	2,280,040
		20,228,337	20,145,967
Excess of revenue over expenses before the undernoted		**1,374,163**	209,835
Discretionary reserve expenditures (Note 8)		**(774,138)**	(804,418)
Discretionary building reserve revenue (Note 9)		**1,292,085**	1,240,370
Reclassification adjustment for gains recognized during the year in the statement of operations		**(23,503)**	(300,003)
Change in unrealized gains (losses) on available for sale financial assets		**81,621**	558,288
Gain (loss) on derivative designated as cash flow hedge		**(402,930)**	423,900
Reserve balance, beginning of year		**12,904,261**	11,576,289
Reserve balance, end of year		**$ 14,451,559**	12,904,261

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

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 each of its financial instruments into the undernoted accounting categories. The category for an item determines its accounting treatment under the Canadian Institute of Chartered Accountants' standards on the recognition, measurement and presentation of financial instruments for not-for-profit organizations.

Financial instruments	Category
Cash	Held-for-trading
Marketable securities	Available for sale
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Long-term debt	Other liabilities

Held-for-trading items are measured at fair value, with changes in their fair value recognized in the statement of revenue, expenses and change in operating reserve in the current period. Loans and receivables are measured at amortized cost, using the effective interest method, net of any impairment. Other liabilities are measured at amortized cost, using the effective interest method.

The fair value of marketable securities is determined directly from published price quotations in an active market.

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximate respective fair values due to their relatively short-term maturity. The carrying value of long-term debt and vendor mortgage approximate fair value due to the terms and conditions of the borrowing arrangements compared to current market conditions of similar items.

Transaction costs are expensed as incurred.

As allowed under section 3855 "Financial Instruments–Recognition and Measurement," the association has elected not to account for non-financial contracts as derivatives and not to account for embedded derivatives in non-financial contracts, leases and insurance contracts as embedded derivatives.

The association has elected to follow the disclosure requirements of section 3861 "Financial Instruments–Disclosure and Presentation" of the CICA handbook.

(b) Derivative instruments–Interest rate swap

The association has entered into an interest rate swap agreement in order to manage the impact of fluctuations in interest rate on its long-term debt. The association's policy is not to utilize derivative instruments for trading or speculative purposes.

The interest rate swap held by the association is eligible for hedge accounting. To be eligible for hedge accounting, an instrument should meet generally accepted criteria with respect to identification, designation, documentation and effectiveness of the hedging relationship.

The fair value of derivative instruments eligible for cash flow hedge flow accounting is recognized on the balance sheet. The effective portion of changes in fair value of the hedging derivative is recorded directly in the operating reserve while the ineffective portion, if any, is recognized in other income. When the hedging instrument is sold, terminated or ceases to be effective prior to maturity, hedge accounting is ceased prospectively and any gains or losses previously recorded in the operating reserve are recognized in earnings in the same period as those on the hedged item. When the hedged item is sold, extinguished or matures prior to the termination of the related hedging instrument, any gains or losses previously recorded in the operating reserve are recognized immediately in other income.

Income and expenses on derivative instruments that are designated as hedges are recognized in the statement of revenues, expenses and change in operating reserve in the same period as the related hedged item. For interest rate swaps, this accounting treatment results in interest expense on long-term debt being reflected in the statement of revenues, expenses and change in operating reserve at the hedged fixed rate rather than at their original contractual interest rates. If a designated hedge is no longer effective, the associated derivative instrument is subsequently carried at fair value with changes in fair value recorded in the statement of revenues, expenses and change in operating reserve.

(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.
- The pension plan assets are valued on a market basis.
- Based on an actuarial assessment that is conducted every three years, the asset base of the pension plan may have to be adjusted and the amount of the adjustment could be material. The most recent actuarial valuation was performed as at January 1, 2008.
- All past service costs and actuarial gains or losses arising after January 1, 2000, are amortized starting with the fiscal year following the occurrence in accordance with the requirements of section 3461 of the CICA handbook.
- The excess of the unamortized cumulative actuarial gains and losses, as of the beginning of the period, over 10 per cent of the greater of the pension plans' liabilities and market value of assets at the same date, will be amortized over the employee average remaining service lifetime of active members, which is 10 years as at January 1, 2010.
- 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 calculated on a straight-line basis at the following annual rates.

