TO THE MEMBERS OF THE 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, 2013, and the statement of revenue, expenses and changes in net assets and 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 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, 2013, 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.

Chartered Professional Accountants
Chartered Accountants
Licensed Public Accountants
March 21, 2014

[FINANCIAL STATEMENTS]

BALANCE SHEET
as at December 31, 2013

			2013	2012
ASSETS	CURRENT	Cash in interest-bearing accounts	$ **3,052,243**	$ 1,363,674
		Marketable securities at fair value	**5,350,515**	5,197,580
		Accounts receivable	**379,240**	334,954
		Prepaid expenses and deposits	**173,193**	203,488
		Other assets	**285,412**	58,860
			9,240,603	7,158,556
	Capital assets (Note 3)		**36,729,079**	36,467,068
	TOTAL ASSETS		**45,969,682**	43,625,624
LIABILITIES	CURRENT	Accounts payable and accrued liabilities (Note 15)	**1,660,977**	1,070,804
		Fees in advance and deposits	**8,919,164**	8,907,075
		Current portion of long-term debt (Note 5)	**878,000**	854,000
			11,458,141	10,831,879
	LONG TERM	Long-term debt (Note 5)	**9,368,000**	10,246,000
		Employee future benefits (Note 6)	**7,931,000**	6,929,600
	TOTAL LIABILITIES		**28,757,141**	28,007,479
	Net assets (Note 7)		**17,212,541**	15,618,145
	TOTAL LIABILITIES AND NET ASSETS		**45,969,682**	43,625,624

On behalf of council: Annette Bergeron, P.Eng., MBA, FEC, president; J. David Adams, P.Eng., MBA, FEC, president-elect.

STATEMENT OF CASH FLOWS
year ended December 31, 2013

		2013	2012
OPERATING	Excess of revenue over expenses	$ **1,594,396**	$ 1,397,902
	Add (deduct) items not affecting cash		
	Amortization	**1,761,531**	1,764,934
	Amortization–other assets	**32,896**	45,101
	Employee future benefits	**2,419,700**	2,231,300
	Change in unrealized losses on marketable securities	**(17,415)**	29,053
	Loss (gain) on disposal of marketable securities	**12,322**	(13,292)
		5,803,430	5,454,998
	Change in non-cash working capital items (Note 10)	**588,271**	752,865
		6,391,701	6,207,863
FINANCING	Repayment of mortgage	**(854,000)**	(826,400)
	Contributions to employee future benefit plans	**(1,418,300)**	(1,551,839)
		(2,272,300)	(2,378,239)
INVESTING	Proceeds of disposal of marketable securities	**1,857,745**	5,361,528
	Acquisition of marketable securities	**(2,005,587)**	(7,195,102)
	Additions to capital assets	**(2,023,542)**	(1,323,223)
	Additions to other assets	**(259,448)**	(103,961)
		(2,430,832)	(3,260,758)
Increase in cash		**1,688,569**	568,866
Cash, beginning of year		**1,363,674**	794,808
Cash, end of year		$ **3,052,243**	$ 1,363,674

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

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

year ended December 31, 2013

		2013	2012
REVENUE	P.Eng. revenue	$ 14,630,128	$ 14,367,398
	Application, registration, examination and other fees	5,788,072	5,452,203
	Building operations (Note 4)	2,937,867	2,848,021
	Advertising income	426,567	447,158
	Investment income	183,296	114,353
		23,965,930	23,229,133
EXPENSES	Staff salaries and benefits/retiree and future benefits	10,689,976	10,483,525
	Building operations (Note 4)	2,383,229	2,347,270
	Purchased services	1,069,658	1,179,776
	Amortization	950,980	960,662
	Occupancy costs (Note 4)	902,378	846,281
	Engineers Canada	867,094	847,971
	Volunteer expenses	852,302	869,324
	Computers and telephone	644,523	606,110
	Chapters (Note 13)	610,795	590,794
	Contract staff	506,580	331,831
	Transaction fees	487,760	489,294
	Legal (corporate, prosecution and tribunal)	461,735	514,531
	Postage and courier	357,372	544,204
	Consultants	353,962	248,933
	Advertising	198,040	111,300
	Recognition, grants and awards	187,326	129,861
	Professional development	156,409	103,056
	Printing	152,244	153,642
	Office supplies	121,376	110,545
	Insurance	98,600	115,375
	Staff expenses	85,283	107,307
		22,137,622	21,691,592
Excess of revenue over expenses before the undernoted		1,828,308	1,537,541
Council discretionary reserve expenses (Note 8)		233,912	139,639
Excess of revenue over expenses		1,594,396	1,397,902
Net assets, beginning of year		15,618,145	14,220,243
Net assets, end of year (Note 7)		$ 17,212,541	$ 15,618,145

