

# TREASURER'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2011

PEO generated an excess of revenue over expenses of \$1,294,052 (before other items) for the 2011 fiscal year as compared to a budgeted excess of \$345,435. Highlights having an impact on performance include continued growth in the P.Eng. membership, strong performance of the investment portfolio yielding \$546,602 of investment income, a positive contribution of \$87,168 from building operations, and lower than planned costs as management undertook to control costs in light of economic conditions and the expected building write-down.

The excess of revenue over expenses was reduced by other items, including: a one-time write-down of building improvements of \$945,247, council discretionary reserve expenditures of \$324,011 and a reduction in the value of the derivative (swap) designated as a cash-flow hedge of \$767,871.

The building write-down was the result of writing off previously capitalized building improvement costs that were temporary in nature. In March 2009, the association purchased the building and major enhancements were required to make it functional as the head office. With the lease at 25 Sheppard Ave. W. set to expire in December 2009 and base rent set to double for an extension, the task force made the decision to move PEO into available space to save accumulated costs projected to be nearly \$5 million. The task force recognized that this decision would increase project costs initially (as staff could move a few times) but the overall costs would be lower to PEO.

PEO entered into a swap agreement related to the mortgage financing of the building in March 2009, whereby the floating interest rate debt was swapped for fixed-rate debt with an interest rate of 4.95 per cent for a period of 10 years. PEO wanted a long-term fixed rate and a 10-year fixed-rate mortgage at this rate was not available. As the interest rate swap is a financial instrument, accounting rules require that the current value be shown on financial statements, whereas a simple mortgage for the same value would not be shown. The fair value of the interest rate swap at December 31, 2011 created a liability on the balance sheet and the operating reserve. While the value of the swap may vary greatly year over year, due to fluctuations in the discount rate used in the valuation, the net impact of

the swap at the end of the term is zero and current year losses through reserve will reverse to zero by the end of the term in 2019.

Total revenues of \$22,724,871 and expenses of \$21,430,820 (before other items) were incurred for the 2011 fiscal year. Total revenue was in line with budget. Approximately 85 per cent of revenues comprise P.Eng. licence revenue and application, registration, exam and other fees revenue, which were consistent with budget expectations. The investment in capital assets for the year was \$10,624,786 and the closing balance in the operating reserve is \$13,473,342.

## COST MANAGEMENT

Total expenses were \$21,430,820 (before other items), which is 3.5 per cent lower than budget. Major expense variances from budget are:

- Full-time staff salaries and benefits were \$1,020,409 lower than budget.
- Contractors and temporary staff costs were \$111,962 above budget.
- Legal and tribunal expenses were \$485,749 higher than budget.
- Costs for purchased services were \$255,420 lower than expected.
- Training and development costs were \$150,660 lower than expected.
- Chapters' expenses were \$106,315 lower than budget.
- Amortization was \$104,195 lower than budget.

## 2011 BUDGET VARIANCES BY BUSINESS UNIT

### Administrative Services

Expenditures were \$79,449 or 1.4 per cent above budget. Variances include lower than planned salaries and benefits (\$151,170) due to unfilled positions and maternity/other leaves, offset by higher contract costs to fill staffing gaps (\$84,871). Other unfavourable variances include higher costs for permanent membership cards (\$28,730), increased credit card commissions (\$26,571) as more members paid their membership fees online, and one-time moving costs (\$63,583).

### **Communications and Chapters**

Expenditures were \$273,296 or 8.1 per cent below budget. Variances include lower than budgeted salaries and benefits (\$280,223) as budgeted positions went unfilled during the year or the hiring occurred later than planned, as well as a maternity leave, offset somewhat by increased outsource services (\$53,080) to fill the gaps. Volunteer costs were higher than budgeted (\$58,992) and chapter-related costs were lower than planned (\$106,468) due to lower travel expenses.

### **Executive**

Expenditures were \$92,587 or 10.7 per cent above budget, resulting from increased legal fees (\$62,101) pertaining to resolution of corporate matters and increased costs to represent PEO at AGMs and other functions as well as PEO-related meetings and events.

### **Governance and Culture**

Expenditures were \$59,463 or 3.3 per cent above budget. Variances include higher than planned salaries and benefits and contractors (\$79,744), increased consulting fees as a law firm was engaged to review election procedures (\$68,235), higher advertising (\$29,818) as a result of increased recruitment, offset by lower volunteer recognition expenses (\$32,987) and decreased training across all departments (\$99,693).

### **Information and Technology Services**

Expenditures were \$20,031 or 1.2 per cent over budget, due to the higher consulting costs to develop information systems and the web portal (\$45,273), offset by lower amortization (\$29,144).

### **Legal Services**

Expenditures were \$283,380 or 36.1 per cent under budget, all related to the departure of staff and reduced discipline hearing fees.