Furniture, fixtures and microfilm equipment	10%
Computer equipment, software	10% to 33%
Building	2%

The association's investment in capital assets is included as part of total operating reserve on the balance sheet.

(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. Accounts requiring significant estimates and assumptions include capital assets, accrued liabilities and employee future benefits.

3. CAPITAL ASSETS

			2010	2009
	Cost	**Accumulated amortization**	**Net book value**	Net book value
	$	**$**	**$**	$
Furniture, fixtures and microfilm equipment	**2,125,622**	**1,326,541**	**799,081**	148,605
Computer equipment	**3,929,189**	**3,266,969**	**662,220**	641,827
Building	**23,567,730**	**835,528**	**22,732,202**	20,025,383
Land	**4,366,303**	**–**	**4,366,303**	4,366,303
	33,988,844	**5,429,038**	**28,559,805**	25,182,118

4. BUILDING

On March 11, 2009, the association purchased an office building located at 40 Sheppard Avenue West in Toronto. The acquisition cost of the building was $22,575,000. Financing for the building included a first mortgage of $14,100,000 and a second mortgage of $1,000,000 (Note 5). The results of the operation of the building are as follows:

Revenue	2010	2009 March 9-December 31
	$	$
Rental	**979,665**	1,037,043
Operating cost reimbursements	**1,683,088**	1,104,724
Parking	**127,255**	142,636
Miscellaneous	**73,872**	103,632
	2,863,881	2,388,035
Recoverable expenses		
Administrative	**41,953**	32,157
Insurance	**18,752**	9,185
Property management and advisory fees	**90,000**	72,581
Property taxes	**626,589**	522,401
Repairs and maintenance	**139,600**	122,227
Security	**14,503**	14,853
Utilities	**416,044**	304,106
Janitorial payroll	**158,114**	125,193
Payroll	**163,244**	130,337
Road and ground	**19,047**	17,952
	1,687,846	1,350,992
Other expenses		
Amortization of deferred cost	**18,600**	15,000
Amortization of building	**388,293**	313,141
Interest expense on note and loan payable	**666,993**	594,777
Leasing fees	**62,690**	6,130
	1,136,576	929,048
Total expenses	**2,824,422**	2,280,040
Excess of revenue over expenses	**39,459**	107,995

5. BUILDING FINANCING

In 2009 the association financed $14,100,000 of the cost of its building acquisition with a credit facility from the Bank of Montreal, Capital Markets Division. The facility is secured by a first mortgage on 40 Sheppard Avenue West, a general security agreement, and a general assignment of tenant leases. This facility matures on March 11, 2019, and bears a floating interest rate based on variable bankers' acceptances.
Principal repayments are due as follows:

	$
2011	808,000
2012	830,000
2013	854,000
2014	878,000
2015	901,000
2016-2019	8,467,000

The association has entered into a swap agreement related to this loan whereby the floating rate debt is swapped for a fixed rate debt with an interest rate of 4.95 per cent and settled on a net basis. The start date of the swap was March 11, 2009, with a maturity date of March 11, 2019. The fair value of the interest rate swap was calculated using the discounted cash flow method. The fair value of the swap at December 31 was $20,970 and is reflected as an asset on the balance sheet. The decrease in fair value from $402,930 is recorded as a decrease in the operating reserve from 2009.

The association had financed $1,000,000 of the cost of its building acquisition with a vendor mortgage at an interest rate of 4.95 per cent and maturity date of March 11, 2010. This amount was repaid on the maturity date.

6. EMPLOYEE FUTURE BENEFITS

The association's pension plans and post-retirement benefits plan covering substantially all employees (full-time and retirees) are defined benefit plans as defined in section 3461 of the CICA handbook. The pension plans provide pension benefits based on length of service and final average earnings. The post-retirement benefits plan provides hospitalization, extended health care and dental benefits to active and retired employees. Participation in the pension plans and benefits plan (for post-retirement benefits) has been closed to all new employees as of May 1, 2006. All employees joining after this date have the option of participating in a self-directed defined contribution plan. During the year, the association recognized $91,740 (2009–$76,499) in employer contributions to the self-directed defined contribution plan.

