Financial statements of

Association of Professional Engineers of Ontario

December 31, 2015

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Deloitte.

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Independent Auditor's Report

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, 2015, and the statements of revenue, expenses and changes in net assets and 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 accounting standards for not-for-profit organizations, 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, 2015 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
March 11, 2016

Association of Professional Engineers of Ontario

Statement of revenue and expenses and changes in net assets
year ended December 31, 2015

	2015	2014
	$	$
Revenue		
P. Eng revenue	**15,134,271**	14,840,457
Application, registration, examination and other fees	**6,064,234**	5,884,172
Building operations (Note 4)	**2,127,016**	2,083,065
Advertising income	**292,679**	355,572
Investment income	**97,219**	219,885
	23,715,419	23,383,151
Expenses		
Staff salaries and benefits/Retiree and future benefits	**10,708,685**	10,303,016
Building operations (Note 4)	**2,444,678**	2,362,885
Purchased services	**1,352,825**	1,090,528
Engineers Canada	**938,579**	901,420
Amortization	**924,528**	978,437
Chapters (Note 13)	**793,066**	722,121
Volunteer expenses	**786,767**	761,264
Occupancy costs (Note 4)	**765,874**	732,760
Computers and telephone	**715,813**	773,951
Legal (corporate, prosecution and tribunal)	**567,744**	649,465
Transaction fees	**508,253**	508,034
Contract staff	**496,237**	666,368
Postage and courier	**475,676**	424,151
Consultants	**362,605**	240,431
Recognition, grants and awards	**162,239**	187,667
Professional development	**155,251**	109,170
Office supplies	**131,955**	121,723
Printing	**128,446**	161,002
Insurance	**105,784**	97,304
Staff expenses	**104,307**	91,355
Advertising	**83,942**	90,348
	22,713,254	21,973,400
Excess of revenue over expenses before the undernoted	**1,002,165**	1,409,751
Council discretionary reserve expenses (Note 8)	**70,989**	60,515
Excess of revenue over expenses	**931,176**	1,349,236
Remeasurement and other items	**(2,136,510)**	390,900
Net assets, beginning of year	**15,531,477**	13,791,341
Net assets, end of year	**14,326,143**	15,531,477

The accompanying notes to the financial statements are an integral part of this financial statement.

Association of Professional Engineers of Ontario

Balance sheet
as at December 31, 2015

	2015	2014
	$	$
Assets		
Current assets		
Cash in interest bearing accounts	**1,851,432**	1,739,886
Marketable securities at fair value	**6,403,767**	6,331,704
Accounts receivable	**527,314**	498,159
Prepaid expenses and deposits	**225,778**	204,332
Other assets	**390,279**	443,952
	9,398,570	9,218,033
Capital assets (Note 3)	**37,711,302**	37,062,729
	47,109,872	46,280,762
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 15)	**2,174,710**	1,385,054
Fees in advance and deposits	**9,067,119**	8,843,131
Current portion of long-term debt (Note 5)	**928,000**	901,000
	12,169,829	11,129,185
Long-term		
Long-term debt (Note 5)	**7,539,000**	8,467,000
Employee future benefits (Note 6)	**13,074,900**	11,153,100
	32,783,729	30,749,285
Net assets (Note 7)	**14,326,143**	15,531,477
Total liabilities and net assets	**47,109,872**	46,280,762

Approved by the Board

_________________________________ Director

_________________________________ Director

The accompanying notes to the financial statements are an integral part of this financial statement.

Association of Professional Engineers of Ontario

Statement of cash flows
year ended December 31, 2015

	2015	2014
	$	$
Operating activities		
Excess of revenue over expenses	**931,176**	1,349,236
Add (deduct) items not affecting cash		
Amortization	**1,798,805**	1,790,891
Amortization - other assets	**67,395**	56,323
Employee future benefits expensed	**1,274,700**	1,418,300
Change in unrealized losses on marketable securities	**98,181**	(68,450)
Loss (gain) on disposal of marketable securities	**(22,636)**	37,612
	4,147,621	4,583,912
Change in non-cash working capital items (Note 10)	**963,043**	(502,014)
	5,110,664	4,081,898
Financing activities		
Repayment of mortgage	**(901,000)**	(878,000)
Contributions to employee future benefit plans	**(1,489,410)**	(1,226,500)
	(2,390,410)	(2,104,500)
Investing activities		
Net change in marketable securities	**(147,608)**	(950,351)
Additions to capital assets	**(2,447,378)**	(2,124,541)
Additions to other assets	**(13,722)**	(214,863)
	(2,608,708)	(3,289,755)
Increase (decrease) in cash	**111,546**	(1,312,357)
Cash, beginning of year	**1,739,886**	3,052,243
Cash, end of year	**1,851,432**	1,739,886

The accompanying notes to the financial statements are an integral part of this financial statement.

