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, 2016, and the statements of revenue, expenses and changes in net assets and 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, 2016 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
Licensed Public Accountants
March 24, 2017

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
year ended December 31, 2016

		2016	2015
REVENUE	P.Eng. revenue	$ 15,300,492	$ 15,134,271
	Application, registration, examination and other fees	6,186,429	6,064,234
	Building operations (Note 4)	2,044,589	2,127,016
	Advertising income	437,187	292,679
	Investment income	171,538	97,219
		24,140,235	23,715,419
EXPENSES	Staff salaries and benefits/retiree and future benefits	11,262,243	10,708,685
	Building operations (Note 4)	2,485,858	2,444,678
	Purchased services	1,402,475	1,352,825
	Amortization	1,242,064	924,528
	Engineers Canada	977,311	938,579
	Occupancy costs (Note 4)	857,468	765,874
	Chapters (Note 13)	765,181	793,066
	Volunteer expenses	660,736	786,767
	Computers and telephone	628,847	715,813
	Postage and courier	626,926	475,676
	Legal (corporate, prosecution and tribunal)	614,293	567,744
	Transaction fees	500,306	508,253
	Consultants	410,711	362,605
	Contract staff	399,882	496,237
	Recognition, grants and awards	196,051	162,239
	Professional development	168,011	155,251
	Office supplies	132,379	131,955
	Insurance	111,637	105,784
	Advertising	107,711	83,942
	Printing	98,841	128,446
	Staff expenses	83,808	104,307
		23,732,739	22,713,254
Excess of revenue over expenses before the undernoted		407,496	1,002,165
Council discretionary reserve expenses (Note 8)		36,871	70,989
Excess of revenue over expenses		370,625	931,176
Remeasurement and other items		1,342,820	(2,136,510)
Net assets, beginning of year		14,326,143	15,531,477
Net assets, end of year		16,039,588	14,326,143

BALANCE SHEET
as at December 31, 2016

			2016	2015
ASSETS	CURRENT	Cash in interest-bearing accounts	$ **1,449,325**	$ 1,851,432
		Marketable securities at fair value	**6,552,646**	6,403,767
		Accounts receivable	**499,016**	527,314
		Prepaid expenses and deposits	**265,014**	225,778
		Other assets	**401,365**	390,279
			9,167,366	9,398,570
	Capital assets (Note 3)		**37,061,925**	37,711,302
	TOTAL ASSETS		**46,229,291**	47,109,872
LIABILITIES	CURRENT	Accounts payable and accrued liabilities (Note 15)	**1,813,785**	2,174,710
		Fees in advance and deposits	**8,862,418**	9,067,119
		Current portion of long-term debt (Note 5)	**952,000**	928,000
			11,628,203	12,169,829
	LONG TERM	Long-term debt (Note 5)	**6,587,000**	7,539,000
		Employee future benefits (Note 6)	**11,974,500**	13,074,900
	TOTAL LIABILITIES		**30,189,703**	32,783,729
	Net assets (Note 7)		**16,039,588**	14,326,143
	Total liabilities and net assets		**46,229,291**	47,109,872

Approved by the board

STATEMENT OF CASH FLOWS
year ended December 31, 2016

		2016	2015
OPERATING	Excess of revenue over expenses	$ **370,625**	$ 931,176
	Add (deduct) items not affecting cash		
	Amortization	**2,171,172**	1,798,805
	Amortization–other assets	**63,914**	67,395
	Employee future benefits expensed	**1,445,000**	1,274,700
	Change in unrealized losses on marketable securities	**(23,259)**	98,181
	Loss (gain) on disposal of marketable securities	**10,736**	(22,636)
		4,038,188	4,147,621
	Change in non-cash working capital items (Note 10)	**(576,564)**	963,043
		3,461,624	5,110,664
FINANCING	Repayment of mortgage	**(928,000)**	(901,000)
	Contributions to employee future benefit plans	**(1,202,580)**	(1,489,410)
		(2,130,580)	(2,390,410)
INVESTING	Net change in marketable securities	**(136,356)**	(147,608)
	Additions to capital assets	**(1,521,795)**	(2,447,378)
	Additions to other assets	**(75,000)**	(13,722)
		(1,733,151)	(2,608,708)
(Decrease) increase in cash		**(402,107)**	111,546
Cash, beginning of year		**1,851,432**	1,739,886
Cash, end of year		**1,449,325**	**1,851,432**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

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 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 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 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 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:

a) The hedged item or the hedging item ceases to exist other than as designated and documented;
b) 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 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:
a) 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;
b) 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.