The funded status of the association's pension plans and post-retirement benefit plan using actuarial assumptions as of December 31, 2010, was as follows:

	Basic plan	Supple-mental plan	Other benefit plan	Total
	$	$	$	$
Accrued benefit obligation	(17,698,941)	(889,264)	(9,261,067)	(27,849,272)
Plan assets at fair value	14,823,542	1,515,320	–	16,338,862
Funded status–plan surplus (deficit)	(2,875,399)	626,056	(9,261,067)	(11,510,410)
Unamortized transitional obligation	(159,709)	158,700	636,221	635,212
Unamortized net actuarial loss	2,934,023	89,009	2,064,359	5,087,391
Accrued benefit asset (liability)	(101,085)	873,765	(6,560,487)	(5,787,807)

Details of the accrued benefit obligation are as follows:

	Basic plan	Supple-mental plan	Other benefit plan	Total
	$	$	$	$
Accrued benefit obligation, beginning of year	(13,681,347)	(761,712)	(6,882,978)	(21,326,037)
Current service cost	(524,100)	(18,861)	(240,742)	(783,703)
Contributions by the employees	(228,972)	–	–	(228,972)
Interest cost on accrued benefit obligation	(912,963)	(48,991)	(459,089)	(1,421,043)
Benefit payments	548,690	53,735	121,620	724,045
Actuarial gain (loss) on accrued benefit obligation	(2,900,248)	(113,436)	(1,799,878)	(4,813,562)
Accrued benefit obligation, end of year	(17,698,941)	(889,265)	(9,261,067)	(27,849,273)

The plan expense for the year is determined as follows:

	Basic plan	Supple-mental plan	Other benefit plan	Total
	$	$	$	$
Current service cost	524,100	18,861	240,742	783,703
Interest cost on accrue benefit obligation	912,963	48,991	459,089	1,421,043
Expected return on plan assets	(852,648)	(46,050)	–	(898,698)
Amortization of transitional obligation	(22,815)	26,500	90,889	94,574
Amortization of net actuarial gain	–	–	–	–
Benefit expense	561,600	48,302	790,720	1,400,622

The employer contributions to the plans amounted to $847,606 ($847,629 in 2009).

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

	Basic plan	Supple-mental plan	Other benefit plan
	%	%	%
Discount rate	5.25	5.25	5.25
Expected long-term rate of return on plan assets	6.25	3.25	–
Salary projection	3.50	3.50	–
Medical benefits cost escalation			
Hospitalization	–	–	(a)
Extended health care	–	–	(b)
Dental benefits cost escalation	–	–	(c)

(a) a 7.5 per cent cost escalation in fiscal 2010, decreasing 0.75 per cent per year, until an ultimate rate of 5 per cent per annum.
(b) a 10 per cent cost escalation in fiscal 2010, decreasing 1 per cent per year, until an ultimate rate of 5 per cent per annum.
(c) a 4.5 per cent cost escalation per annum.

7. OPERATING RESERVE

The operating reserve of the association is restricted to be used at the discretion of council and includes the following:

	2010	2009
	$	$
Unrealized gains (losses) on available for sale financial instruments	**275,623**	217,515
Fair value of derivative designated as cash flow hedge	**20,970**	423,900
	296,603	641,415

The association investment in capital assets of $15,821,805 (2009–$10,658,118) is also included as part of operating reserve.

8. COUNCIL DISCRETIONARY RESERVE

The discretionary reserve is an internal allocation from the operating reserve used at the discretion of council to fund expenses related to special projects approved by council. Expenditures from the discretionary reserve were as follows:

	2010 Actual	2009 Actual
	$	$
Building Development Committee	**23,247**	80,484
Council policy projects	**15,955**	20,244
Ontario Centre for Engineering and Public Policy (Net)	**451,889**	518,452
Emerging Discipline Task Force	**15,910**	19,199
Professional development	**–**	4,463
Sterling Award	**–**	2,616
Sponsorship of Engineers Canada advertising campaign	**198,934**	158,961
Province-wide mentoring program	**45,033**	–
PEO licence plate program (Net)	**14,911**	–
Task force activities	**8,260**	–
	774,138	804,418

9. COUNCIL DISCRETIONARY BUILDING RESERVE

In 2008, the association amended its bylaws to increase membership dues for raising capital to fund the improvements and development of a new office building. The amount of the fee increase was confirmed by the members in accordance with the *Professional Engineers Act*. The amount raised is used to fund post-acquisition disbursements for its head-office building.

