

# Financial Statements of the Association of Professional Engineers of Ontario

## To the Members of the Association of Professional Engineers of Ontario

We have audited the balance sheet of the Association of Professional Engineers of Ontario as at December 31, 2002 and the statements of revenue and expenses, changes in operating reserve and cash flows for the year then ended. These financial statements are the responsibility of the association's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the association as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

(signed) Deloitte & Touche,  
Chartered Accountants  
Toronto, Ontario, January 24, 2003



## Balance Sheet

December 31, 2002

	2002	2001
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 49,408	\$ 55,879
Marketable securities, (market value \$5,404,409; 2001 – \$3,354,574)	5,174,558	3,336,201
Accounts receivable	646,612	643,604
Prepaid expenses	249,524	216,387
	<b>6,120,102</b>	4,252,071
PORTFOLIO INVESTMENTS (market value \$6,483,435; 2001 – \$8,789,770)	6,471,043	8,509,964
EMPLOYEE FUTURE BENEFITS (Note 3)	-	45,400
CAPITAL ASSETS (Note 4)	746,166	740,534
	<b>\$13,337,311</b>	\$13,547,969
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 777,921	\$ 705,404
Fees in advance and deposits	5,452,983	4,767,196
	<b>6,230,904</b>	5,472,600
DEFERRED LEASE INDUCEMENT	163,533	245,533
EMPLOYEE FUTURE BENEFITS (Note 3)	224,800	-
	<b>6,619,237</b>	5,718,133
<b>OPERATING RESERVE</b>		
INVESTED IN CAPITAL ASSETS	746,166	740,534
UNRESTRICTED	5,971,908	7,089,302
	<b>6,718,074</b>	7,829,836
	<b>\$13,337,311</b>	\$13,547,969

On behalf of the Council

Member—R.W. Braddock, P.Eng.  
Member—K.C. McMartin, P.Eng.

# Statement of Revenue and Expenses

Year ended December 31, 2002

	2002	2001
<b>REVENUE</b>		
Annual fees	\$ 8,975,894	\$ 7,551,704
Application, registration, examination and other fees	2,778,161	2,604,101
Investment income	574,533	642,992
Advertising income	526,748	596,380
	<b>12,855,336</b>	<b>11,395,177</b>
<b>EXPENSES</b>		
Administration	292,172	318,715
Amortization	322,717	324,942
Chapters and Regions	451,230	436,494
Communications	698,210	954,115
Council and Executive	639,608	568,777
Discipline and Enforcement	882,400	645,057
Finance	228,374	228,253
General management	615,583	648,089
Information systems	373,739	352,675
Professional affairs	222,060	292,044
Rent	1,037,380	1,029,675
Salaries and benefits	5,817,917	5,448,348
	<b>11,581,390</b>	<b>11,247,184</b>
EXCESS OF REVENUE OVER EXPENSES BEFORE OTHER ITEMS BELOW	<b>1,273,946</b>	147,993
CONTRIBUTION TO ONTARIO SOCIETY OF PROFESSIONAL ENGINEERS (Note 9)	<b>1,840,041</b>	1,395,409
CONTRIBUTION TO CANADIAN COUNCIL OF PROFESSIONAL ENGINEERS	<b>545,667</b>	561,428
EXCESS OF EXPENSES OVER REVENUES	<b>\$(1,111,762)</b>	<b>\$(1,808,844)</b>

## Statement of Changes in Operating Reserve

Year ended December 31, 2002

	2002			2001
	Invested in Capital Assets	Unrestricted	Total	Total
BALANCE, BEGINNING OF YEAR	\$740,534	\$7,089,302	\$7,829,836	\$ 9,638,680
EXCESS OF EXPENSES OVER REVENUE	(321,177)	(790,585)	(1,111,762)	(1,808,844)
ADDITIONS TO CAPITAL ASSETS, NET	326,809	(326,809)	-	-
BALANCE, END OF YEAR	\$746,166	\$5,971,908	\$6,718,074	\$ 7,829,836

