



Minutes

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Finance Committee June 28, 2012

Finance Committee

Minutes of a meeting of the Finance Committee held in the offices of the association, 40 Sheppard Avenue West, North York, Ontario, on June 28, 2012 commencing at 2:00 p.m.

In attendance:

Finance Committee Members:

Denis Dixon, P.Eng., President
Santosh Gupta, P.Eng.
Danny Chui, P.Eng.
Michael Wesa, P.Eng. (joined via conference)
Robert Willson, P.Eng.
Annette Marie Bergeron, P.Eng. (Ex-Officio)

Staff: Kim Allen, P. Eng., Registrar/CEO
Michael Price, P.Eng., Deputy Registrar, Licensing and Finance
Chetan Mehta, Manager, Financial Services and Business Planning
Peter Cowherd, Manager, Financial Services and Procurement
Lucy Capriotti, Administrative Assistant

Observer: Jason Green, CMA, MBA, P.Eng.

Guests: Ernie Toperczer
Don Scott

Regrets: Maria Cellucci, Controller

1. Election of the Chair and Vice Chair

D. Dixon asked the members if they had any objections on deferring this item until later.

All members present agreed to defer this agenda item.

S. Gupta said he had to leave early and that he was ok with the deferral as long as it was concluded by 3.00 pm.

D. Dixon confirmed that he would get this item completed by then.

2. Approval of Agenda

D. Dixon asked the members if they had any items to add to the agenda to which all members agreed that they had none.

MOTION

That the agenda as presented be approved.

Moved by D. Dixon and seconded by S. Gupta

MOTION CARRIED

3. Approval of Minutes from March 21, 2012

D. Chui raised a point of order on this item and asked that how could they (i.e. the new Finance Committee members meeting today) vote to approve or disapprove the minutes of a meeting at which they were not present since a majority of the committee members in the meeting today were new.

D. Dixon stated that 2 members in the new Finance Committee – himself and S. Gupta were also members in the past finance committee.

D. Chui pointed that these 2 members were not adequate for a quorum.

D. Dixon suggested that this issue should be left out for now and decided later.

D. Chui stated that continuity in the committee had to be maintained and that a procedure was required to address situations like this when new members in any committee are required to approve minutes or business of a prior meeting in which a majority of the new committee members were not present.

D. Dixon pointed out that the minutes as presented were minimal and that they could proceed to approve these as there were no financial decisions reflected in the minutes in question.

M. Price pointed out that although a quorum was required for a meeting to be held, a quorum was not required for voting and technically D. Dixon and S. Gupta could move and second the minutes while the new members who were not present at that meeting could abstain from approving the minutes.

MOTION

That the minutes of March 21, 2012 be approved

Moved by D. Dixon and seconded by S. Gupta.

MOTION CARRIED (all new members abstained)

4. Business Arising from the Minutes

D. Dixon stated that there is a requirement that the Chair of the prior committee prepare a handover document for the incumbent President but it was unlikely that he would receive one in light of the ongoing Court case.

D. Dixon said that he was inclined to put any discussion on this topic in abeyance if the elected Chair of the present committee was okay with it.

A. Bergeron said that the Finance Committee last year must have been functional in discharging its duties and hence there would be some business in the minutes that the current Finance Committee should act upon.

J. Green pointed out that there were some interesting points under line item 5 in the Minutes -“Other Business”, such as actual versus budget figures, monthly forecasts, etc. that the committee could look at in greater detail.

A. Bergeron concurred and said that she saw some good points in the minutes and suggested that the items indicated under “Other business” were action items.

S. Gupta said that he did not see any contentious points arising from the minutes.

J. Green said that he understood that the Committee was formally required to approve the minutes and pointed out that it was also the Committee’s role to review all relevant information the financial statements conveyed about the health of the organization.

J Green stated that while all the relevant formalities could be followed, a discussion on the financial statements was required regardless of whether this was part of the official agenda or not and that the committee had to be made aware of all relevant actions impacting the statements.

E. Toperczer asked whether all of the items outlined in “other business” were in place.

D. Dixon asked M. Price if a forecast was being generated every month.

M. Price stated that a forecast was not generated every month and pointed out that the items listed under “Other Business” were neither moved by motion nor approved by the (last) Committee. M. Price then proceeded to clarify that while these items were discussed during the meeting and noted, these were not actual action items and there was no formal commitment to implement these.

