

Treasurer's Report and Financial Statement Analysis

As of December 31, 2004

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

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

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

COST CONTROLS

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

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

2004 BUDGET VARIANCES BY BUSINESS UNIT

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

Administrative Services

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

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

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

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

Governance

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

Human Resources

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

Information and Technology Services

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

Licensing and Registration

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

Policy and Communications

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

Regulatory Compliance

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

SUMMARY

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



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