

## 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, 2014, 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, 2014, 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 27, 2015

# FINANCIAL STATEMENTS

(Restated–Note 2)

## STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN NET ASSETS year ended December 31, 2014

		2014	2013
<b>REVENUE</b>	P.Eng. revenue	\$ 14,840,457	\$ 14,630,128
	Application, registration, examination and other fees	5,884,172	5,788,072
	Building operations (Note 5)	2,083,065	2,937,867
	Advertising income	355,572	426,567
	Investment income	219,885	183,296
		<b>23,383,151</b>	<b>23,965,930</b>
<b>EXPENSES</b>	Staff salaries and benefits/retiree and future benefits	10,303,016	10,849,476
	Building operations (Note 5)	2,362,885	2,383,229
	Purchased services	1,090,528	1,069,658
	Amortization	978,437	950,980
	Engineers Canada	901,420	867,094
	Computers and telephone	773,951	644,523
	Volunteer expenses	761,264	852,302
	Occupancy costs (Note 5)	732,760	902,378
	Chapters (Note 14)	722,121	610,795
	Contract staff	666,368	506,580
	Legal (corporate, prosecution and tribunal)	649,465	461,735
	Transaction fees	508,034	487,760
	Postage and courier	424,151	357,372
	Consultants	240,431	353,962
	Recognition, grants and awards	187,667	187,326
	Printing	161,002	152,244
	Office supplies	121,723	121,376
	Professional development	109,170	156,409
	Insurance	97,304	98,600
	Staff expenses	91,355	85,283
Advertising	90,348	198,040	
	<b>21,973,400</b>	<b>22,297,122</b>	
	Excess of revenue over expenses before the undernoted	1,409,751	1,668,808
	Council discretionary reserve expenses (Note 9)	60,515	233,912
	Excess of revenue over expenses	1,349,236	1,434,896
	Re-measurement and other items	390,900	6,533,200
	<b>Net assets, beginning of year</b>	<b>13,791,341</b>	<b>5,823,245</b>
	<b>Net assets, end of year</b>	<b>\$ 15,531,477</b>	<b>\$ 13,791,341</b>

## BALANCE SHEET

as at December 31, 2014

(Restated–Note 2)

		2014	2013	
ASSETS	CURRENT	Cash in interest-bearing accounts	\$ 1,739,886	\$ 3,052,243
		Marketable securities at fair value	6,331,704	5,350,515
		Accounts receivable	498,159	379,240
		Prepaid expenses and deposits	204,332	173,193
		Other assets	443,952	285,412
			9,218,033	9,240,603
	Capital assets (Note 4)	37,062,729	36,729,079	
	<b>TOTAL ASSETS</b>	<b>46,280,762</b>	<b>45,969,682</b>	
LIABILITIES	CURRENT	Accounts payable and accrued liabilities (Note 16)	1,385,054	1,660,977
		Fees in advance and deposits	8,843,131	8,919,164
		Current portion of long-term debt (Note 6)	901,000	878,000
			11,129,185	11,458,141
	LONG TERM	Long-term debt (Note 6)	8,467,000	9,368,000
		Employee future benefits (Note 7)	11,153,100	11,352,200
	<b>TOTAL LIABILITIES</b>	<b>30,749,285</b>	<b>32,178,341</b>	
	Net assets (Note 8)	15,531,477	13,791,341	
	<b>Total liabilities and net assets</b>	<b>46,280,762</b>	<b>45,969,682</b>	

On behalf of council: David Adams, P.Eng., FEC, president; Thomas Chong, MSc, P.Eng., FEC, PMP, president-elect.

## STATEMENT OF CASH FLOWS

year ended December 31, 2014

(Restated–Note 2)

		2014	2013
OPERATING	Excess of revenue over expenses	\$ 1,349,236	\$ 1,434,896
	Add (deduct) items not affecting cash		
	Amortization	1,790,891	1,761,531
	Amortization–other assets	56,323	32,896
	Employee future benefits expensed	1,418,300	2,579,200
	Change in unrealized losses on marketable securities	(68,450)	(17,415)
	Loss (gain) on disposal of marketable securities	37,612	12,322
		4,583,912	5,803,430
	Change in non-cash working capital items (Note 11)	(502,014)	588,271
		4,081,898	6,391,701
FINANCING	Repayment of mortgage	(878,000)	(854,000)
	Contributions to employee future benefit plans	(1,226,500)	(1,418,300)
		(2,104,500)	(2,272,300)
INVESTING	Proceeds of disposal of marketable securities	4,083,963	1,857,745
	Acquisition of marketable securities	(5,034,314)	(2,005,587)
	Additions to capital assets	(2,124,541)	(2,023,542)
	Additions to other assets	(214,863)	(259,448)
		(3,289,755)	(2,430,832)
	(Decrease) increase in cash	(1,312,357)	1,688,569
	Cash, beginning of year	3,052,243	1,363,674
	<b>Cash, end of year</b>	<b>\$ 1,739,886</b>	<b>\$ 3,052,243</b>

# NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2014

## 1. NATURE OF OPERATIONS

The Association of Professional Engineers of Ontario (PEO) 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 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. CHANGE IN ACCOUNTING POLICY

In fiscal 2014, PEO adopted the provisions of the *CPA Canada Handbook* (handbook), *Part III Accounting for Not-for-profit organizations*, section 3463—Reporting Employee Future Benefits by Not-for-profit Organizations (section 3463). In accordance with the transitional provisions of section 3463, PEO retrospectively applied the revised standard. The 2013 corresponding figures and notes have been restated.

Section 3463 eliminated the deferral and amortization method as a policy choice for accounting for defined benefit plans and the three-month window for measuring plan assets and obligations. The standard requires that changes in the fair value of plan assets and in the measurement of the plan obligation, including past service costs, actuarial gains and losses, and curtailment/settlement gains and losses (re-measurements and other items), be recognized as a component of net assets. As a result, the defined benefit asset or liability on the balance sheet reflects the defined benefit obligation, net of the fair value of any plan assets, adjusted for any valuation allowance as of the balance sheet date. Further, section 3463 requires that re-measurements and other items be presented as a separately identified line item in the statement of changes in net assets.

Additionally, the expected return on plan assets is no longer applied to the fair value of the assets to calculate the benefit cost. Under section 3463, the same discount rate must be applied to the benefit obligation and the plan assets to determine the finance cost. The discount rate will continue to be determined by reference to market interest rates on

high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments or the interest rate inherent in the amount at which the defined benefit obligation could be settled. PEO has elected to use a funding valuation to determine its defined benefit obligation related to its pension plans, but will continue to use an accounting valuation for the purposes of determining its non-pension defined benefit obligations.

The retrospective application of the new standard resulted in a decrease to opening net assets at January 1, 2013, of \$9,791,900 with an additional decrease to opening net assets of \$159,500 at January 1, 2014.

## 3. 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:

<b>Asset/liability</b>	<b>Measurement</b>
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 and 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 instruments 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

#### *Pension plans*

The cost of PEO's defined benefit pension plans are determined periodically by independent actuaries using the projected benefit method prorated on service. PEO uses the most recently completed actuarial valuation prepared for funding purposes (but not one

prepared using a solvency, wind-up, or similar valuation basis) 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 an accounting actuarial valuation performed every three years 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 in the statement of changes in net assets; and
- (ii) The cost of the plan for the year.

### (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%
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 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.

# FINANCIAL STATEMENTS

## 4. CAPITAL ASSETS

			2014	2013
	Cost	Accumulated	Net book	Net book
	\$	amortization	value	value
		\$	\$	\$
Building	19,414,667	2,254,607	17,160,060	17,548,355
Building improvements	8,208,586	1,488,305	6,720,281	6,419,567
Building improvements— common area	6,461,870	1,437,408	5,024,462	5,168,252
Land	4,366,303	-	4,366,303	4,366,303
Computer hardware and software	2,580,324	2,297,294	283,030	475,130
Furniture, fixtures and telephone equipment	1,393,289	660,224	733,065	836,601
Audio visual	974,252	465,362	508,890	644,992
Work in progress	2,266,638	-	2,266,638	1,269,879
	<b>45,665,929</b>	<b>8,603,200</b>	<b>37,062,729</b>	<b>36,729,079</b>

## 5. 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:

	2014	2013
	\$	\$
Revenue		
Rental	802,831	1,295,119
Operating cost recoverable—tenants	1,045,263	1,410,533
Parking	136,950	156,150
Miscellaneous	98,021	76,065
	<b>2,083,065</b>	<b>2,937,867</b>
Operating cost recoverable—PEO	720,125	819,374
Total revenue	<b>2,803,190</b>	<b>3,757,241</b>
Recoverable expenses		
Utilities	493,924	452,586
Property taxes	452,923	479,628
Amortization	424,161	422,258
Payroll	245,526	218,299
Janitorial	219,356	251,908
Repairs and maintenance	121,885	201,377
Property management and advisory fees	80,878	78,797
Road and ground	32,552	31,620
Administrative	25,009	20,915
Security	20,276	19,217
Insurance	17,674	21,826
	<b>2,134,164</b>	<b>2,198,431</b>
Other expenses		
Interest expense on note and loan payable	484,986	527,834
Amortization of building	388,293	388,293
Amortization of deferred costs	56,323	32,896
Other non-recoverable expenses	19,244	55,149
	<b>948,846</b>	<b>1,004,172</b>
Total expenses	<b>3,083,010</b>	<b>3,202,603</b>
Excess of revenue over expenses	<b>(279,820)</b>	<b>554,638</b>

For purposes of the statement of revenue, expenses and changes in net assets, the operating cost reimbursements from PEO have been eliminated. The portion of costs allocated to PEO is reallocated from building operations and is included in occupancy costs.