M. Price said that he would nevertheless speak to each of the six items listed under “Other Business”.

With regard to item 1 (re: M. Cellucci to add monthly forecasts), M. Price stated that at present, monthly forecasts were not generated.

M. Price mentioned that all of the remaining items were done and D. Dixon concurred.

A. Bergeron inquired if she could ask questions on previous items in the Minutes to which D. Dixon agreed.

A. Bergeron then proceeded to inquire whether D. Dixon had presented information on the unfunded liabilities at the AGM as indicated line item 4, "2011 Financial Statements" in the Minutes.

D. Dixon stated that this information was presented and that there was some gross misunderstanding by several members of last year's Finance Committee. He clarified that the unfunded liabilities are going to remain with PEO for the next 30 to 40 years and that the past committee members wanted to set aside half a million dollars every year from the current budget and earmark it for the next 30 or 40 years ahead.

D. Dixon explained that this was unacceptable as it would put too much pressure on PEO's operations.

A. Bergeron inquired again if this was presented at the AGM.

D. Dixon stated that there was documentation that shows what unfunded liabilities are about and that K. Allen could send her and the committee the copies of the two documents that were prepared on this topic.

R. Willson referred to the third line under item 4 and asked whether PEO's asset managers had provided the Finance Committee with a report on unfunded liabilities.

S. Gupta stated that according to his recollection, this had not happened.

D. Dixon pointed out that the reference to "Scotia" in that line referred to PEO's asset managers who oversaw PEO's investments.

R. Willson inquired if this line was not connected to the second line on the unfunded liabilities to which D. Dixon clarified that the second line referred to unfunded health care costs for retirees.

M. Price clarified that these two points were not connected.

A. Bergeron inquired if the subsequent motion on conducting an assessment of bringing the pension fund and asset funds under one manager and to provide status was executed.

D. Dixon stated that he preferred to have both the funds remain separate as PEO had about \$3.5 million in its investment portfolio whereas there was about \$16m to \$18m in the pension plan. Since the investment horizons and objectives for both funds were different, D. Dixon said these must continue to stay separate.

R. Willson pointed out that there was a motion passed by the past committee.

A. Bergeron expressed concern that they were overturning a motion passed by the last committee.

R. Willson inquired if they were allowed to reverse a motion or motions passed by the past committee.

S. Gupta answered that they may not reverse a motion but as a committee they could take a decision which is not in line with the past motion.

R. Willson said that this motion would have been current practice now as it had been voted on and approved.

D. Dixon said that something as significant as this item should have gone to Council and then proceeded to ask K. Allen on the status of the investments.

K. Allen asked M. Price if he had any information. M. Price who requested the committee members to clarify the question.

D. Dixon asked if PEO still had two separate advisors – one for PEO's investment portfolio and one for PEO's pension assets to which M. Price said yes.

D. Dixon stated that since motion on this item was passed by the past Finance Committee, correctly they should have taken this motion Council to have it approved.

M. Price stated that according to him, the motion asked for an assessment for bringing the funds under one manager and that a recommendation by the asset manager was to be brought back to this committee instead of Council.

M. Price said that this item could be put on the agenda for the next committee meeting.

S. Gupta pointed out that an assessment had not taken place. M. Price confirmed that it had not.

R. Willson said that the motion needed to be rewritten so that it made sense to correctly reflect its intent.

M. Price pointed out that part of the difficulty for these minutes was that a lot of the motions were not formalized and that most of these in their current form were a reproduction of the statements made by the committee members instead of consisting of specific wording – which was not was provided by the committee. M. Price went on to state that going forward, all motions needed to be formally drafted with inputs from the committee on the specific wording.

D. Dixon responded that this issue could be left aside and dealt with after the legal issue facing PEO (re: the Adams vs PEO affair) was resolved and that it could be included on the agenda for the next Finance Committee meeting.

D. Chui asked D. Dixon if all of the answers provided to the questions raised in the meeting today were being recorded in the minutes as he did not wish to miss any details.

D. Chui then requested that he wished to have all of the questions asked today and the answers provided to be reflected in the minutes.