10. FULL-TIME SALARIES AND BENEFITS

During the year, the association incurred a total of $8,296,798 (2009–$8,114,248) for salary and benefits costs for its full-time staff of which $61,872 (2009–$79,302) was directly attributable to special projects approved by council.

11. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2010	2009
	$	$
Accounts receivable	**(48,471)**	7,211
Prepaid expenses	**41,962**	695,092
Accounts payable and accrued liabilities	**500,547**	560,027
Fees in advance and deposits	**249,399**	226,199
	743,437	1,488,529

12. TRUST ACCOUNTS

The association maintains a separate bank account for the Council of Ontario Deans of Engineering. Cash totaling $73,297 (2009–$71,205) is not reported on the association's balance sheet, as it is held in trust for the council.

13. COMMITMENTS

The association has obligations under non-cancellable operating leases for various service agreements. The payments to the expiry of the leases and agreements are as follows:

	$
2011	214,218
2012	42,500
	256,718

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 $550,902 (2009–$539,497), including $391,000 (2009–$368,727) of allotments and $159,102 (2009–$170,770) in disbursements to individual chapters. In 2010, the association also incurred additional costs of $412,973 (2009–$462,272) 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. CAPITAL MANAGEMENT

The association defines its capital as its operating reserve, which includes its equity investment in capital assets and its fees in advance and deposits.

The association manages its capital, in part with the assistance of an investment counsel, in accordance with an investment policy that takes into account the association's risk/return profile along with its working capital requirements. Any projects or undertakings of a strategic nature are undertaken only after authorization from council.

The association's short-term objective is to have sufficient liquidity to ensure continuity in its operations despite events with adverse financial consequences. Its long-term objective is to have the flexibility to implement new initiatives as per council directives to meet its members' needs and to support the growth and expansion of PEO's regulatory and regulatory support activities in order that the public interest may be served and protected.

Under its various borrowing agreements, the association must satisfy certain covenants with respect to reporting requirements. During the year, the association complied with these requirements.

16. COMPARATIVE FIGURES

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

17. FUTURE ACCOUNTING CHANGES

In December 2010, the CICA issued a new accounting framework applicable to not-for-profit organizations. Effective for fiscal years beginning on or after January 1, 2012, not-for-profit organizations will have to choose between international financial reporting standards (IFRS) and Canadian accounting standards for not-for-profit organizations, whichever suits them best. Early adoption of those standards is permitted. The association currently plans to adopt the new accounting standards for not-for-profit organizations for its fiscal year beginning on January 1, 2012. The impact of transitioning to these new standards has not been determined at this time.

TREASURER'S REPORT AND FINANCIAL STATEMENT

DECEMBER 31, 2010

In 2010, PEO generated an excess of revenues over expenses of $1,374,163 from operations, which may be largely attributed to growth in the P.Eng. membership and in application, examination and registration revenues. In addition, PEO's investment portfolio yielded $474,878 of investment income. The results also include a positive contribution of $39,459 from leasing operations at 40 Sheppard Avenue West.

On March 11, 2009, the Association of Professional Engineers of Ontario purchased a building at 40 Sheppard Avenue West in Toronto to be used as its head office. The building cost $22,575,000 and PEO secured financing of $15,100,000. The first mortgage of $14,100,000 is a 10-year loan with an accelerated 15-year amortization at an interest rate of 4.95 per cent. PEO moved into the building on Monday, December 21, 2009.

For the 2010 fiscal year, total revenues of $21,602,500 and expenses of $20,228,337 were incurred. Revenue from application, registration and other fees increased by 1.2 per cent. The closing balance in the operating reserve is $14,451,559.

COST MANAGEMENT

Total expenses for 2010 were $17,403,915 (excluding those associated with 40 Sheppard), which is 5.8 per cent lower than budget. Major expenditure variances versus annual budget are noted below:

- Full-time staff salaries and benefits were $774,411 lower than budget;
- Contractors and temporary staff costs were $164,372 above budget;
- Costs for purchased services were $163,619 lower than expected;
- Legal and tribunal expenses were $59,033 higher than budget;
- Volunteer business expenses were $157,926 lower than expected;
- Chapters expenses were $172,823 lower than budget;
- Expenses for consultants were $10,722 higher than projected;
- Computers and telephone expenses were $55,737 higher than estimated;
- Amortization was $166,689 higher than budget; and
- Training and development costs were $70,714 lower than expected.