## Statement of Cash Flows

Year ended December 31, 2002

	2002	2001
<b>NET (OUTFLOW) INFLOW OF CASH RELATED TO THE FOLLOWING ACTIVITIES</b>		
<b>OPERATING</b>		
Excess of expenses over revenue	\$(1,111,762)	\$(1,808,844)
Items not involving cash or marketable securities:		
Amortization	322,717	324,942
Gain on disposition of capital assets	(1,540)	-
Deferred employee future benefits/liability	270,200	190,300
	(520,385)	(1,293,602)
Change in non-cash working capital items (Note 8)	722,159	1,638,895
	201,774	345,293
<b>FINANCING</b>		
Amortization of deferred lease inducement	(82,000)	(82,000)
<b>INVESTING</b>		
Additions to capital assets	(333,864)	(215,128)
Proceeds on disposition of capital assets	7,055	-
Decrease (increase) in portfolio investments	2,038,921	(1,714,764)
	1,712,112	(1,929,892)
<b>INCREASE (DECREASE) IN CASH AND MARKETABLE SECURITIES</b>	<b>1,831,886</b>	<b>(1,666,599)</b>
<b>CASH AND MARKETABLE SECURITIES, BEGINNING OF YEAR</b>	<b>3,392,080</b>	<b>5,058,679</b>
<b>CASH AND MARKETABLE SECURITIES, END OF YEAR</b>	<b>\$ 5,223,966</b>	<b>\$ 3,392,080</b>
<b>CASH AND MARKETABLE SECURITIES IS COMPRISED OF:</b>		
Cash	\$ 49,408	\$ 55,879
Marketable securities	5,174,558	3,336,201
	<b>\$ 5,223,966</b>	<b>\$ 3,392,080</b>

# Notes to the Financial Statements

December 31, 2002

## 1. NATURE OF OPERATIONS

The Association of Professional Engineers of Ontario is incorporated by an Act of the Legislature 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. The Association of Professional Engineers of Ontario is incorporated as a non-profit organization under the *Income Tax Act*.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations, and reflect the following accounting policies:

### MARKETABLE SECURITIES AND PORTFOLIO INVESTMENTS

Marketable securities are recorded at the lower of cost or market while portfolio investments are recorded at cost less a provision, if necessary, for decline in value that is considered to be permanent. Investments in bonds are reported at cost adjusted by the amortization of any discounts or premiums over the period to their maturity. Marketable securities include investments that mature on or before December 31, 2003 whereas portfolio investments include those investments that mature after December 31, 2003.

### 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.

### EMPLOYEE FUTURE BENEFITS

The association prospectively adopted the new Canadian generally accepted accounting principles for employee future benefits effective January 1, 2000. The association accrues its obligations under employee benefit plans and the related costs, net of plan assets. The association has adopted the following policies:

- ◆ The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- ◆ For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- ◆ Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- ◆ The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees are 18 and 17 years for the pension plans and 18 years for the retirement benefits plan.
- ◆ 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.

## CAPITAL ASSETS

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

Furniture, fixtures and microfilm equipment	10% to 20%
Computer equipment	20% to 33%
Leasehold improvements	10%

## DEFERRED LEASE INDUCEMENT

The deferred lease inducement received is being amortized on a straight-line basis over the term of the lease.

## USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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.

## 3. EMPLOYEE FUTURE BENEFITS

The association's pension plans, covering substantially all employees, are defined benefit pension plans.

The association has a contributory defined benefit final average pension plan. The pension plan provides pension benefits based on length of service and final average earnings.

Effective January 1, 1997, the association introduced a supplemental pension plan. The plan is a contributory defined benefit final average pension plan. The pension plan provides pension benefits based on length of service and best average earnings.

The association also provides extended health care, hospitalization and dental benefits to substantially all of its employees.

The funded status of the association's pension plans and post-retirement benefit plan using actuarial assumptions as of December 31, 2002 was as follows:

	Pension Plans	Other Benefit Plan	Total 2002
Accrued benefit obligation	\$8,528,604	\$3,035,645	<b>\$11,564,249</b>
Fair value of plan assets	7,382,840	-	<b>7,382,840</b>
Funded status – plan surplus (deficit)	(1,145,764)	(3,035,645)	<b>(4,181,409)</b>
Unamortized transitional obligation	28,471	1,363,333	<b>1,391,804</b>
Unamortized net actuarial gains	1,904,629	660,176	<b>2,564,805</b>
Accrued benefit asset (liability)	\$ 787,336	\$(1,012,136)	<b>\$ (224,800)</b>

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

	Pension Plans	Other Benefit Plan
Discount rate	6.75%	6.75%
Expected long-term rate of return on plan assets	3.50% to 7.00%	-
Rate of compensation increase	4.50%	-
Medical benefits cost escalation – hospitalization	-	5.00%
Medical benefits cost escalation – extended health care	-	2.50%
Dental benefits cost escalation	-	2.50%

Other information about the association's benefit plans is as follows:

	Pension Plans	Other Benefit Plan	Total 2002
Plan expense	\$ 462,000	\$ 449,970	\$ 911,970
Employer contributions	598,800	42,900	641,700
Employee contributions	181,460	-	181,460
Benefit payments	627,480	42,900	670,380

#### 4. CAPITAL ASSETS

	2002			2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture, fixtures and microfilm equipment	\$ 975,062	\$ 737,497	\$237,564	\$285,352
Computer equipment	1,548,723	1,067,823	480,900	413,628
Leasehold improvements	138,515	110,812	27,702	41,554
	<b>\$2,662,299</b>	<b>\$1,916,133</b>	<b>\$746,166</b>	<b>\$740,534</b>

#### 5. TRUST ACCOUNTS

The association maintains a separate bank account for the Council of Ontario Deans of Engineering (CODE). Funds totaling \$29,396 (2002 – \$23,784) are not reported on the association's balance sheet as they are held in trust for CODE.

#### 6. LEASE COMMITMENTS

The association has obligations under long-term non-cancelable operating leases for its premises. The future minimum lease payments for each of the next five years and thereafter are as follows:

2003	\$ 662,550
2004	662,550
2005	670,600
2006	670,600
2007	670,600
Thereafter	1,341,200
	<b>\$ 4,678,100</b>

#### 7. CONTINGENT LIABILITIES

Various claims have been made against the association. According to management some of the claims, once settled, are unlikely to result in a loss to the association while the outcome of the remaining claims cannot be determined at this time. A provision for certain of these claims has been made in these financial statements.

#### 8. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2002	2001
Accounts receivable	\$ (3,008)	\$ 801,337
Prepaid expenses	(33,137)	23,033
Accounts payable and accrued liabilities	72,517	120,315
Fees in advance and deposits	685,787	694,170
	<b>\$ 722,159</b>	<b>\$ 1,638,895</b>

#### 9. CONTRIBUTION TO OSPE AND COMMITMENT

The Ontario Society of Professional Engineers (the Society) was incorporated on April 5, 2000 for the purpose of separating member services and non-regulatory functions from PEO's primary regulatory role. Through an amendment to the *Professional Engineers Act* and Regulation 941, PEO is authorized to fund the Society's start-up costs for a three-year period. The Regulation amendment allowed for a one-time grant to the Society of \$933,277 (10% of association's Unrestricted Operating Reserve as at December 31, 1999) and a grant equal to \$30 for each full-fee-paying member of the association, on renewal of membership. The estimated remaining commitment is anticipated to approximate \$1,900,000 to be paid in 2003.

Details of the amount contributed to OSPE are as follows:

	2002	2001
Member assessment	\$1,618,290	\$ 1,309,995
Employment advisory service	71,549	28,792
National Engineering Week	42,429	16,180
Everyday Heroes Program	60,441	15,214
Overhead and other	47,332	25,228
	<b>\$ 1,840,041</b>	<b>\$ 1,395,409</b>

#### 10. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

### Notice

Any member with questions about the association's 2002 Financial Statements may direct them to Ronald Sparrow, CGA, Manager, Accounting, Professional Engineers Ontario. Ron can be reached at (416) 224-9528, ext. 430 or 1(800) 339-3716, ext. 430. By email, contact [rsparrow@peo.on.ca](mailto:rsparrow@peo.on.ca) or by mail write to 25 Sheppard Avenue West, Suite 1000, Toronto, ON M2N 6S9.

# Financial Statement Analysis

For the Year Ended December 31, 2002

Professional Engineers Ontario experienced a surplus of revenue over expenditure during the year before contributions to CCPE and OSPE of \$1,273,945. This compared to a budgeted surplus of \$912,991. Contributions to OSPE of \$1,840,041, including Phase I program costs of \$221,751 and CCPE contributions of \$545,667, eroded the operating surplus to a net deficit position of \$1,111,763. This compared to a budgeted deficit of \$1,473,609. The budgeted deficit for 2003 is projected at \$1,390,242.

Revenues were over budget by \$194,435. This was primarily due to more reinstatements than expected from the large number of terminations that occurred

early in the year. Another contributing factor was an increase in applicants, resulting in higher application and exam fees. Advertising income was below budget by \$81,252, due to competition with OSPE and general economic conditions.

