

CEO'S FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2012

PEO generated an excess of revenue over expenses of \$1,537,541, before council discretionary reserve expenses, for the 2012 fiscal year, as compared to a budgeted surplus of \$501,573. Highlights impacting performance include continued growth in the P.Eng. membership, a strong, positive contribution of \$500,751 from building operations and significantly lower than planned costs as management undertook to control costs in light of economic conditions and building requirements.

The excess of revenue over expenses was reduced by council discretionary reserve expenditures of \$139,639. The investment in capital assets for the year was \$1,323,223 (\$10,624,786 in 2011) and the closing balance in net assets increased to \$15,618,145 in 2012.

REVENUE

Total revenue was \$23,229,133, which is 2 per cent below budget, due primarily to the inclusion in the budget of higher application revenue due to the repeal of section 12(3)(a) of the *Professional Engineers Act*, which will not occur until 2013. Approximately 62 per cent of revenue is comprised of P.Eng. licence revenue, which was consistent with budget expectations.

COST MANAGEMENT

Total expenses were \$21,691,592, which is \$1,515,099 or 7 per cent lower than budget. Major expense variances from budget are as follows:

- Full-time staff salaries and benefits were \$902,875 lower than budget, offset somewhat by contractors and temporary staff costs, which were \$176,456 above budget;
- Costs for purchased services were \$206,345 lower than budget;
- Legal costs were \$155,755 lower than planned;
- Amortization was \$133,671 lower than planned;
- Professional development costs were \$111,945 lower than budget; and
- Recognition, grants and awards expenses were \$91,319 lower than budget.

2012 BUDGET VARIANCES BY BUSINESS UNIT

Corporate Services

Expenditures were \$1,050,639 or 9 per cent below budget. Variances include lower than planned retiree and future benefits costs (\$553,111), based on an actuarial valuation at December 31, 2012; lower than planned amortization costs (\$133,671), due to the completion of approved budgeted capital projects later in the year than planned; the delay of the exterior signage installation to 2013; lower training and development expenses across all departments (\$121,962); lower than planned costs for the Government Liaison Program (\$67,110) and the Ontario Professional Engineers Awards (\$52,937); lower than planned volunteer recognition costs (\$29,542), student member sponsorships (\$23,743) and other recognition costs (\$24,291); offset by higher than planned occupancy costs as PEO took on more space (\$84,871).

Executive

Expenditures were \$92,303 or 1 per cent below budget, resulting from lower than planned salaries and benefits (\$136,964), due to the resignation and retirement of a few staff, offset by higher than planned costs to represent PEO at functions (\$15,905) and higher than planned volunteer expenses (\$20,690) for attending PEO meetings and events, including the OSPE-PEO Joint Relations Committee, Audit Committee and National Framework Task Force.

Licensing and Finance

Expenditures were \$95,129 or 2 per cent higher than budget. Salaries and benefits costs were higher than budgeted (\$78,805), as an allocation for budgeted turnover did not occur. In addition, there were increased credit card commissions (\$45,129) as more members paid their membership fees online in 2012; higher than planned costs to prepare files for academic assessments (\$33,720); higher costs (\$28,813) for the final batch of permanent membership cards (cards will no longer be issued as of 2013); and higher costs to administer

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exams (\$23,795), offset by below-budget spending in police background checks (\$75,000), lower insurance costs relating to errors and omissions and director and officer liability (\$32,079), and lower costs to issue licences (\$21,079).

Regulatory Compliance

Expenditures were on budget in 2012. There were some vacancies in the business unit; however, contractors filled the positions on a temporary basis. As internal legal counsel was hired in December 2011, external legal costs were significantly reduced in 2012 as compared to 2011.

Tribunals and Regulatory Affairs

Expenditures were \$469,849 or 13 per cent below budget. Variances include lower than budgeted salaries and benefits (\$263,231), due to unfilled positions and maternity leaves during the year; lower than planned costs for the production, printing and mailing of *Engineering Dimensions* and the policy engagement section (OCEPP) within it (\$72,044); lower costs for tribunal operations (\$47,896), including independent counsel fees and lower volunteer expenses when conducting hearings and other matters; lower than budgeted advertising (\$23,008); and lower legal fees regarding external legal opinions for discipline matters, act regulations, practice standards and other matters (\$49,856).

Council-directed initiatives

For 2012, the net expenditures for the projects approved by council amounted to \$139,639. This figure includes \$73,875 for legal fees primarily for the Elliot Lake Commission of Inquiry, as legal costs associated with the Adams' judicial review legal challenge were almost fully covered by PEO's insurer; \$23,370 for the council elections webcast; \$14,084 for the Overlapping Practices Committee; \$14,074 for the

Emerging Disciplines Task Force; \$7,417 towards Engineers Without Borders sponsorship; \$3,600 for the Experienced Practitioners Task Force; \$1,517 for the Professional Technologist Task Force; and \$1,702 for various other task force work.

