

## REGISTRAR'S FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2014

PEO GENERATED an excess of revenue over expenses of \$1,409,751 before council discretionary reserve expenses for the 2014 fiscal year, as compared to a budgeted surplus of \$328,097. The result was achieved by having expenses of \$1,790,179 less than budgeted, as management continued to control costs in light of economic conditions, offset by a decrease in revenues of \$708,525, primarily attributable to vacant space in the building as a major tenant downsized.

Council discretionary reserve expenses reduced the excess of revenue over expenses by \$60,515. The investment in capital assets for the year was \$2,124,541 (\$2,023,542 in 2013), with PEO incurring no additional debt for these expenditures in 2014, since they were funded from PEO's cash reserves.

The closing balance in cash/investments was \$8,071,590 at the end of the year and PEO's net assets increased to \$15,531,477.

### REVENUE

Total revenue was \$23,383,151, which is 3 per cent below budget, due to lower than budgeted building operations revenue as a major tenant downsized, and leasing of the vacant space was delayed so that HVAC renovations could be completed. Approximately 63 per cent of revenue comprised P.Eng. licence revenue, which is consistent with budget expectations.

### COST MANAGEMENT

Total expenses were \$21,973,400, which is \$1,790,179 or 8 per cent lower than budget. Major expense variances from budget are:

- Staff salaries and benefits/retiree and future benefits were \$1,151,740 lower than planned, with the saving offset by expenses for contract staff, which were \$453,916 above budget;
- Costs for purchased services were \$215,682 lower than budget;
- Amortization costs were \$204,451 lower than budget;
- Volunteer expenses were \$153,806 lower than budget;
- Computer and telephone expenses were \$133,374 lower than budget;
- Building operations costs were \$119,391 lower than budget; and
- Professional development costs were \$98,480 lower than budget.

### 2014 BUDGET VARIANCES BY BUSINESS UNIT

#### Corporate Services

Expenditures were \$1,740,383 or 16 per cent under budget. The key variances within the department include lower than planned staff salaries and benefits, and retiree and future benefits (\$1,139,772), due to a change in accounting standards that had a positive impact on the future benefits expense; lower amortization costs (\$204,451), due to the timing in completing approved budgeted capital projects; lower than budgeted costs for computers and telephone-related expenses (\$132,281) by way of lower

software and hardware maintenance contracts; lower than planned costs for building operations (\$119,392), largely due to lower amortization and non-recoverable expenses; lower than planned printing, postage and management costs for council elections (\$111,104); a decrease in professional development costs across all departments (\$109,139); lower than planned expenses for the Engineering Internship Program (\$86,093), Student Membership Program (\$79,613), and Government Liaison Program (\$67,059). The lower than budgeted expenses were offset by higher than budgeted costs for IT contract staff (\$424,563).

#### Executive

Expenditures were \$100,836 or 14 per cent above budget, as a result of higher than budgeted employment and corporate legal matters (\$161,092). These higher than budgeted expenses were offset by lower than budgeted expenses for consultants (\$42,677) and staff business expenses (\$17,506) for attending PEO meetings and events.

#### Licensing and Finance

Expenditures were \$306,064 or 6 per cent above budget, as PEO continued to process applications from the initial proclamation of the repeal of the industrial exception. Salaries and benefits costs were higher than budgeted (\$157,591); postage and courier costs for mailing billings and issuing licences, etc., were higher than planned due to an increase in postal rates (\$47,296); transaction costs were higher than budgeted (\$43,613); committee and task force volunteer-related expenses were higher than budgeted (\$27,398); and scanning costs were higher than budgeted, due to an increase in the volume of licence applications (\$22,956).

#### Regulatory Compliance

Expenditures were on budget in 2014. Salaries and benefits were lower than budgeted

(\$212,838), due to unfilled positions, with the saving offset by higher than budgeted costs for contract staff (\$27,268) and legal costs for discipline prosecution, registration hearings and discipline and registration appeals (\$200,000).

### **Tribunals and Regulatory Affairs**

Expenditures were \$456,509 or 15 per cent below budget. The key variances include lower than planned independent legal counsel and volunteer expenses (\$135,062) related to discipline hearings; below budget costs (\$91,478) for production, printing and mailing of *Engineering Dimensions*; lower than budgeted salaries and benefits (\$70,400); lower than planned committee and task force expenditures (\$31,645); and lower than planned policy development costs (\$29,836), as anticipated consultant and legal reviews were not required.

### **COUNCIL-DIRECTED INITIATIVES**

For 2014, net expenditures for the projects approved by council amounted to \$60,515. This figure includes \$45,913 for a review of PEO's privacy policy; \$4,324 for costs associated with the Emerging Disciplines Task Force; \$4,110 for the Experienced Practitioners Task Force; \$3,339 for legal costs associated with the Elliot Lake Commission of Inquiry/other; and \$2,829 for the National Framework Task Force.

### **BUILDING OPERATIONS**

The building generated \$2,803,190 in revenue, including PEO's share of recoverable expenses, but excluding base rent PEO would have paid if it paid market rent for its space. Total recoverable expenses of \$2,134,164 and other expenses of \$948,846 combined to create a deficiency of revenue over expenses of \$279,820 (after all expenses, including loan interest), as compared to a budgeted surplus of \$264,214. Total revenues were lower than budget by \$587,284 or 21 per cent, as a major tenant downsized and leasing the vacant space was delayed so HVAC renovations could be completed. Total expenses were under budget by 1.4 per cent. PEO's share of recoverable expenses was \$720,125. These costs were reclassified from building operations to occupancy costs in the financial statements. Since PEO is a not-for-profit organization, it received a preferred property tax rate (residential rate instead of commercial rate), thereby reduc-

ing PEO's overall occupancy cost. Total occupancy costs for 2014 were \$732,760, which included storage and other occupancy costs. PEO's total accommodation expense (including interest) was \$1,217,746.

PEO occupied 38,113 square feet at December 31, 2014. The market rent of this space is approximately \$20 a square foot and operating costs are \$20.80 a square foot. Therefore, PEO's equivalent costs for rent and operating costs would be \$1,555,010 for 2014, leading to a net value to PEO of \$337,264 for 2014.

### **CAPITAL EXPENDITURES**

Capital expenditures for the year were \$2,124,542, compared to \$2,023,542 in 2013.

Building improvements, which are improvements made to PEO's space, totalled \$723,188 for the year. Projects initiated in 2013 that were closed in early 2014 include the relocation of staff from the second floor to the sixth (\$516,111), the seventh floor tribunal door relocation (\$51,073) and the relocation of the computer room from the second floor to the fifth floor (\$156,004).

Base building improvements totalled \$280,372, which is recoverable from tenants. This includes window coverings replacement (\$99,180), elevator upgrade (\$64,460), precast exterior walls (\$52,635), and some smaller improvements.

PEO invested \$77,096 in computer hardware and software during 2014, which included such projects as desktop computer replacement and Engineers Canada national membership database.

Spending on audiovisual and furniture upgrades totalled \$47,127.

The \$996,759 in 2014 spending for work in progress includes the replacement of LicenseEase with the Aptify licence management software (\$628,745), replacement of the fourth floor HVAC (\$839,996), and several smaller projects (\$111,657), reduced by \$583,639 for projects completed in 2014 and transferred from work in progress to building improvements.

PEO's capital expenditures in 2014 were funded from PEO's cash reserves.

### **CONCLUSION**

The association has managed its affairs responsibly and has produced a sizable surplus for the year, leaving 2014 with a healthy reserve to carry out its regulatory mandate in the public interest. Σ