3. CAPITAL ASSETS

			2016	2015
	Cost	**Accumulated amortization**	**Net book value**	Net book value
	$	$	$	$
Building	**19,414,668**	**3,031,193**	**16,383,475**	16,771,768
Building improvements	**8,803,365**	**2,398,668**	**6,404,697**	6,871,857
Building improvements–common area	**9,648,456**	**2,464,206**	**7,184,250**	6,806,236
Land	**4,366,303**	**-**	**4,366,303**	4,366,303
Computer hardware and software	**4,549,920**	**2,568,627**	**1,981,293**	323,283
Furniture, fixtures and telephone equipment	**1,428,008**	**901,151**	**526,857**	638,836
Audio visual	**1,008,315**	**793,265**	**215,050**	345,285
Work in progress	**-**	**-**	**-**	1,587,734
	49,219,035	**12,157,110**	**37,061,925**	37,711,302

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:

	2016	2015
	$	$
Revenue		
Rental	**742,060**	748,664
Operating cost recoverable–tenants	**1,052,318**	1,120,249
Parking	**124,035**	130,500
Miscellaneous	**126,176**	127,603
	2,044,589	2,127,016
Operating cost recoverable–PEO	**752,467**	708,282
	2,797,056	2,835,298
Recoverable expenses		
Utilities	**570,506**	516,349
Amortization	**540,813**	485,984
Property taxes	**446,086**	449,510
Payroll	**246,932**	236,916
Janitorial	**195,000**	204,674
Repairs and maintenance	**157,446**	179,295
Property management and advisory fees	**84,856**	82,618
Security	**35,928**	34,070
Administrative	**23,781**	20,045
Insurance	**18,104**	18,691
Road and ground	**14,040**	18,720
	2,333,492	2,246,872
Other expenses		
Interest expense on note and loan payable	**396,398**	441,172
Amortization of building	**388,293**	388,293
Amortization of deferred costs	**63,916**	61,172
Other non-recoverable expenses	**56,226**	15,451
	904,833	906,088
	3,238,325	3,152,960
Excess of revenue over expenses	**(441,269)**	(317,662)

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

	2016	2015
	$	$
Building revenue per above	**2,797,056**	2,835,298
Eliminated PEO portion	**(752,467)**	(708,282)
	2,044,589	2,127,016
Building expenses per above	**3,238,325**	3,152,960
Eliminated PEO portion	**(752,467)**	(708,282)
	2,485,858	2,444,678

5. 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, 2016 is $7,539,000.

Principal repayments are due as follows:

	$
2017	952,000
2018	980,000
2019	5,607,000
	7,539,000

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.

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 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 $214,512 (2015—$202,951) 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, 2016 was as follows:

	Basic pension plan	**Supplemental pension plan**	**Other non-pension benefit plan**	**Total**
	$	**$**	**$**	**$**
Accrued benefit obligation	**(23,686,100)**	**(1,617,100)**	**(13,692,400)**	**(38,995,600)**
Plan assets at fair value	**25,152,300**	**1,868,800**	**-**	**27,021,100**
Funded status–plan surplus (deficit)	**1,466,200**	**251,700**	**(13,692,400)**	**(11,974,500)**
Valuation allowance				**-**
Defined benefit asset, net of valuation allowance	**1,466,200**	**251,700**	**(13,692,400)**	**(11,974,500)**

The funded status of the association's pension plans and post-retirement benefit plan using actuarial assumptions as of December 31, 2015 was as follows:

	Basic pension plan	Supplemental pension plan	Other non-pension benefit plan	Total
	$	$	$	$
Accrued benefit obligation	(22,882,200)	(1,596,800)	(12,402,500)	(36,881,500)
Plan assets at fair value	22,024,600	1,782,000	-	23,806,600
Funded status–plan surplus (deficit)	(857,600)	185,200	(12,402,500)	(13,074,900)
Valuation allowance	-	-	-	-
Defined benefit asset, net of valuation allowance	(857,600)	185,200	(12,402,500)	(13,074,900)

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.

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 $29,522,925 (2015—$29,244,302).

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. Expenses from the discretionary reserve were as follows:

	2016	2015
	$	$
Legal reserve–Elliot Lake/other	**-**	45,061
Privacy policy review	**-**	24,689
Emerging Discipline Task Force	**1,790**	1,239
Council Term Limits Task Force	**30,276**	-
Council Composition Task Force	**4,805**	-
	36,871	70,989

9. FULL-TIME SALARIES AND BENEFITS

During the year, the association incurred a total of $11,286,681 (2015—$10,734,613) for salary and benefits costs for its full-time staff of which $24,438 (2015—$25,928) was directly attributable to special projects approved by council and disclosed under Note 8.

10. CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2016	2015
	$	$
Accounts receivable	**28,298**	(29,155)
Prepaid expenses and deposits	**(39,236)**	(21,446)
Accounts payable and accrued liabilities	**(360,925)**	789,656
Fees in advance and deposits	**(204,701)**	223,988
	(576,564)	963,043

11. CUSTODIAL ACCOUNT
The association maintains a separate bank account for the Council of Ontario Deans of Engineering. Cash totaling $138,330 in this account (2015—$134,852) is not reported on the association's balance sheet, as it is held in trust for the Council of Ontario Deans of Engineering.

12. 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:

	$
2017	734,114
2018	351,550
2019	291,634
2020	189,008
	1,566,306

13. CHAPTERS OF THE ASSOCIATION
The financial information of the 36 chapters of the association are individually not material and, therefore, have 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 $765,181 (2015—$793,066), including $545,555 (2015—$510,000) in chapter allotments and $219,626 (2015—$283,066) in other disbursements to individual chapters. In 2016, the association also incurred additional costs of $495,694 (2015—$518,375) 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.

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, 2016, the most significant financial liabilities are: accounts payable and accrued liabilities, and long-term debt.

15. GOVERNMENT REMITTANCES
Accounts payables and accrued liabilities include $294,338 (2015—$206,097), with respect to government remittances payable at year end.