D. Dixon answered that staff would be instructed to do so and then stated that since agenda item 4 – business arising from the minutes was done, they could now proceed to discuss the 2013 budget assumptions.

S. Gupta reminded D. Dixon that he had to leave in 15 minutes and requested if the deferred agenda item 1 concerning the election of the new chair and vice-chair of the Finance Committee could be addressed now.

D. Dixon agreed and proceeded to discuss item no. 1.

5. Election of the Chair and Vice Chair

D. Dixon requested L. Capriotti to hand out pieces of paper and request the members to nominate the Chair and Vice-Chair for the Finance Committee.

S. Gupta proposed the name of Danny Chui for the position of Chair.

D. Dixon asked R. Willson if he was interested in running for the position of Chair to which R. Willson responded in the negative and said that he would like to propose the name of M. Wesa instead.

M. Wesa clarified that he was not interested in running for the position of Chair.

D. Dixon asked S. Gupta if he was interested in running for the position of Chair.

S. Gupta responded that since he had already proposed the name of Danny Chui for the position of Chair, on principle, he could not run for the same position.

D. Dixon asked the members 2 more times if any one of them was interested in running for the position of Chair against D. Chui.

None of the other committee members responded – subsequently D. Dixon went on to pronounce D. Chui as the Chair of the Finance Committee.

D. Dixon then proceeded to ask the members for nominees for the position of vice-chair.

D. Chui proposed the name of S. Gupta.

D. Dixon asked M. Wesa if he had any one to propose for vice-chair to which M. Wesa said that he did not.

D. Dixon then asked M. Wesa if he himself was interested in running for vice-chair to which M. Wesa said that he was not.

D. Dixon then asked R. Willson and J. Green if they were interested in running for the position of vice-chair and then proceeded to point out that since J. Green's appointment was not ratified by Council it would be difficult to have him appointed as vice-chair, to which J. Green responded that he could do so the next time.

D. Dixon stated that he was asking for nominations for vice-chair the second time.

R. Willson declined to run himself but nominated A. Bergeron.

A. Bergeron declined stating that she could not accept the position.

S. Gupta said that this may lead to a conflict as she was officially part of the Audit Committee.

D. Dixon pointed out that traditionally, the president elect or one of the vice-presidents held the position of chair or vice-chair on the Finance Committee.

D. Dixon asked the members for additional nominations and after receiving none, appointed S. Gupta as vice-chair who accepted the position.

Result: All members unanimously elected the following (no motion was passed):

D. Chui elected as Chair

S. Gupta elected vice-chair

6. Review and approval of 2013 budget assumptions

S. Gupta requested D. Dixon if these could be reviewed quickly as he needed to leave.

D. Dixon asked D. Chui if he could continue to chair the meeting.

D. Chui responded that D. Dixon was doing a good job and that he could continue to chair this meeting.

D. Dixon reminded the members that they had a good meeting the last week (during the Council workshop) where Council were informed of the additional monies that would have to be spent on various initiatives and asked M. Price if these were listed in section A of the 2013 budget assumptions document.

M. Price affirmed that this was so on Page 2 and stated that these IT issues discussed at the Council workshop were listed in section A.

D. Dixon stated the LicenceEase upgrade / replacement project was slightly up in the air as there were several ways to do it. PEO could either choose to upgrade the existing version of LicenceEase or choose to replace it with the system used by APEGGA.

D. Dixon asked the members if they had any thoughts on the additional amount of monies that should be set aside for the upgrade indicated above.

M. Price said that the preliminary estimate of \$1m indicated in the handout was provided by IT and consistent with the amount stated by E. Brown at the Council workshop.

J. Green inquired if this was an upgrade of PEO's licensing system to which M. Price said yes and explained that this amount was an estimate for budgeting purposes and that more definitive numbers should be available by the September Council meeting. This estimate was to give direction to staff to initiate the budget process.

There was a brief discussion amongst the committee members on the cost estimates presented by E. Brown at the Council workshop on the upgrade of PEO's licensing system and on the proposed favoured option of PEO proceeding with an RFI instead of an RFP.

D. Dixon then proceeded to discuss the capital expenses associated with the office expansion on the 6th floor.

D. Chui inquired how was PEO going to fund all these capital expenditures.

D. Dixon replied that this was something that the Finance Committee should have done last year and estimated if and when PEO would have to come up with a fee increase.