2010 BUDGET VARIANCES BY BUSINESS UNIT

Administrative Services

For 2010, expenditures were $17,861 or 0.5 per cent above budget. Variances include lower security costs ($51,650), due to inclusion of these costs in the 40 Sheppard spending. Employee future benefits came in $514,557 better than plan, but were offset by higher than originally forecast occupancy costs ($543,544).

Communications and Chapters

For 2010, expenditures were $242,042 or 7.6 per cent below budget. This was due to lower than budgeted salaries and benefits ($169,385) with the transfer of two employees partway through the year, not filling one budgeted position, and filling a staff leave vacancy with a contract person. Savings on external meetings ($25,070) and special events ($37,079) also contributed to lower than expected spending.

Executive

For 2010, expenditures were $40,626 or 5.0 per cent above budget, partially as a result of hiring an executive intern in July. Costs to represent PEO at AGMs, council meetings, PEO-related meetings and other functions in 2010 were $49,593 higher than budgeted.

Governance and Culture

For 2010, expenditures were $109,814 or 6.5 per cent under budget. This was due to favourable spending versus budget on salaries and benefits ($14,030), staff training ($15,256), volunteer training ($23,346), council election spending ($30,688), and volunteer recognition ($40,500). Higher than expected spending was found in staff contingencies ($55,699).

Information and Technology Services

For 2010, expenditures were $133,165 or 8.4 per cent over budget, due to the cost to maintain networks ($31,359), host outsourcing ($63,232), and hardware support contracts for printers ($9,476).

Legal Services

For 2010, expenditures were $150,855 or 18.9 per cent under budget, due to lower than expected salaries and benefits ($136,971) and printing costs ($15,000).

Licensing and Registration

For 2010, expenditures were $576,595 or 13.1 per cent lower than budget. Outsourcing and salaries and benefits costs were $168,665 lower than expected. In addition, there was below budget spending in police background checking ($123,089) and the internship program ($121,415), and costs to process applicants' appeals ($54,400).

Regulatory Compliance

For 2010, expenditures were $14,744 or 1.0 per cent under budget. There were lower than expected staffing costs ($61,195), lower outsourcing costs on mediations ($10,000) and lower than expected costs for investigations ($10,723). These were offset by higher than budgeted legal costs within discipline ($87,227).

Standards and Tribunals

For 2010, the standards and tribunals operations expenditures came in at $233,617, or 20 per cent, below the approved budget of $1,163,600. This surplus, however, includes $177,400 for salaries and benefits for the two council-approved staff positions in the department that have yet to be filled. Taking into consideration the unfilled staff positions, the overall net position for the department in 2010 is $56,200. There was $107,700 unspent budget in the area of tribunals (discipline and registration) operations because of a lower than forecast number of hearing days. However, the department spent $70,000 over budget in committee expenditures, primarily for litigation costs associated with unexpected court proceedings. These included a judicial review application before the Divisional Court of Ontario where the Discipline Committee was named as the sole respondent, as well as an Ontario Human Rights Tribunal matter that named the Registration Committee as the sole respondent.

Council-directed initiatives

For 2010, the net expenditures for the projects approved by council amounted to $774,138. This figure includes $45,033 for the Province-wide Mentoring Program, $198,934 for sponsorship of the Engineers Canada advertising campaign, and $451,889 for the Ontario Centre for Engineering and Public Policy.

Staff and volunteers contributed greatly in carrying out these council-directed initiatives. In 2010, a total of $61,872 in staff salaries and benefits costs was directly attributable to these initiatives.

40 Sheppard Building operations

Operations at 40 Sheppard (excluding PEO rent) included revenue of $2,863,881 and expenses of $2,824,422 for a positive contribution of $39,459.

PEO occupied 38,558 square feet at December 31, 2010. The market rental of this is $19.50/square foot, and operating costs are $16.69/square foot. PEO's equivalent costs would be $1,395,414 for 2010. PEO paid $1,210,538 in interest and accommodation expense, leading to a net value of ownership estimate of $184,876.

CONCLUSION

The association has managed its affairs responsibly and leaves 2010 with an enhanced balance sheet and a healthy operating reserve to carry out its regulatory mandate. Σ

2010 DEPARTMENTAL COSTS ($M)