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

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013

1. NATURE OF OPERATIONS

The Association of Professional Engineers of Ontario (PEO or association) 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, 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 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 instrument 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:

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

(ii) 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.

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

Licence fee revenue, excluding the portion related to the building fund, is recognized as income on a monthly basis over the licence period. Building fund revenue is recognized into income at the commencement of 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 deferral and amortization approach, which includes 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 healthcare costs;
- The pension plan assets are valued at fair market value;
- 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, 2011;
- 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 chapter 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 accrued benefit obligations and market value of assets at the same date, will be amortized over the employee average remaining service lifetime of active members, which is nine years as at January 1, 2011; and
- 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 the straight-line basis at the following annual rates.

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

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

(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

	Cost	Accumulated ammortization	2013 Net book value	2012 Net book value
	$	$	$	$
Building	19,414,668	1,866,313	17,548,355	17,936,647
Building improvements	7,485,398	1,065,831	6,419,567	6,303,771
Building improvements, common area	6,181,499	1,013,247	5,168,252	5,554,203
Land	4,366,303	-	4,366,303	4,366,303
Computer hardware and software	2,503,228	2,028,098	475,130	502,556
Furniture, fixtures and telephone equipment	1,369,489	532,888	836,601	950,629
Audio visual	950,924	305,932	644,992	803,824
Work in progress	1,269,879	-	1,269,879	49,135
	43,541,388	6,812,309	36,729,079	36,467,068

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:

	2013	2012
	$	$
Revenue		
Rental	**1,295,119**	1,080,969
Operating cost reimbursements, tenants	**1,410,533**	1,490,013
Parking	**156,150**	150,582
Miscellaneous	**76,065**	126,457
	2,937,867	2,848,021
Operating cost reimbursements, PEO	**819,374**	1,001,307
Total revenue	**3,757,241**	3,849,328
Recoverable expenses		
Property taxes	**452,586**	631,642
Utilities	**479,628**	463,960
Amortization and interest	**422,258**	589,106
Janitorial	**218,299**	208,651
Payroll	**251,908**	255,093
Repairs and maintenance	**201,377**	100,496
Property management and advisory fees	**78,797**	76,875
Administrative	**31,620**	33,781
Insurance	**20,915**	22,397
Road and ground	**19,217**	15,722
Security	**21,826**	23,784
	2,198,431	2,421,507
Other expenses		
Amortization of deferred costs	**32,896**	48,701
Amortization of building	**388,293**	388,293
Interest expense on note and loan payable	**527,834**	560,424
Other costs (net of imputed interest) on recoverable expenses	**55,149**	(70,348)
	1,004,172	927,070
Total expenses	**3,202,603**	3,348,577
Excess of revenue over expenses	**554,638**	500,751

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 to occupancy costs.

	2013	2012
	$	$
Building revenue per above	**3,757,241**	3,849,328
Eliminated PEO portion	**(819,374)**	(1,001,307)
	2,937,867	2,848,021
Building expenses per above	**3,202,603**	3,348,577
Eliminated PEO portion	**(819,374)**	(1,001,307)
	2,383,229	2,347,270

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, 2013 is $10,246,000.