M. Price pointed out that more information on PEO's revenues would be available after the budgeting exercise and this would enable staff to come up with recommendations to make up for revenue shortfalls, if any. In addition, a 5 year cash-flow showing PEO's situation if the indicated capital projects are implemented would also be prepared.

M. Price reminded the members that the first assumption in section A was that the 2013 budget would be a balanced budget and that Kim would be directing staff to come

up with suitable funding recommendations to the Finance Committee in August to ensure that the 2013 budget is balanced.

S. Gupta asked if the proposed draft budget prepared on the basis of the assumptions and then presented to the committee for review in August would be balanced and show the impact of the proposed projects on PEO's cash flow situation.

If so, S. Gupta said that the Finance Committee will then review and discuss the draft budget and make a suitable recommendation to Council in September.

J. Green said that the cash flow statement was very important and said that a review of the past 3 years current assets indicate that the cash flow had declined substantially.

M. Price agreed that this was an important item. D. Dixon stated that PEO purchased this building and was still spending money on it and that was a problem. D. Dixon then proceeded to ask K. Allen if he had anything to add on the cash flow situation.

K. Allen said that all of PEO fees were paid in advance and although this amounts showed up as liabilities on the balance sheet, from a cash flow basis PEO always had a lot of cash.

J. Green said that he was not looking at working capital but only at current assets.

J. Green said that actual capital expenditures vs budget should be presented as well.

A. Bergeron asked L. Capriotti to make sure that the points raised by J. Green were captured and that a recommendation be made to increase the cash flow information along with a report on the actual vs budgeted capital expenditures and to see if staff should generate this information on a monthly basis.

D. Dixon stated E. Toperczer was here to advise the committee on when and how frequently these reports should be generated.

E. Toperczer said that this was up to the Finance Committee to decide and emphasized that the cash flow statement was a very important report and whether it was done on a monthly basis or quarterly basis, this statement should be presented to the Finance Committee.

J. Green stated that a forward looking cash flow statement was also important.

D. Dixon pointed out that there was no 5 year plan presented to the committee in the package and asked if an update was available.

K. Allen said that the 5 year cash flow was updated as of end of 2011 and presented in March with the audited statements.

D. Dixon asked that copies of the 5 year cash flow be sent out to all members and proceed to start a discussion on the revenue assumptions.

S. Gupta left the meeting and was thanked by D. Dixon for his time.

B. Revenue Assumptions

M. Price pointed out one significant omission from membership revenue, PEO has shown no positive impact for the removal of the Industrial Exception, and there is a potential variable. A. Bergeron said that we are looking at a budget plan for the next 12 months, she asked when we think we are going to be getting the exception through.

D. Dixon mentioned we have members applying now. M. Price said that our current projection is the normal growth it's not including the additional revenue.

K. Allen mentioned that last year the same type of discussion occurred with the FIC, the conservative thing to do is assume there is no impact. A. Bergeron said she is more comfortable with this.

D. Dixon said it could be worse than that, he said if we get a couple of big manufacturers who say rude words to us about having to get a P.Eng., they might

decide to take us to court and we could be in a negative several million dollar situation at some point.

A. Bergeron said this would be identified as a risk.

J. Green asked why would we be in a negative situation, D. Dixon said we would have to spend on legal fees.

J. Green asked why wouldn't the government have to spend it, it's their law. The government changed the Act, why would PEO have to foot the bill if someone doesn't like the Act.

K. Allen said we are always charged with defending regulations, once Council puts them forward, Council does have some regulations that you call tentatively passed and which PEO must implement and any of those could be challenges PEO would be on the hook for. D. Dixon said hopefully not.

A. Bergeron asked the question in which committee or where on Council do they identify risks to the organization because she sees that could be a potential risk in both financial maybe administratively as well.

D. Dixon said it's not a risk until somebody converts it into action. A. Bergeron said that our job as Councillors and caretakers of the organization is to try to look forward and identify the possible risks coming out in the next year.

D. Dixon said he has identified the risk and said this hasn't been done by any previous president. A. Bergeron said this is great that we have identified it but wanted to know where this would be captured i.e.: in our audited statements.