1. Nature of operations

The Association of Professional Engineers of Ontario ("PEO") was 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 accounting standards for not-for-profit organizations and reflect the following accounting policies:

a) Financial instruments

PEO initially recognizes financial instruments at fair value and subsequently measures them at each reporting date, as follows:

Asset/liability	Measurement
Cash and marketable securities	Fair value
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Long term debt	Amortized cost

Financial assets measured at amortized cost are assessed at each reporting date for indications of impairment. If such impairment exists the asset shall be written down and the resulting impairment loss shall be recognized in the Statement of revenue and expenses and changes in net assets for the period.

Transaction costs are expensed as incurred.

b) Hedge accounting

PEO entered into an interest rate swap in order to reduce the impact of fluctuating interest rates on its long term debt. The policy of PEO is not to enter into interest rate swap agreements for trading or speculative purposes.

The interest rate swap held by PEO is eligible for hedge accounting. To be eligible for hedge accounting, an instrument must meet certain criteria with respect to identification, designation and documentation. In addition, the critical terms of the derivative financial instrument must match the specific terms and conditions of the hedged item. The fair value of derivative instruments eligible and qualifying for hedge accounting is generally not recognized on the balance sheet. Gains and losses on such instruments are recognized in income in the same period as those of the hedged item.

Interest on the hedged item is recognized using the instrument's stated interest rate plus or minus amortization of any initial premium or discount and any financing fees and transaction costs. Net amounts receivable or payable on the interest rate swap are recorded on the accrual basis of accounting and are recognized as an adjustment to interest on the hedged item in the period in which they accrue.

PEO may only discontinue hedge accounting when one of the following situations arises:

a) The hedged item or the hedging item ceases to exist other than as designated and documented;

b) The critical terms of the hedging item cease to match those of the hedged item, including, but not limited to, when it becomes probable that an interest bearing asset or liability hedged with an interest rate swap will be prepaid.

2. Significant accounting policies (continued)

b) Hedge accounting (continued)

When a hedging item ceases to exist, any gain or loss incurred on the termination of the hedging item is recognized as an adjustment of the carrying amount of the hedged item.

When a hedged item ceases to exist, the critical terms of the hedging item cease to match those of the hedged item, or it is no longer probable that an anticipated transaction will occur in the amount designated or within 30 days of the maturity date of the hedging item, any gain or loss is recognized in net income.

c) Revenue recognition

License fee revenue, excluding the portion related to the Building Fund, is recognized as income on a monthly basis over the license period. Building Fund revenue is recognized into income at the commencement of the license 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

Pension plans

The cost of PEO's defined benefit pension plans are determined periodically by independent actuaries using the projected benefit method prorated on service. PEO uses the most recently completed actuarial valuation prepared for funding purposes (but not one prepared using a solvency, wind-up, or similar valuation basis) for measuring its defined benefit pension plan obligations. A funding valuation is prepared in accordance with pension legislation and regulations, generally to determine required cash contributions to the plan.

Other non-pension plan benefits

The cost of PEO's non-pension defined benefit plan is determined periodically by independent actuaries. PEO uses an accounting actuarial valuation performed every three years for measuring its non-pension defined benefit plan obligations. The valuation is based on the projected benefit method prorated on service.

For all defined benefit plans PEO recognizes:

a) The defined benefit obligation, net of the fair value of any plan assets, adjusted for any valuation in the statement of changes in net assets;

b) The cost of the plan for the year.

f) Capital assets

Capital assets are recorded at cost. Amortization is calculated on the straight-line basis at the following annual rates.

Building	2%
Building improvements	5%
Building improvements - common area	3.3% to 10%
Computer hardware and software	33%
Furniture, fixtures and telephone equipment	10%
Audio visual	20%

The Association's investment in capital assets is included as part of Net assets on the Balance sheet.

