
Financial statements of
Association of Professional
Engineers of Ontario

December 31, 2021

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Independent Auditor's Report

To the Members of the
Association of Professional Engineers of Ontario

Opinion

We have audited the accompanying financial statements of the Association of Professional Engineers of Ontario ("PEO") which comprise the Statement of financial position at December 31, 2021, and the statements of operations and changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PEO as at December 31, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of PEO in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing PEO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate PEO or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing PEO's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 PEO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on PEO's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause PEO to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
April 8, 2022

Association of Professional Engineers of Ontario
Statement of operations and changes in net assets
Year ended December 31, 2021

	Notes	2021 \$	2020 \$
Revenue			
P. Eng. revenue		19,825,037	19,192,091
Application, registration, examination and other fees		9,161,653	8,069,121
Building operations	4	2,477,426	2,433,586
Investment income		891,416	839,194
Advertising income		101,060	105,359
Chapter revenues		16,747	33,358
		32,473,339	30,672,709
Expenses			
Staff salaries and benefits/retiree and future benefits	9	12,924,820	11,541,133
Building operations	4	2,285,937	2,196,630
Purchased services		1,455,090	958,697
Computers and telephone		1,118,498	1,137,393
Engineers Canada		1,005,563	1,024,502
Legal (corporate, prosecution and tribunal)		951,635	765,986
Amortization		779,837	1,152,613
Occupancy costs	4	773,577	846,019
Contract staff		773,533	502,825
Transaction fees		728,732	700,010
Consultants		489,435	454,680
Chapters	13	343,301	327,940
Postage and courier		214,354	210,455
Insurance		148,165	143,100
Professional development		131,785	109,858
Recognition, grants and awards		78,566	31,772
Office supplies		72,508	57,673
Printing		48,721	64,677
Volunteer expenses		31,786	109,056
Advertising		27,550	45,243
Staff expenses		7,470	18,857
		24,390,863	22,399,119
Excess of revenue over expenses before the undernoted		8,082,476	8,273,590
Council discretionary reserve expenses	8	1,623,341	388,086
Excess of revenue over expenses		6,459,135	7,885,504
Remeasurement and other items	6	2,447,724	(7,032,341)
Net assets, beginning of year		25,580,860	24,727,697
Net assets, end of year		34,487,719	25,580,860

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

Association of Professional Engineers of Ontario**Statement of financial position**

As at December 31, 2021

	Notes	2021 \$	2020 \$
Assets			
Current assets			
Cash		11,319,333	8,219,649
Accounts receivable		700,544	1,382,842
Prepaid expenses and deposits		464,030	475,843
Other assets		171,319	251,044
		12,655,226	10,329,378
Marketable securities		19,885,232	15,069,278
Capital assets	3	29,689,774	31,340,072
		62,230,232	56,738,728
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	15	2,511,125	2,513,546
Fees in advance and deposits		11,730,592	11,573,230
Current portion of long-term debt	5	1,088,796	1,088,796
		15,330,513	15,175,572
Long-term			
Long-term debt	5	1,451,700	2,540,496
Employee future benefits	6	10,960,300	13,441,800
		27,742,513	31,157,868
Commitments and contingencies	12 and 16		
Net assets	7	34,487,719	25,580,860
		62,230,232	56,738,728

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

Approved by the Council

 _____, Director

 _____, Director

Association of Professional Engineers of Ontario

Statement of cash flows

Year ended December 31, 2021

	Notes	2021 \$	2020 \$
Operating activities			
Excess of revenue over expenses		6,459,135	7,885,504
Add (deduct) items not affecting cash			
Amortization		1,810,440	2,269,255
Amortization – other assets		79,725	77,033
Employee future benefits expensed		1,218,100	713,400
Change in unrealized (gains) losses on marketable securities		499,992	507,308
Losses (gains) on disposal of marketable securities		36,281	46,294
		10,103,673	11,498,794
Change in non-cash working capital items	10	849,052	285,003
		10,952,725	11,783,797
Financing activities			
Repayment of mortgage	5	(1,088,796)	(1,088,796)
Contributions to employee future benefit plans		(1,251,876)	(1,181,800)
		(2,340,672)	(2,270,596)
Investing activities			
Net change in marketable securities		(5,352,227)	(4,319,777)
Additions to capital assets		(160,142)	(308,144)
		(5,512,369)	(4,627,921)
Increase in cash		3,099,684	4,885,280
Cash beginning of year		8,219,649	3,334,369
Cash, end of year		11,319,333	8,219,649

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

Association of Professional Engineers of Ontario

Notes to the financial statements

December 31, 2021

1. Nature of operations

The Association of Professional Engineers of Ontario ("PEO" or the "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 financial asset shall be written down and the resulting impairment loss shall be recognized in the statement of operations 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 Statement of financial position. Gains and losses on such instruments are recognized in the Statement of operations and changes in net assets 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.