D. Dixon said that we try not to make suggestions to people out there that may have a case against us.

R. Willson said that if we are going to look at risk we need to look at it in the FIC, he suggested using a Risk Matrix showing risks, consequences of risks, probability, severity (putting a number against it), and litigations ending up with a total dollar value for the risks. This is a tool that is maintained and periodically reviewed and updated.

A. Bergeron said this is something that they use at the University and R. Willson uses it for projects and proposals. D. Dixon said to bring it forward to the committee. R. Willson to provide a format to D. Dixon before next FIC meeting.

Investment Income – D. Dixon discussed about the investment income return in 2013 is expected to be in the range of 2.5% to 3%.

A. Bergeron asked about membership fees, she would be interested in looking at historical data, she was interested in looking at membership versus budget. K. Allen to provide this information to A. Bergeron.

R. Willson talked about having Scotia Macleod make a presentation to the FIC for its evaluation.

D. Dixon stated the economy is going down and that interest rates is the investment to be in for the next while. He is not a big fan of investment advisors. A. Bergeron said this is why we should see how they are doing. D. Dixon said this committee should be looking at the investments on a monthly basis,

D. Dixon discussed that we don't have a committee looking after our Pension Fund. K. Allen mentioned that there is a Pension sub-committee of HRC. D. Dixon requested to K. Allen that he would like to see these documents every month.

E. Toperczer said one of the things the FIC should do is review the Investment Policy of the organization whether it's the Pension Fund or whether it's PEO's own investments and to make sure the investments are invested in accordance with that policy.

R. Willson said we should ask Scotia MacLeod to make a presentation so we know what they are doing and if they have any advice we could either accept or reject that advice.

D. Dixon asked D. Chui to get some written statements from the last few months from Scotia MacLeod.

K. Allen mentioned that Council has already made a decision regarding investments and that FIC is supposed to take care of all investments. The direction from Council was to have an integrated investment policy, we currently have two investment policies, one for the Pension Fund and one for the rest of the monies.

Advertisement Income

D. Dixon discussed the cost of the Dimensions magazine and that advertising income would be in the range of \$400,000 to \$425,000.

D. Dixon mentioned that one of the things that they didn't agree on was going to the electronic Dimensions. M. Price said that they are developing a briefing note for Council on going electronic to be presented in July and it's more a case of what the default position is and that if we shift the default position to being electronic and people opting into hard copies, this would still lead to substantial savings.

D. Chui said we need to know how this would impact the investment. M. Price said that all indications have been that advertising revenue does not go down by moving to on-line.

M. Price said that at this point all PEO is proposing is that Engineering Dimensions is available as a PDF. In the long term it would be better if Council would support moving to an actual on-line magazine.

D. Dixon said that if we give them an example of 4 or 5 pages on a PDF basis for Dimensions and on a proper on-line basis that should help to make a decision on if we're going the right way.

Rental Income from 40 Sheppard

D. Chui wanted an update on the tenant situation and rental income at 40 Sheppard.

K. Allen said he would provide them with a full schedule of the tenants and the various terms of obligation. ADT is the largest tenant and occupies the 3rd and 4th floor, plus some space on the 2nd floor. Their lease expired last January and we gave them a one year extension where they have to give us six months notice in advance of when they are leaving but we increased their base rent by approximately 50%. This was the deal we inherited, so the revenues we received from ADT have gone up substantially.

K. Allen mentioned that we are driving everybody to market rates. ADT was at \$12.50 per square foot and market rents are about \$20.00 per square foot on any of the renewals. K. Allen mentioned that we haven't had any tenant leave because of the changes of rent since it is still below market. If tenants go to another building they could probably get about the same base rent but then they have their incremental costs of moving. ADT have been going through their restructure since ADT bought Intercon, and they can't make up their minds whether they want to be here or not. Their big challenge is their main control room for their sophisticated systems is on the 3rd floor and to build a new control room their cost of moving it is in excess of \$1M.

D. Dixon talked about that if we need tenants he would like to advertise in Dimensions so that any engineer who wants a small office would be able to come here and have the same address we have. K. Allen mentioned that the plan that Council had in place was that PEO would occupy about 50% of the building, right now we have about 40% of the building. We are not at the stage where we have excess space that we don't want to move into and the long term target is to get it down to fewer tenants so we are not spending a lot of time managing tenants. When we bought the building there were 33 tenants and now we are down to about 9.