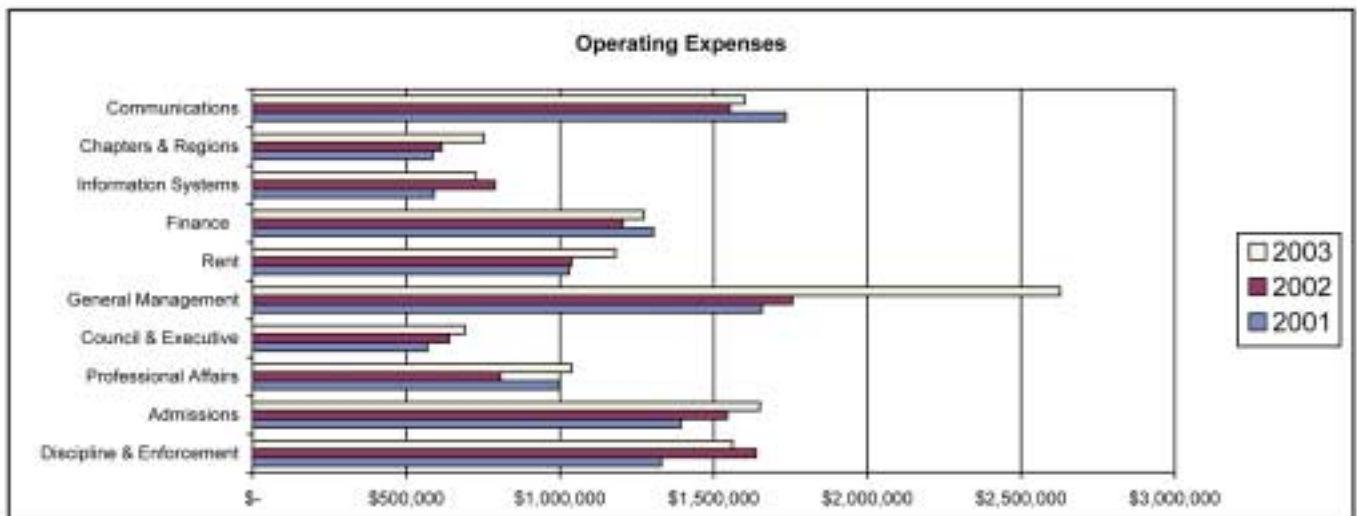
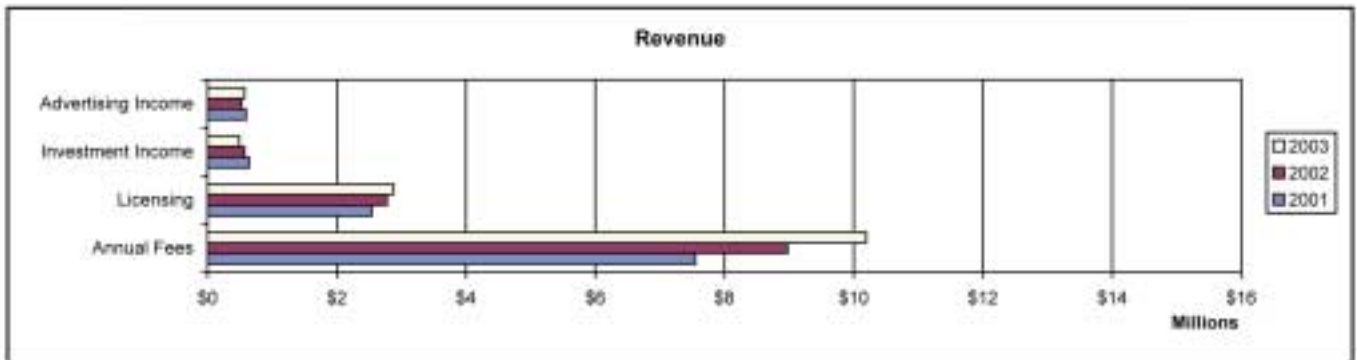
Salaries, benefits and temporary staff costs were below budget. Some budgeted staff vacancies were not filled throughout the year, resulting in a favourable variance of \$278,814.