2. Significant accounting policies (continued)

(b) Hedge accounting (continued)

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;
- (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

License fee revenue, excluding the portion related to the Building Fund, is recognized as revenue on a monthly basis over the license period. Building Fund revenue is recognized as revenue 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 financial statements of the Association.

(e) Employee future benefits

Pension plans

The cost of PEO's defined benefit pension plans is determined periodically by independent actuaries using the projected benefit method prorated on service. PEO uses the most recently completed actuarial valuation prepared on the going concern basis for funding purposes 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 the most recent accounting actuarial valuation 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:

- (i) The defined benefit obligation, net of the fair value of any plan assets, adjusted for any valuation allowance in the statement of changes in net assets;
- (ii) The cost of the plan for the year.

Association of Professional Engineers of Ontario

Notes to the financial statements

December 31, 2021

2. Significant accounting policies (continued)

(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 – PEO	5%
Building improvements – common area	3.3% to 10%
Building improvements – non-recoverable	10% to 20%
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 Statement of financial position.

(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 amortization	2021 Net book value	2020 Net book value
	\$	\$	\$	\$
Building	19,414,668	4,972,660	14,442,008	14,830,301
Building improvements – PEO	8,961,068	4,684,278	4,276,790	4,719,464
Building improvements – common area	11,313,493	5,404,520	5,908,973	6,341,300
Building improvements – non recoverable	741,332	276,883	464,449	564,050
Land	4,366,303	—	4,366,303	4,366,303
Computer hardware and software	5,287,238	5,172,275	114,963	392,806
Furniture, fixtures and telephone equipment	1,519,400	1,403,112	116,288	121,148
Audio visual	1,008,315	1,008,315	—	4,700
	52,611,817	22,922,043	29,689,774	31,340,072

Association of Professional Engineers of Ontario

Notes to the financial statements

December 31, 2021

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:

	2021	2020
	\$	\$
Revenue		
Rental	845,047	894,834
Operating cost recoverable – tenants	1,356,532	1,280,453
Parking	153,425	143,125
Miscellaneous	122,422	115,174
	2,477,426	2,433,586
Operating cost recoverable – PEO	739,249	751,733
	3,216,675	3,185,319
Recoverable expenses		
Utilities	433,499	470,173
Amortization	542,709	631,849
Property taxes	425,396	438,912
Payroll	260,748	258,166
Janitorial	214,587	198,312
Repairs and maintenance	140,707	98,802
Property management and advisory fees	50,000	50,000
Security	31,355	18,841
Administrative	39,285	23,006
Road and ground	27,396	20,548
Insurance	30,575	24,961
	2,196,257	2,233,570
Other expenses		
Interest expense on note and loan payable	104,179	137,119
Amortization of building	388,293	388,293
Amortization of deferred costs	79,725	77,033
Amortization of tenant inducements	99,601	96,500
Other non-recoverable expenses	157,131	15,848
	828,929	714,793
	3,025,186	2,948,363
Excess of revenue over expenses	191,489	236,956

For purposes of the Statement of operations and changes in net assets, the operating costs recoverable from PEO of \$739,249 (\$751,733 in 2020) have been eliminated. The portion of costs allocated to PEO is reallocated from Building operations and is included in Occupancy costs on the Statement of operations and changes in net assets.

Association of Professional Engineers of Ontario

Notes to the financial statements

December 31, 2021

4. Building operations (continued)

	2021 \$	2020 \$
Building revenue per above	3,216,675	3,185,319
Eliminated PEO portion	(739,249)	(751,733)
	2,477,426	2,433,586
Building expenses per above	3,025,186	2,948,363
Eliminated PEO portion	(739,249)	(751,733)
	2,285,937	2,196,630

5. Building financing

On April 5, 2019, the Association refinanced its outstanding loan of \$5,443,952 with the Bank of Nova Scotia. The refinanced loan 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 loan is repayable in monthly installments of principal plus interest and bears a floating interest rate based on variable bankers' acceptances. The Association entered into a swap agreement related to this loan, where the floating rate debt is swapped for a fixed rate debt at an interest rate of 3.47% and settled on a net basis. The notional value of the swap is \$5,443,952 with a start date of April 5, 2019, and a maturity date of April 5, 2024, on which date the loan will be fully paid.