Expense Assumptions

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Salaries are going to increase approximately 4%, D. Chui asked where did we get the 4%. M. Price said this information was provided by our HR department. K. Allen said there are 2 components: one is the Council policy which established a payroll policy that we would be at 50th percentile of market rates and Council chose last year not to do salary increases that were aligned with market. K. Allen said that increase is what is required to get us to market and that includes the performance pay piece as well. It looks like it's a bigger number but there is also the performance pay. K. Allen said this was an April 2011 Council motion which passed this.

J. Green was asking about the Salaries and Benefits and wanted some explanation on the numbers. He said there was a \$1.8M increase over last year.

D. Dixon asked that the Chair of Finance (D. Chui) to prepare a list of questions and meet with J. Green, M. Price and M. Cellucci to discuss.

D. Dixon discussed the two defined benefits plans. K. Allen to provide members with this information. PEO moved away from a defined benefits to a defined payment plan several years ago but we still have a health plan which is where the future benefits come in which costs a lot of money for a long time. Years ago a contract was signed with our employees so there is not a great deal we can do about that. May 1, 2007 was the transfer date. The liability for the health benefits would only accrue to those in the defined benefits plan. D. Dixon said there was a significant number which was sorted out last year. The difficulty with this is that we have people that are retired and people that are coming into it. The cost seems to be going up even though there are no new people coming into it. The only time the members change is when somebody passes away. Retirees don't pay into the health benefit at all. D. Dixon said we would have to get a hold of the Pension Plan through the HRC committee.

D. Dixon said that the Engineers Canada Assessment rate will be significantly unchanged even if we manage to make some changes to what we use it for. D. Dixon said we should meet with our reps shortly to see where we are going with this. K. Allen said that with their cycle we will know 18 months in advance if there is going to be a change. They would actually have to propose a change to approve it in October. We

are paying \$10.21 per registrant, which is approximately \$837,000. M. Price discussed that we pay the same amount for EIT's and we pay the same amount whether or not a member is paying full dues or is a retiree. This is something we could look at. Even though PEO's fee to retire members is 25% of a full member, it ends up higher because we have a fixed cost of \$10.21 to Engineers Canada (no matter what the member category). D. Dixon said the impact of any Council approved initiatives will be factored in. Hopefully everything that goes to Council will have also been run by Finance Committee so we know how much this will cost. K. Allen said that in August when the FIC meets and goes through line by line review of the budget item, all the detail will be available for whatever those items were and what the past was. K. Allen said that a set of assumptions goes to Council and we base the numbers on those set of assumptions and then the Finance look at the details and it doesn't mean that programs can't be changed. A draft budget will be put before Council in September and then Council doesn't actually approve it until November. At the end of August, the FIC will review the draft budget which will go to the Council in September at which time any recommendations from Finance can be made.

D. Chui asked M. Price when the Finance Committee could have the line by line report, M. Price said it can be expected one week before the meeting, but we have to come up with a meeting date.

D. Chui wants the information package to be sent out to the FIC members re:What are the Treasurers duties? This should also be reviewed by E. Toperczer and Don.

D. Dixon talked about the lawsuit involving PEO and the members agreed that they would like to have a separate line item showing the legal fees that are incurred.

MOTION

That the FIC approve and recommend to Council the current Budget Assumptions with the provision that a Cash Flow Projection be provided.

Moved by A. Bergeron and seconded by R. Willson.

MOTION CARRIED

7. Other Business

A. Bergeron brought up the Treasurer's position and that it should be addressed at the FIC meeting. D. Dixon said that we now have a couple of external people who will be doing things for both FIC and Audit Committee. A. Bergeron had concerns of the official role of the Treasurer and the responsibility and the filling of this role. K. Allen to provide the briefing note on this to the FIC members to discuss at the next meeting. A. Bergeron asked our advisors if they could review the package and best practice and governance in terms of financial oversight, it may not have to be the Treasurer and whether chair of Finance could take on that responsibility for Audit.

8. Date of Next Meeting

The next FIC meeting August 28, 2012.

9. Adjournment

The Finance Committee adjourned at 4:00 p.m.