	2014	2013
	\$	\$
Building revenue per above	<b>2,803,190</b>	3,757,241
Eliminated PEO portion	<b>(720,125)</b>	(819,374)
	<b>2,083,065</b>	2,937,867
Building expenses per above	<b>3,083,010</b>	3,202,603
Eliminated PEO portion	<b>(720,125)</b>	(819,374)
	<b>2,362,885</b>	2,383,229

## 6. 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, 2014 is \$9,368,000.

Principal repayments are due as follows:

	\$
2015	901,000
2016	928,000
2017	952,000
2018	980,000
2019	5,607,000
	<b>9,368,000</b>

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.

## 7. 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 3463 of the *CPA Canada Handbook*. 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 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 recorded \$181,383 (2013–\$134,919) 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, 2014 was as follows:

# FINANCIAL STATEMENTS

	Basic pension plan	Supplemental pension plan	Other non-pension benefit plan	Total
	\$	\$	\$	\$
Accrued benefit obligation	(21,671,300)	(1,563,500)	(11,810,300)	<b>(35,045,100)</b>
Plan assets at fair value	22,081,200	1,810,800		<b>23,892,000</b>
Funded status—plan surplus (deficit)	409,900	247,300	(11,810,300)	<b>(11,153,100)</b>
Valuation allowance	-	-	-	-
Defined benefit asset, net of valuation allowance	409,900	247,300	(11,810,300)	<b>(11,153,100)</b>

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)	<b>(33,202,600)</b>
Plan assets at fair value	20,098,000	1,752,400		<b>21,850,400</b>
Funded status—plan surplus (deficit)	(2,211,800)	571,600	(9,712,000)	<b>(11,352,200)</b>
Valuation allowance	-	-	-	-
Defined benefit asset (obligation), net of valuation allowance	(2,211,800)	571,600	(9,712,000)	<b>(11,352,200)</b>

PEO measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at December 31 each year. The most recently completed actuarial valuation of the pension plans for valuation purposes was as of December 31, 2014. The most recent completed actuarial valuation of the non-benefit plan for accounting purposes was as of December 31, 2014.

## 8. 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 \$27,694,729 (2013—\$26,483,079).

## 9. 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. Expenses from the discretionary reserve were as follows

	2014	2013
	\$	\$
Legal reserve—Elliot Lake/other	<b>3,339</b>	177,362
Experienced Practitioners Task Force	<b>4,110</b>	30,381
Emerging Discipline Task Force	<b>4,324</b>	9,612
Overlapping Practices Committee	-	6,755
Building Development Committee	-	5,865
National Frame Work Task Force	<b>2,829</b>	2,382
Licensure Engineering Task Force	-	1,555
Privacy policy review	<b>45,913</b>	-
	<b>60,515</b>	233,912



## 10. FULL-TIME SALARIES AND BENEFITS

During the year, the association incurred a total of \$10,367,673 (2013-\$11,001,016) for salary and benefits costs for its full-time staff, of which \$64,657 (2013-\$151,540) was directly attributable to special projects approved by council and disclosed under Note 9.

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

	2014	2013
	\$	\$
Accounts receivable	(118,919)	(44,286)
Prepaid expenses and deposits	(31,139)	30,295
Accounts payable and accrued liabilities	(275,923)	590,173
Fees in advance and deposits	(76,033)	12,089
	<u>(502,014)</u>	<u>588,271</u>

## 12. CUSTODIAL ACCOUNT

The association maintains a separate bank account for the Council of Ontario Deans of Engineering. Cash totaling \$128,207 in this account (2013-\$127,695) is not reported on the association's balance sheet, as it is held in trust for the Council of Ontario Deans of Engineering.

## 13. 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:

	\$
2015	968,638
2016	64,810
2017	5,312
	<u>1,038,760</u>

## 14. CHAPTERS OF THE ASSOCIATION

The financial information of the 36 chapters of the association is individually not material and, therefore, has not been consolidated in these financial statements. Furthermore, management believes that the effort and cost required to prepare financial statements for each chapter for consolidation purposes far exceed the benefits of doing so.

During the year, the association paid chapter expenses totaling \$722,121 (2013-\$610,795), including \$500,000 (2013-\$392,945) in chapter allotments and \$222,121 (2013-\$217,850) in other disbursements to individual chapters. In 2014, the association also incurred additional costs of \$502,351 (2013-\$525,924) 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.

## 15. 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, 2014, the most significant financial liabilities are: accounts payable and accrued liabilities and long-term debt.

## 16. GOVERNMENT REMITTANCES

Accounts payable and accrued liabilities include \$225,477 (2013-\$198,219), with respect to government remittances payable at year end.