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 3462 of the CPA Canada Handbook and accounted for as per Section 3463. 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 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 \$335,478 (\$290,806 in 2020) 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, 2021, was as follows:

	Basic pension plan \$	Supplemental pension plan \$	Other non-pension benefit plan \$	Total \$
Accrued benefit obligation	(34,556,700)	(2,311,900)	(11,206,100)	(48,074,700)
Plan assets at fair value	35,021,800	2,092,600	—	37,114,400
Funded status – plan surplus (deficit)	465,100	(219,300)	(11,206,100)	(10,960,300)

Association of Professional Engineers of Ontario

Notes to the financial statements

December 31, 2021

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, 2020, was as follows:

	Basic pension plan \$	Supplemental pension plan \$	Other non-pension benefit plan \$	Total \$
Accrued benefit obligation	(32,567,600)	(2,321,500)	(12,013,500)	(46,902,600)
Plan assets at fair value	31,456,200	2,004,600	—	33,460,800
Funded status – plan surplus (deficit)	(1,111,400)	(316,900)	(12,013,500)	(13,441,800)

PEO measures its defined benefit obligations and the fair value of plan assets related to the basic and supplemental pension plans for accounting purposes as at December 31 each year based on the most recently completed actuarial valuation for funding purposes. The most recently completed actuarial valuation of the pension plans for funding purposes was as of January 1, 2021. PEO measures its obligations related to its other non-pension benefit plan using an actuarial valuation for accounting purposes. The most recent actuarial valuation for accounting purposes was as of December 31, 2020 and projected forward to December 31, 2021.

Remeasurements and other items resulting from these valuations are reported directly in net assets in the Statement of financial position and are reported separately as a change in net assets in the Statement of operations and changes in net assets.

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 \$27,149,278 (\$27,710,780 in 2020).

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. These figures include \$415,766 (\$272,039 in 2020) for salaries and benefits costs of full-time staff for time spent on these projects. Expenses from the discretionary reserve were incurred on the following projects:

	2021 \$	2020 \$
O365 migration	385,551	—
Aptify enhancements	268,494	—
IDDC project	281,706	—
Contractors for IT initiatives	221,422	—
HR and governance related matters	160,347	109,037
Anti-racism working group	127,185	—
Online application process	63,818	—
IT initiatives due to Covid	55,833	—
Human resources info system	44,721	—
30 by 30 task force	13,977	8,820
Council composition task force	287	—
Regulatory functions review	—	270,229
	1,623,341	388,086

Association of Professional Engineers of Ontario

Notes to the financial statements

December 31, 2021

9. Full time salaries and benefits

During the year, the Association incurred a total of \$13,340,586 (\$11,813,172 in 2020) for salary and benefits costs for its full-time staff. Out of this amount, \$415,766 (\$272,039 in 2020) was directly attributable to special projects approved by Council and disclosed in Note 8.

10. Change in non-cash working capital items

	2021 \$	2020 \$
Accounts receivable	682,298	(615,817)
Prepaid expenses and deposits	11,813	(112,571)
Accounts payable and accrued liabilities	(2,421)	488,716
Fees in advance and deposits	157,362	524,675
	<u>849,052</u>	<u>285,003</u>

11. Custodial account

The Association used to maintain a separate bank account for the Engineering Deans of Ontario (EDO), formerly known as the Council of Ontario Deans of Engineering (CODE). In 2021, the Association handed over all of these monies to EDO and will no longer be holding any funds for it going forward. The monies were previously held in trust for EDO and not reported on the Association's Statement of financial position.

12. Commitments

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

	\$
2022	2,518,710
2023	997,767
2024	77,525
2025	16,238
	<u>3,610,240</u>

13. Chapters of the Association

During the year, the Association paid chapter expenses totaling \$343,301 (\$327,940 in 2020) and also incurred additional costs of \$375,285 (\$371,362 in 2020) 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 operations 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, 2021, the most significant financial liabilities are accounts payable and accrued liabilities, and long-term debt.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. PEO's international and US equity pooled fund investments are denominated in foreign currencies the value of which could fluctuate in part due to changes in foreign exchange rates.

15. Government remittances

Accounts payables and accrued liabilities includes \$241,455 (\$620,877 in 2020), with respect to government remittances payable at year end.

16. Contingencies

PEO has been named in litigation matters, the outcome of which is undeterminable and accordingly, no provision has been provided for any potential liability in these financial statements. Should any loss result from these claims, which is not covered by insurance, such loss would be charged to operations in the year of resolution or earlier if the loss is likely and determinable.