2. Significant accounting policies (continued)

g) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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

			2015	2014
	Cost	**Accumulated amortization**	**Net book value**	Net book value
	$	**$**	**$**	$
Building	**19,414,668**	**2,642,900**	**16,771,768**	17,160,060
Building improvements	**8,801,805**	**1,929,948**	**6,871,857**	6,720,281
Building improvements - common area	**8,729,628**	**1,923,392**	**6,806,236**	5,024,462
Land	**4,366,303**	**-**	**4,366,303**	4,366,303
Computer hardware and software	**2,402,030**	**2,078,747**	**323,283**	283,030
Furniture, fixtures and telephone equipment	**1,420,822**	**781,986**	**638,836**	733,065
Audio visual	**974,252**	**628,967**	**345,285**	508,890
Work in progress	**1,587,734**	**-**	**1,587,734**	2,266,638
	47,697,242	**9,985,940**	**37,711,302**	37,062,729

4. Building operations

PEO maintains accounting records for the property located at 40 Sheppard Avenue West, Toronto, ON as a stand-alone operation for internal purposes. The results of the operation of the building, prior to the elimination of recoveries and expenses related to PEO, are as follows:

	2015	2014
	$	$
Revenue		
Rental	**748,664**	802,831
Operating cost recoverable - tenants	**1,120,249**	1,045,263
Parking	**130,500**	136,950
Miscellaneous	**127,603**	98,021
	2,127,016	2,083,065
Operating cost recoverable - PEO	**708,282**	720,125
	2,835,298	2,803,190
Recoverable expenses		
Utilities	**516,349**	493,924
Property taxes	**449,510**	452,923
Amortization	**485,984**	424,161
Payroll	**236,916**	245,526
Janitorial	**204,674**	219,356
Repairs and maintenance	**179,295**	121,885
Property management and advisory fees	**82,618**	80,878
Security	**34,070**	20,276
Administrative	**20,045**	25,009
Road and ground	**18,720**	32,552
Insurance	**18,691**	17,674
	2,246,872	2,134,164
Other expenses		
Interest expense on note and loan payable	**441,172**	484,986
Amortization of building	**388,293**	388,293
Amortization of deferred costs	**61,172**	56,323
Other non-recoverable expenses	**15,451**	19,244
	906,088	948,846
	3,152,960	3,083,010
Excess of expenses over revenue	**(317,662)**	(279,820)

For purposes of the statement of revenue, expenses and changes in net assets, the operating cost re-imbursements from PEO have been eliminated. The portion of costs allocated to PEO is reallocated from Building operations and is included in Occupancy costs.

4. Building operations (continued)

	2015	2014
	$	$
Building revenue per above	**2,835,298**	2,803,190
Eliminated PEO portion	**(708,282)**	(720,125)
	2,127,016	2,083,065
Building expenses per above	**3,152,960**	3,083,010
Eliminated PEO portion	**(708,282)**	(720,125)
	2,444,678	2,362,885

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 the property located at 40 Sheppard Avenue West, a general security agreement, and a general assignment of tenant leases. The facility is repayable in monthly installments of principal plus interest maturing on March 11, 2019 and bears a floating interest rate based on variable bankers' acceptances. The balance outstanding at December 31, 2015 is $8,467,000.

Principal repayments are due as follows:

	$
2016	928,000
2017	952,000
2018	980,000
2019	5,607,000
	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% and settled on a net basis. The Notional value of the swap is $14,100,000. The start date of the swap was March 11, 2009 with a maturity date of March 11, 2019.

6. Employee future benefits

The Association's pension plans and post-retirement benefits plan covering participating employees (full time and retirees) are defined benefit plans as defined in Section 3463 of the CPA Canada 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 RRSP (registered retirement savings plan). During the year, the Association recorded $202,951 (2014 - $181,383) in employer contributions to the self-directed RRSP.