Principal repayments are due as follows:

	$
2014	878,000
2015	901,000
2016	928,000
2017	952,000
2018-2019	6,587,000
	10,246,000

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 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 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 healthcare 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 recognized $134,919 (2012–$129,442) in employer contributions to the self-directed RRSP. The funded status of the association's pension plans and post-retirement benefit plan using actuarial assumptions as of December 31, 2013, was as follows:

	Basic pension plan	Supplemental pension plan	Other non-pension benefit plan	Total
	$	$	$	$
Accrued benefit obligation	(22,309,800)	(1,180,800)	(9,712,000)	(33,202,600)
Plan assets at fair value	20,098,200	1,752,200	-	21,850,400
Funded status, plan surplus (deficit)	(2,211,600)	571,400	(9,712,000)	(11,352,200)
Unamortized transitional (asset) obligation	(91,300)	79,200	363,500	351,400
Unamortized net actuarial loss	2,468,400	223,400	378,000	3,069,800
Accrued benefit asset (liability)	165,500	874,000	(8,970,500)	(7,931,000)

Details of the accrued benefit obligation are as follows:

	Basic pension plan	Supplemental pension plan	Other non-pension benefit plan	Total
	$	$	$	$
Accrued benefit obligation, beginning of year	(22,851,900)	(1,143,700)	(11,019,000)	(35,014,600)
Current service cost	(939,400)	(48,500)	(160,300)	(1,148,200)
Contributions by the employees	(209,800)	-	-	(209,800)
Interest cost on accrued benefit obligation	(940,100)	(46,600)	(444,300)	(1,431,000)
Benefit payments	788,200	54,400	144,700	987,300
Actuarial gain on accrued benefit obligation	1,843,200	3,600	1,766,900	(3,613,700)
Accrued benefit obligation, end of year	(22,309,800)	(1,180,800)	(9,712,000)	(33,202,600)

The plan expense for the year is determined as follows:

	Basic pension plan	Supplemental pension plan	Other non-pension benefit plan	Total
	$	$	$	$
Current service cost	939,400	48,500	160,300	1,148,200
Interest cost on accrued benefit obligation	940,100	46,600	444,300	1,431,000
Expected return on plan assets	(935,400)	(44,100)	-	(979,500)
Amortization of transitional obligation	(22,800)	26,600	90,900	94,700
Amortization of net actuarial gain	553,300	23,000	149,000	725,300
Benefit expense	1,474,600	100,600	844,500	2,419,700

The employer contributions to the plans amounted to $1,418,300 (2012–$1,551,839). The decrease in contributions reflects the most recent actuarial valuation performed as at January 1, 2011.

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

	Basic pension plan	Supplemental pension plan	Other non-pension benefit plan
	%	%	%
Discount rate	4.75	4.75	4.00
Expected long-term rate of return on plan assets	6.00	3.00	n/a
Salary projection	3.00	3.00	n/a
Medical benefits cost escalation			
Hospitalization			(a)
Extended health care			(b)
Dental benefits cost escalation			(c)

(a) 7.50 per cent cost escalation in fiscal 2014, 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 2014, decreasing 1 per cent per year, until an ultimate rate of 5 per cent per annum
(c) A 4 per cent cost escalation per annum

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 $26,483,079 (2012–$25,367,068).

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. Expenditures from the discretionary reserve were as follows.

	2013	2012
	$	$
Legal reserve–Elliot Lake/Other	**177,362**	73,875
Experienced Practitioners Task Force	**30,381**	3,600
Emerging Discipline Task Force	**9,612**	14,074
Overlapping Practices Committee	**6,755**	14,084
Building Development Committee	**5,865**	-
National Framework Task Force	**2,382**	347
Licensure Engineering Task Force	**1,555**	-
Elections webcasting	**-**	23,370
EWB sponsorship	**-**	7,417
Professional Technologist Task Force	**-**	1,517
Repeal Industrial Exception Task Force	**-**	1,355
	233,912	139,639

9. FULL-TIME SALARIES AND BENEFITS

During the year, the association incurred a total of $10,841,516 (2012–$10,525,793) for salary and benefits costs for its full-time staff of which $151,540 (2012–$42,268) was directly attributable to special projects approved by council and disclosed under Note 8.

10. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2013	2012
	$	$
Accounts receivable	**(44,286)**	763,559
Prepaid expenses and deposits	**30,295**	38,770
Accounts payable and accrued liabilities	**590,173**	(364,485)
Fees in advance and deposits	**12,089**	315,021
	588,271	752,865

11. CUSTODIAL ACCOUNT

The association maintains a separate bank account for the Council of Ontario Deans of Engineering. Cash totaling $127,695 in this account (December 31, 2012–$72,567) 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:

	$
2014	652,114
2015	405,725
2016	16,836
	1,074,675

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 from each chapter for consolidation purposes far exceed the benefits from doing so. During the year, the association paid chapter expenses totaling $610,795 (2012–$590,794) including $392,945 (2012–$388,540) in chapter allotments and $217,850 (2012–$202,254) in other disbursements to individual chapters. In 2013, the association also incurred additional costs of $525,924 (2012–$487,167) 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, 2013, the most significant financial liabilities are: accounts payable and accrued liabilities, and long-term debt.

15. GOVERNMENT REMITTANCES

Accounts payables and accrued liabilities include $198,219 (2012–$208,275), with respect to government remittances payable at year end.

REGISTRAR'S FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2013

PEO GENERATED an excess of revenue over expenses of $1,828,308, before council discretionary reserve expenses, for the 2013 fiscal year, as compared to a budgeted surplus of $536,215. Highlights having an impact on performance include continued growth in the P.Eng. membership; a strong, positive contribution of $554,638 from building operations; and lower than planned costs as management continued 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 $233,912. The investment in capital assets for the year was $2,023,542 ($1,323,223 in 2012) and the closing balance in net assets increased to $17,212,541 in 2013.

REVENUE

Total revenue was $23,965,930, which is 2 per cent above budget, due to higher than budgeted application and exam revenue, as well as higher building operations revenue. Approximately 61 per cent of revenue comprised P.Eng. licence revenue, which is consistent with budget expectations.

COST MANAGEMENT

Total expenses were $22,137,622, which is $809,996, or 4 per cent, lower than budget. Major expense variances from budget are:

- Costs for purchased services were $296,199 lower than budget;
- Building operations costs were $162,244 lower than planned;
- Legal (corporate, prosecution and tribunal) was $157,275 lower than planned;
- Amortization costs were $154,686 lower than budget;
- Staff salaries and benefits/retirees and future benefits were $126,594 lower than planned; and
- Contractors and temporary staff costs were $361,433 above budget.

2013 BUDGET VARIANCES BY BUSINESS UNIT

Corporate Services

Expenditures were on budget in 2013. Variances within the department include higher than planned retiree and future benefits costs ($261,399) based on actuarial assumptions as of December 31, 2013; lower than planned building operations costs ($162,244), partially due to lower administration fees and janitorial costs; higher contract staff costs ($161,671) to fill vacant roles; lower PEO amortization ($154,686) due to timing in completion of approved budgeted capital projects; lower purchased services in 2013 ($117,420), which includes lower costs for meals and catering ($46,357); lower PEO building occupancy costs ($67,928); lower volunteer expenses ($67,887); and lower professional development expenses ($66,729).

Executive

Expenditures were $475,150 or 5 per cent below budget, resulting from lower than planned salaries and benefits ($442,550) due to staff vacancies; lower staff expenses ($26,294); lower contract staff expenses ($22,700); lower consultant expenses ($20,219); and offset by higher than planned volunteer expenses ($38,856).

LICENSING AND FINANCE

Expenditures were $198,594 or 4 per cent above budget due to the council-approved expenditures related to the initial proclamation of the repeal of the industrial exception. Contract staff costs were higher than budget in the licensing area ($107,967); salaries and benefits costs were higher than budgeted ($58,386); volunteer expenses were higher than budgeted ($31,715), partially related to volunteer costs for mileage; postage and courier costs were higher than planned ($13,120); offset by lower cost for purchased services ($48,446), although exam marking and invigilation costs were higher than budgeted ($28,964).