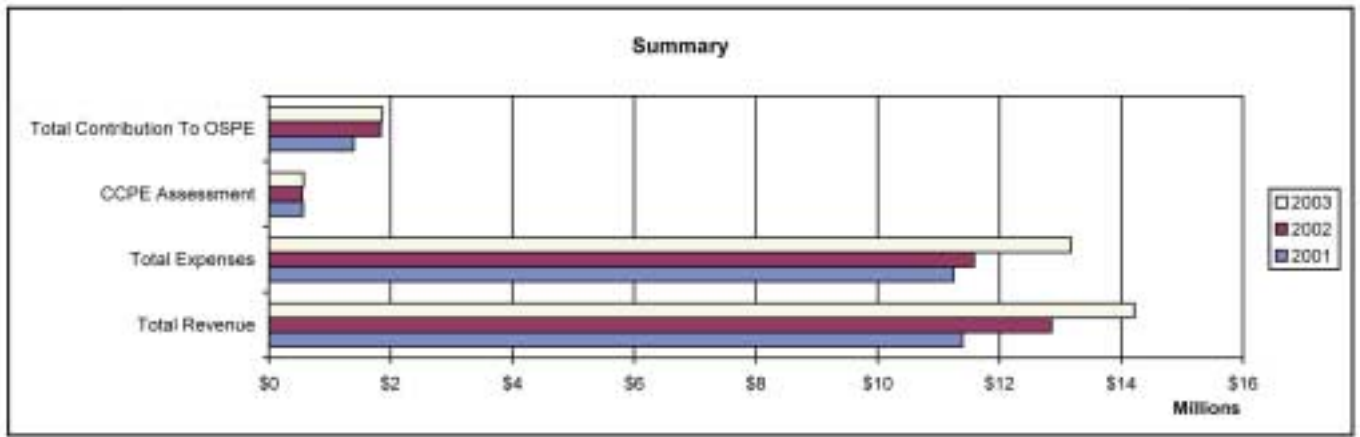
From a business unit perspective, operating expenses amounted to \$5,763,473, as compared to a budget of \$5,695,010. These costs are mainly attributable to legal costs for Discipline and Enforcement. The number of cases referred to Discipline and

the number of Discipline hearings increased substantially, bringing this area \$234,982 over budget. Partially offsetting this were cost savings in Professional Affairs, related to reduced committee expenses and a general cost-cutting awareness. In addition, the Communications area deferred some image marketing costs until 2003 and held production costs for *Engineering Dimensions* to below budget due to decreased advertising revenues. A general cost conscious approach was evident throughout PEO during the year.

*Ron Sparrow, CGA  
Manager, Accounting*

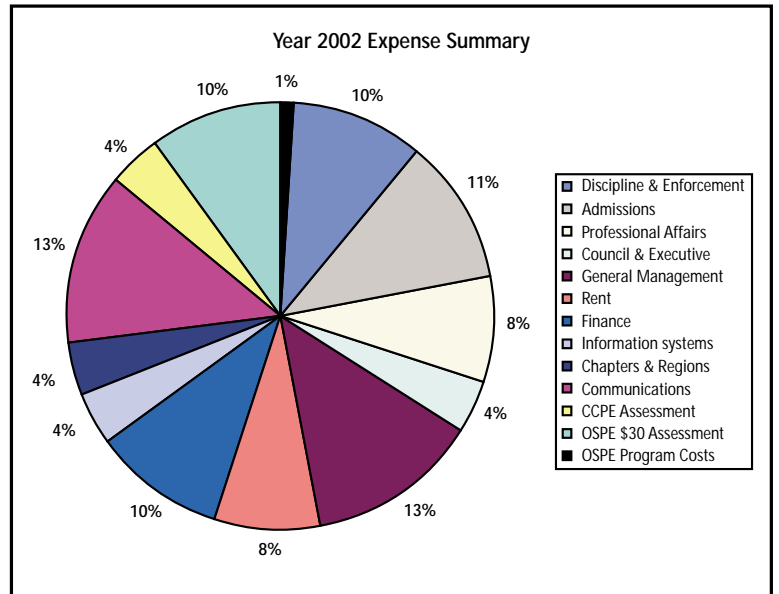
## Graphic Analysis For the Year 2002





**Notes:**

1. OSPE Assessment is \$30 per full-fee-paying member and amounted to \$1,618K in 2002.
2. OSPE Program Costs were \$222K in 2002.
3. Business Units include the following costs:
  - a) Salaries of \$4,356K
  - b) Benefits of \$1,462K
  - c) Related committee expenses
  - d) Operating expenses
4. General Management includes the following expenses:
  - a) Office administration
  - b) Human Resources
  - c) Records
  - d) Reception and Switchboard
  - e) The 2003 budget includes a new policy and planning group and all pension and temporary staff costs previously allocated out.
5. Communications includes the following expenses:
  - a) Magazine, Newsletter, Guideline and Directory production
  - b) Internet/Website design and development
  - c) Corporate Identity
  - d) Employers Survey
  - e) Graphic Design
  - f) WEAC