Staff and volunteers contributed in carrying out these council-directed initiatives. Included in the projects listed above is a total of \$42,268 in staff salaries and benefits costs directly attributable to these initiatives.

Building operations

The building generated \$3,849,328 in revenue, including PEO's share of recoverable expenses, but excluding base rent if PEO had paid market rent for its space. Total recoverable expenses were \$2,421,507 and other expenses totaled \$927,070, thereby creating an excess of revenue over expenses of \$500,751 (after all expenses, including loan interest), which was \$33,205 or 6 per cent lower than budget. Total revenues and total expenses came in slightly ahead of budget by 3 per cent and 2 per cent, respectively. Other expenses were \$79,662 higher than budget due to higher leasing and legal fees to renew tenants. PEO's share of recoverable expenses totaled \$1,001,307, and these costs were reclassified from building operations to occupancy costs in the financial statements. Since PEO is a not-for-profit organization, it received a preferred property tax rate (residential rate instead of commercial rate), which resulted in a realty tax rebate of \$176,000 in 2012, thereby reducing PEO's overall occupancy cost. Total occupancy costs for 2012 were \$846,281, which included storage and other occupancy costs. PEO's total accommodation expense (including interest) was \$1,406,705.

PEO occupied a total of 41,409 square feet at December 31, 2012. The market rent of this space is \$19.50 a square foot and operating costs are \$19.40 a square foot. Therefore, PEO's equivalent costs for rent and operating costs would be \$1,610,810 for 2012, leading to a net value of ownership estimate of \$204,105 for 2012.

CAPITAL EXPENDITURES

Capital expenditures for the year totaled \$1,323,223 and were 1 per cent below budget.

The largest capital purchase made in 2012 was for \$619,207 for the audio-visual (AV) equipment that was installed on the eighth-floor interim coun-

cil chamber, the seventh-floor tribunal hearing room and the ERC interview meeting rooms. AV features include microphones and overhead speakers, integrated audio-conferencing, audio and video recording in all areas, webcasting capabilities in the interim council chamber and tribunal hearing room, and a video-conferencing facility in one of the ERC interview meeting rooms

PEO also completed building improvements totaling \$264,663, mainly for work with Intercede, including the renovation of Suite 102, additional moveable partitions and other leasehold improvements.

PEO invested \$219,215 in computer hardware and software during 2012, completing software projects such as a website infrastructure upgrade and enhancements to the online volunteer and awards application system developed in 2011. PEO also continued to invest in development hardware to enhance council and committee automation so that these members could securely access all relevant materials in an electronic format, and enable virtual meetings.

PEO invested \$151,224 in base building improvements in 2012, focusing on security upgrades, mechanical retrofits and ground-floor corridor enhancements. These improvements are all recoverable from tenants over time.

The remaining \$68,914 of capital expenditures was made for furniture, equipment and for signage work, which commenced at the end of 2012. The installation of the exterior signage was completed in January and February of 2013 and 40 Sheppard West can now be identified as the “Professional Engineers” building. The signage includes two roof-level signs on the building’s south and east faces that read “Professional Engineers,” the street address above the main building entrance, and a polished aluminum monument sign with a concrete base at street level displaying the PEO logo. All signs are lit for night viewing. The total cost of the signage was budgeted at \$250,000 and came in at just under \$194,000 in 2013.

PEO incurred no additional debt from its capital expenditures in 2012 as they were funded from PEO’s cash reserves.

CONCLUSION

The association has managed its affairs responsibly and has produced a sizable surplus for the year, leaving 2012 with a healthy reserve to carry out its regulatory mandate in the public interest. Σ

WHOM TO CONTACT AT PEO

Association staff can provide information about PEO. For general inquiries, simply phone us at 416-224-1100 or 800-339-3716. Or, direct dial 416-840-EXT using the extensions below.

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Brenda Caplan		1104
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Linda Latham, P.Eng.		1076
Manager, complaints and investigations		
Ken Slack, P.Eng.		1118
Deputy registrar, licensing and finance		
Michael Price, P.Eng., MBA, FEC		1060
Manager, admissions		
Moody Farag, P.Eng.		1055
Manager, licensure		
Pauline Lebel, P.Eng.		1049
Manager, registration		
Brian MacEwen, P.Eng.		1056
Examinations administrator		
Anna Carinci Lio		1095
Deputy registrar, tribunals and regulatory affairs		
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