

REGISTRAR'S FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2015

PEO GENERATED AN EXCESS of revenue over expenses of \$1,002,165 before council discretionary reserve expenses for the 2015 fiscal year, as compared to a budgeted surplus of \$124,044. Highlights having an impact on performance include a reduction in expenses over budget of \$1,852,184, as management continued to control costs in light of economic conditions, offset by a decrease in revenues of \$974,063, primarily attributable to vacant space in PEO's building.

The excess of revenue over expenses was reduced by council discretionary reserve expenses of \$70,989. The investment in capital assets for the year was \$2,447,378 (\$2,124,541 in 2014) and PEO incurred no additional debt for these expenditures in 2015, as they were funded from PEO's cash reserves.

The closing balance in cash/investments was \$8,225,199 at the end of the year and net assets decreased to \$14,326,143, largely due to actuarial remeasurements of PEO's pension and benefits plans that resulted from a change in accounting standards that became effective in 2014.

REVENUE

Total revenue was \$23,715,419, which is 4 per cent below budget, due to unrealized rental revenue from vacant space that is yet to be leased. Approximately 64 per cent of revenue comprised P.Eng. licence revenue, which is consistent with budget expectations.

COST MANAGEMENT

Total expenses were \$22,713,254, which is \$1,852,184 or 8 per cent lower than budget. Major expense variances from budget are:

- Staff salaries and benefits/retiree and future benefits were \$1,173,531 lower than planned, offset by increased use of contract staff, which was \$231,499 above budget;
- Amortization costs were \$278,996 lower than budget;
- Volunteer expenses were \$137,798 lower than budget;
- Costs for purchased services were \$111,206 lower than budget;
- Computer and telephone expenses were \$110,077 lower than budget;
- PEO occupancy costs were \$85,731 lower than budget; and
- Chapters costs were \$57,079 lower than budget.

2015 BUDGET VARIANCES BY BUSINESS UNIT

Corporate Services

Expenditures were \$1,274,080 or 10 per cent under budget. The key variances within the department include lower than planned costs for retiree and staff future benefits of \$695,513, due to a change in accounting standards that positively impacted the future benefits expense; lower amortization costs, due to the timing in the completion of budgeted capital

projects (\$278,996); lower than budgeted costs for computers and telephone expenses because of lower costs for software, hardware and service maintenance contracts (\$116,060); lower than planned costs for building operations, largely due to lower amortization and non-recoverable expenses (\$52,378); lower facilities maintenance costs (\$54,621); a decrease in professional development costs (\$48,796); and lower than planned expenses for the internship program (\$86,301) and the Government Liaison Program (\$41,855). These savings were partially offset by higher than budgeted costs for maintaining PEO's web portal (\$35,675) and higher printing and photocopier costs (\$19,642).

Executive

Expenditures were \$45,127 or 6 per cent above budget, largely due to higher than budgeted audiovisual, meal, rental and other related costs for the president's townhall meetings (\$28,806), audit fees (\$9,936) and sponsorships and PR items (\$6,748). These increases were offset by lower than budgeted staff business expenses (\$16,110) for attending events representing PEO.

Licensing and Finance

Expenditures were largely in line with budget in 2015. Salaries and benefits costs were lower than budgeted (\$162,048) due to staff on maternity leave and positions that were filled later during the year. These costs were partially offset by higher than budgeted costs for contractors (\$67,352); for scanning records and setting, invigilating and marking exams (\$47,295); for mailing billings and membership cards and issuing licences, etc. (\$22,824); and transactions (\$21,442).

Regulatory Compliance

Expenditures were \$93,020 or 5 per cent below budget in 2015. Salaries and benefits were lower than budgeted (\$138,253) due to unfilled positions, which saving was offset by higher than

budgeted costs for contract staff (\$26,711) and legal costs for registration investigations and discipline prosecution (\$84,546).

Tribunals and Regulatory Affairs

Expenditures were \$514,267 or 15 per cent below budget. The key variances include lower than budgeted salaries and benefits (\$177,371) due to unfilled positions; lower than budgeted purchased services related to printing *Engineering Dimensions* and the *Journal of Policy Engagement* and meals and catering for committees and events (\$78,638); lower than budgeted volunteer expenses for meals, travel and accommodation for committee meetings and events (\$76,109); lower costs for independent counsel, tribunal fees and related costs for tribunal operations and the Registration and Discipline committees (\$72,526), and other savings across the department.

COUNCIL-DIRECTED INITIATIVES

For 2015, the net expenditures for the projects approved by council amounted to \$70,989. This figure includes \$45,061 for legal fees related to the conclusion of the Elliot Lake inquiry; \$24,689 for time spent by staff on review of the privacy policy and \$1,239 for time spent by staff on the Emerging Disciplines Task Force.

BUILDING OPERATIONS

The building generated \$2,835,298 in revenue, including PEO's share of recoverable expenses, but excluding the base rent that would have been paid if PEO had paid market rent for its space. Total recoverable expenses were \$2,246,872 and other expenses totalled \$906,088, thereby creating a deficiency of revenue over expenses of \$317,662 (after all expenses, including loan interest), as compared to a budgeted surplus of \$60,272. Total revenues were lower than budgeted by \$451,956 or 13.7 per cent, due to the loss of a major tenant and a delay in the leasing of other available space. Total expenses were under budget by 2.3 per cent. PEO's share of recoverable expenses totalled \$708,282. 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 reducing PEO's overall occupancy cost. Total occupancy costs for 2015 were \$765,874, which included storage



and other occupancy costs. PEO's total accommodation expense (including interest) was \$1,207,046.

PEO occupied 39,100 square feet at December 31, 2015. The market rent of this space is approximately \$15 a square foot and operating costs are \$21.05 a square foot. Therefore, PEO's equivalent costs for rent and operating costs would have been \$1,409,555 for 2015, leading to a net value to PEO of \$202,509.

CAPITAL EXPENDITURES

Capital expenditures for the year totalled \$2,447,378, compared to \$2,124,542 in 2014.

Building improvements, which are improvements made to PEO's space, totalled \$593,219 for the year. The major project initiated in 2014 and closed in mid 2015 was the relocation and rebuild of the PEO reception area (\$551,486).

Base building improvements totalled \$2,267,757, which is recoverable from tenants. This includes HVAC upgrades on the fourth floor (\$966,574) and the eighth floor (\$416,241). Other projects are a gas-fired boiler replacement (\$493,020), upgrades to unit 105 (\$188,217) and some smaller improvements.

PEO invested \$237,773 in computer hardware and software during 2015. The projects consisted of outsourcing the IT infrastructure (\$92,733), desktop computer replacement (\$52,837) and several smaller projects.

Spending on audiovisual and furniture upgrades totalled \$27,534.

Work in progress (WIP) spending relates to the project to replace PEO LicenseEase database software with Aptify database software (\$272,748). This software replacement project is expected to be completed in March 2016.

All of PEO's capital expenditures in 2015 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 2015 with a healthy reserve to carry out its regulatory mandate in the public interest. Σ