ASSOCIATION OF PROFESSIONAL ENGINEERS OF ONTARIO Statement of Revenue and Expenses Year Ended December 31, 2002							
Item	Actual 2002	Budget 2002	% Change Actual vs Budget	% Change: -- Unfavorable			
				Actual 2001	% Change Actual vs Actual 2001	Budget 2001	% Change Actual vs Budget
<b>REVENUE</b>							
Annual Fees	\$8,973,894	\$8,187,400	2%	\$7,551,304	19%	\$10,197,000	-12%
Licensing	2,779,160	2,658,000	4%	2,546,813	9%	2,819,000	-4%
Investment Income	574,533	549,000	5%	642,992	-11%	481,500	17%
Advertising Income	326,248	888,000	-17%	326,390	-12%	535,000	-8%
<b>Total Revenue</b>	<b>12,853,235</b>	<b>12,598,400</b>	<b>2%</b>	<b>11,337,888</b>	<b>13%</b>	<b>14,142,500</b>	<b>-9%</b>
<b>EXPENSES</b>							
Discipline & Enforcement	882,400	566,500	-50%	545,257	-12%	749,000	-19%
Admissions	292,172	315,000	8%	290,251	-1%	428,100	32%
Professional Affairs	222,080	330,400	33%	292,044	24%	337,800	24%
Council & Executive	629,688	584,318	-6%	568,772	-12%	680,000	7%
General Management	629,434	654,318	4%	601,540	5%	739,000	15%
Rent	1,037,380	993,800	-4%	1,025,675	-1%	1,100,400	12%
Finance	647,240	547,000	0%	509,384	0%	649,860	16%
Information Systems	373,759	330,000	-13%	352,675	-6%	252,644	-81%
Chapters & Regions	451,230	460,000	2%	436,494	-3%	556,400	24%
Communications	898,210	884,200	13%	925,291	23%	787,200	-15%
<b>Total Operating Expenses</b>	<b>5,763,473</b>	<b>5,884,638</b>	<b>-2%</b>	<b>5,741,548</b>	<b>0%</b>	<b>6,375,304</b>	<b>10%</b>
Salaries and Staff Benefits	5,812,917	6,086,731	5%	5,448,348	-2%	6,725,338	13%
<b>Total Expenses</b>	<b>11,581,390</b>	<b>11,981,369</b>	<b>1%</b>	<b>11,189,896</b>	<b>9%</b>	<b>13,100,642</b>	<b>12%</b>
<b>Operating Surplus (Deficit) before OSPE</b>	<b>1,271,845</b>	<b>617,031</b>	<b>40%</b>	<b>147,993</b>	<b>261%</b>	<b>1,081,858</b>	<b>22%</b>
<b>Contribution to CCPE &amp; OSPE</b>							
CCPE Assessment	545,647	540,000	-1%	561,438	2%	568,400	4%
<b>Contributions To OSPE</b>	<b>1,618,298</b>	<b>1,635,000</b>	<b>1%</b>	<b>1,308,995</b>	<b>-24%</b>	<b>1,662,400</b>	<b>3%</b>
<b>OSPE Program Costs</b>							
Employment Advisory Service	71,549	71,500	0%	28,792	-149%	71,500	0%
National Engineering Week	42,429	42,400	0%	16,180	-162%	42,400	0%
Everyday Heroes Program	60,643	60,000	0%	15,214	-247%	0	0%
Members Salary Survey	0	0	0%	0	0%	41,000	100%
Overhead Contribution and Other	47,337	47,300	0%	25,228	-88%	45,400	-4%
<b>Total Program Costs</b>	<b>221,757</b>	<b>223,600</b>	<b>0%</b>	<b>85,414</b>	<b>-160%</b>	<b>200,300</b>	<b>-11%</b>
<b>Total Contributions To OSPE</b>	<b>1,840,041</b>	<b>1,856,600</b>	<b>1%</b>	<b>1,395,029</b>	<b>-22%</b>	<b>1,882,700</b>	<b>1%</b>
<b>Contribution To CCPE &amp; OSPE</b>	<b>2,395,298</b>	<b>2,386,600</b>	<b>0%</b>	<b>1,996,827</b>	<b>-22%</b>	<b>2,445,100</b>	<b>2%</b>
<b>Deficiency Of Revenue Over Expenses</b>	<b>(8,728,155)</b>	<b>(9,473,009)</b>	<b>25%</b>	<b>(9,808,844)</b>	<b>18%</b>	<b>(9,200,242)</b>	<b>20%</b>