REGULATORY COMPLIANCE

Expenditures were $13,706 or 1 per cent lower than budget in 2013. Salaries were lower than budgeted ($163,601) due to vacancies in the business unit; however, higher than budgeted contractor expenses ($109,212) filled the positions on a temporary basis. Consulting expenses were above budget for government public relations consultants related to the repeal of the industrial exception clause in section 12(3)(a) of the *Professional Engineers Act* ($31,992). Lower volunteer expenses ($14,949) somewhat offset these higher than budgeted expenses.

TRIBUNALS AND REGULATORY AFFAIRS

Expenditures were $498,613 or 16 per cent below budget. Variances include lower than planned costs for legal expenses ($224,524) related to independent counsel for the Discipline

Committee and the use of minimal administrative law counsel; less than budgeted purchased services costs ($117,862); lower volunteer expenses ($71,533); and below budget costs for printing and mailing of *Engineering Dimensions* ($47,654).

COUNCIL-DIRECTED INITIATIVES

For 2013, the net expenditures for the projects approved by council amounted to $233,912. This figure includes $189,768 for the Elliot Lake Commission of Inquiry expenses; $30,381 for costs associated with the Experienced Practioners Task Force; $9,613 for the Emerging Disciplines Task Force; $6,754 for the Overlapping Practices Committee; and $5,865 for the Building Development Committee, which were offset by an expense of $12,406 for cost recovery related to a prior year insurance claim.

Staff and volunteers contributed in carrying out these council-directed initiatives. Included in the projects listed above is a total of $151,540 in staff salaries and benefits costs directly attributable to these initiatives.

BUILDING OPERATIONS

The building generated $3,757,241 in revenue, including PEO's share of recoverable expenses, but excluding the base rent that would have been paid if PEO had paid market rent for its space. Total recoverable expenses were $2,198,431 and other expenses totalled $1,004,172, thereby creating an excess of revenue over expenses of $554,638 (after all expenses, including loan interest), which was $387,492 or 19 per cent higher than budgeted. Total revenues came in slightly over budget by 3 per cent and total expenses came in over budget by 16 per cent. Other expenses were $187,450 higher than budgeted, due to higher leasing and legal fees to renew tenants. PEO's share of recoverable expenses totalled $819,374, which 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), thereby reducing PEO's overall occupancy cost. Total occupancy costs for 2013 were $902,378, which

included storage and other occupancy costs. PEO's total accommodation expense (including interest) was $1,430,212.

PEO occupied a total of 40,786 square feet at December 31, 2013. The market rent of this space is $20 a square foot and operating costs are $23.09 a square foot. Therefore, PEO's equivalent costs for rent and operating costs would be $1,757,469 for 2013, leading to a net value of ownership estimate of $327,257 for 2013.

CAPITAL EXPENDITURES

Capital expenditures for the year totalled $2,023,541 and were 9 per cent below budget.

The largest capital project closed in 2013 was $214,498 for the HVAC upgrades in suites 506 and 507, the registrar's office and the fifth floor meeting room. PEO completed two other leasehold improvement projects in 2013: the exterior signage project ($143,567) and blinds replacement for floors 5, 6, 7 and 8 ($82,546).

The Aptify licence management software project to replace LicenseEase was initiated in 2013 and by year end spending for the project was $686,240.

Projects initiated in 2013 that have been closed in early 2014 include the relocation of staff from the second floor to the sixth ($515,541), and the seventh floor tribunal door relocation ($47,730).

PEO invested $272,049 in computer hardware and software during 2013, including projects such as server virtualization, desktop computer replacement and upgrades to support the Aptify implementation.

Base building improvements totalled $36,307, which is recoverable from tenants. This includes capital planning and tenant HVAC upgrades.

The remaining $25,063 of capital expenditures was made for furniture and several 2012 carryover leasehold improvement projects.

PEO incurred no additional debt from its capital expenditures in 2013, 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 2013 with a healthy reserve to carry out its regulatory mandate in the public interest. Σ