6. Employee future benefits (continued)

The funded status of the Association's pension plans and post-retirement benefit plan using actuarial assumptions as of December 31, 2015 was as follows:

	Basic pension plan	**Supplemental pension plan**	**Other non-pension benefit plan**	**Total**
	$	**$**	**$**	**$**
Accrued benefit obligation	**(22,882,200)**	**(1,596,800)**	**(12,402,500)**	**(36,881,500)**
Plan assets at fair value	**22,024,600**	**1,782,000**	**-**	**23,806,600**
Funded status - plan surplus (deficit)	**(857,600)**	**185,200**	**(12,402,500)**	**(13,074,900)**
Valuation allowance	**-**	**-**	**-**	**-**
Defined benefit asset, net of valuation allowance	**(857,600)**	**185,200**	**(12,402,500)**	**(13,074,900)**

The funded status of the Association's pension plans and post-retirement benefit plan using actuarial assumptions as of December 31, 2014 was as follows:

	Basic pension plan	Supplemental pension plan	Other non-pension benefit plan	Total
	$	$	$	$
Accrued benefit obligation	(21,671,300)	(1,563,500)	(11,810,300)	(35,045,100)
Plan assets at fair value	22,081,200	1,810,800	-	23,892,000
Funded status - plan surplus (deficit)	409,900	247,300	(11,810,300)	(11,153,100)
Valuation allowance	-	-	-	-
Defined benefit asset, net of valuation allowance	409,900	247,300	(11,810,300)	(11,153,100)

PEO measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at December 31 each year. The most recently completed actuarial valuation of the pension plans for valuation purposes, was as of December 31, 2014. The most recent completed actuarial valuation of the non-benefit plan for accounting purposes was as of December 31, 2014.

7. Net assets

The net assets of the Association are restricted to be used at the discretion of Council and includes the Association's investment in capital assets of $29,244,302 (2014 - $27,694,729).

8. Council discretionary reserve

The Council 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. Expenses from the discretionary reserve were as follows:

	2015	2014
	$	$
Legal Reserve - Elliot Lake/Other	45,061	3,339
Privacy policy review	24,689	45,913
Emerging Discipline Task Force	1,239	4,324
Experienced Practitioners Task Force	-	4,110
National Frame Work Task Force	-	2,829
	70,989	60,515

9. Full time salaries and benefits

During the year, the Association incurred a total of $10,734,613 (2014 - $10,367,673) for salary and benefits costs for its full time staff of which $25,928 (2014 - $64,657) was directly attributable to special projects approved by Council and disclosed under Note 8.

10. Change in non-cash working capital items

	2015	2014
	$	$
Accounts receivable	(29,155)	(118,919)
Prepaid expenses and deposits	(21,446)	(31,139)
Accounts payable and accrued liabilities	789,656	(275,923)
Fees in advance and deposits	223,988	(76,033)
	963,043	(502,014)

11. Custodial account

The Association maintains a separate bank account for the Council of Ontario Deans of Engineering. Cash totaling $134,852 in this account (2014 - $128,207) is not reported on the Association’s balance sheet, as it is held in trust for the Council of Ontario Deans of Engineering.

12. Commitments

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

	$
2016	1,181,943
2017	606,934
2018	271,106
2019	233,280
2020	165,240
	2,458,503

13. Chapters of the Association

The financial information of the 36 chapters of the Association are individually not material and, therefore, have not been consolidated in these financial statements. Furthermore, management believes that the effort and cost required to prepare financial statements for each chapter for consolidation purposes far exceed the benefits of doing so.

During the year, the Association paid chapter expenses totaling $793,066 (2014 - $722,121) including $510,000 (2014 - $500,000) in chapter allotments and $283,066 (2014 - $222,121) in other disbursements to individual chapters. In 2015, the Association also incurred additional costs of $518,375 (2014 - $502,351) related to chapter operations including staff salaries and benefits, and for various support activities. These amounts have been included in the various operating expenses reported on the Statement of revenue and expenses and changes in net assets.

14. Financial instruments and risk management

Interest rate risk

PEO is exposed to interest rate risk, which is the risk that the fair values or future cash flows associated with its investments will fluctuate as a result of changes in market interest rates. Management addresses this risk through use of an investment manager to monitor and manage investments.

Liquidity risk

PEO's objective is to have sufficient liquidity to meet its liabilities when due. PEO monitors its cash balances and cash flows generated from operations to meet its requirements. As at December 31, 2015, the most significant financial liabilities are: accounts payable and accrued liabilities, and long-term debt.

15. Government remittances

Accounts payables and accrued liabilities include $206,097 (2014 - $225,477), with respect to government remittances payable at year end.