### **Licensing and Registration**

Expenditures were \$420,430 or 9.5 per cent lower than budget. Salaries and benefits costs were lower than expected (\$79,413) as positions were filled later than budgeted. In addition, there was below budget spending in police background checks (\$120,000), the internship program (\$89,093), the student membership program (\$42,697) and costs to admin-

ister exams (\$99,358), offset by increased fees for offsite exam locations (\$44,172).

### **OCEPP**

Expenditures were \$304,080 or 59.3 per cent lower than budget due to lower than planned salaries (\$265,716) as budgeted positions were unfilled as OCEPP transitioned to a department within Tribunals and Regulatory Affairs. Budgeted funds for the Policy Engagement Series were underspent (\$39,807).

### **Regulatory Compliance**

Expenditures were \$478,411 or 31.6 per cent over budget. Prosecution counsel for matters referred to discipline was required to be provided externally in 2011 as PEO did not have internal legal counsel (\$460,141). Discipline appeals were higher than planned (\$28,142). These increases were somewhat offset by lower staff expenses (\$19,321).

### **Standards and Tribunals**

Expenditures were \$234,552 or 17.1 per cent below budget. Variances include lower than budgeted independent counsel fees and consulting fees (\$163,079) for the Discipline Committee, practice standards, Registration Committee and tribunal operations, lower than budgeted volunteer (\$18,049) and staff (\$6,493) expenses related to a lower number of hearing days. Training and development costs were also lower than planned (\$33,930).

### **Council-directed Initiatives**

For 2011, the net expenditures for the projects approved by council amounted to \$324,010. This figure includes \$117,437 for the referendum on terminating the agreement with the Ontario Society of Professional Engineers, \$88,020 for the Repeal of the Industrial Exception Task Force, \$62,608 for the Emerging Disciplines Task Force, \$23,064 for the Global Engineering Workshop, and \$32,881 for various other task force work.

Staff and volunteers contributed greatly in carrying out these council-directed initiatives. Included in the projects listed above is a total of \$158,409 in staff salaries and benefits costs directly attributable to these initiatives.

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## **Building Operations**

Building operations generated an excess of revenue over expenses of \$87,168, which was in line with budget. The building generated \$3,127,459 in revenue, including PEO's share of recoverable expenses but excluding base rent (had PEO paid market rent for its space), and total expenses of \$3,040,291, of which \$1,996,929 are recoverable.

PEO occupied a total of 40,929 square feet at December 31, 2011. The market rent of this space is \$19.50 per square foot, and operating costs are \$19.31 per square foot. PEO's equivalent costs would be \$1,588,454 for 2011. Building operations also generated a net \$87,168 (after all expenses, including loan interest). PEO paid \$1,265,799 in accommodation expense, leading to a net value of ownership estimate of \$409,823 for 2011, totaling \$641,513 since the acquisition in March 2009.

## **CAPITAL EXPENDITURES: 2011**

Capital expenditures for the year totaled \$10,624,786 and were \$1,298,015 or 10.9 per cent below budget. A portion of this favourable variance will be spent in 2012 for the purchase of audio-visual equipment budgeted at \$667,000 and the completion of certain building improvements (approximately \$330,000). PEO incurred no additional debt from its capital expenditures in 2011, as they were funded from PEO's cash reserves.

## **Base building improvements**

2011 base building improvements of \$5,616,530 were focused on increased efficiency in the operation of the building and associated reductions in consumption of resources. These included: a major upgrade to the mechanical/HVAC system, the replacement of all existing building light fixtures, and upgrades to public washrooms, elevator lobbies and corridors. These improvements, which are recoverable from tenants, are expected to help PEO achieve LEED-Gold certification.

## **PEO building improvements and furniture**

A major PEO building improvement in 2011 of \$4,569,867 (including furniture) provided consolidated staff space in a new, improved environment. Work was done on space on the fifth and sixth floors and 80 per cent of PEO staff were relocated into this new work space. The seventh and eighth floors were completely rebuilt to provide multi-purpose meeting rooms (e.g. interim council chamber), tribunal hearing room, adjudicator's room, dining areas, etc. PEO's meeting room on the ground floor was also enhanced.

## **Information technology and audio-visual equipment**

Capital expenditures for computer hardware and software of \$435,825 were 3 per cent below budget. Most of these expenditures related to ongoing software improvement projects for a volunteer and awards application and online application facility.

Audio-visual equipment was under spent, as the purchase of the audio-visual equipment budgeted at \$667,000 was deferred to 2012.

## **CONCLUSION**

The association has managed its affairs responsibly and leaves 2011 with a healthy operating reserve of \$13,473,342 to carry out its regulatory mandate in the public interest. Σ