

REGISTRAR'S FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2016

PEO generated an excess of revenue over expenses of \$407,496 before council discretionary reserve expenses for the 2016 fiscal year, as compared to a budgeted surplus of \$316,919. Highlights having an impact on performance include a reduction in expenses over budget of \$1,472,013, as management continued to control costs in light of economic conditions, offset by a decrease in revenues of \$1,381,436, attributable to lower application, registration, exam and other fees than planned and lower building revenues due to tenant vacancies.

The excess of revenue over expenses was reduced by council discretionary reserve expenses of \$36,871. The investment in capital assets for the year was \$1,521,795 (\$2,447,378 in 2015) and PEO incurred no additional debt for these expenditures in 2016, as they were funded from PEO's cash reserves.

The closing balance in cash/investments was \$8,001,971 at the end of the year and net assets increased to \$16,039,588.

REVENUE

Total revenue was \$24,140,235, which is 5 per cent below budget largely due to lower than expected application, registration and exams fees and also due to lower rental resulting from vacant space that is yet to be leased. Approximately 63 per cent of revenue comprised P.Eng. licence revenue, which is consistent with budget expectations.

COST MANAGEMENT

Total expenses were \$23,732,739, which is \$1,472,013 or 6 per cent lower than budget.

Major expense variances from budget are:

- Staff salaries and benefits/Retiree and future benefits were \$614,127 lower than planned;
- Volunteer expenses were \$268,554 lower than budget;
- Costs for purchased services were \$173,865 lower than budget;
- Amortization costs were \$159,689 lower than budget;
- Costs for chapters were \$136,914 lower than budget;
- Computer and telephone expenses were \$102,468 lower than budget; and
- Professional development was \$81,989 lower than budget.

2016 BUDGET VARIANCES BY BUSINESS UNIT

Corporate Services

Expenditures were \$1,177,329 or 11 per cent under budget. The key variances within the department include lower than planned costs for staff salaries along with retiree and staff future benefits (\$644,073); lower than budgeted costs for purchased services (\$175,024) due to lower costs for audiovisual rentals, meals and catering for various events such as the AGM, Order of Honour, etc.; lower than budgeted costs for chapters (\$136,731) due to lower allotments and lower accommodation and meal expenses for attending regional congresses; lower than budgeted volunteer expenses (\$115,106) due to lower meal, mileage, parking and accommodation costs for attending various committee meetings and events; and lower than planned expenses for professional development. These reductions were partially offset by higher than budgeted costs for advertising related to staff recruitment (\$27,297) and higher costs for office supplies (\$21,293).

Executive

Expenditures were \$132,048 or 9 per cent above budget, largely due to higher salaries and benefits costs (\$61,273); higher costs for the yearly Engineers Canada contributions (\$48,885) and higher than budgeted costs (\$34,533) for legal fees for litigation and related matters. These were partially offset by lower than budgeted staff (\$16,068) and volunteer business expenses (\$14,867) for attending various events to represent PEO.

Finance

Expenditures were \$71,156 or 5 per cent below budget in 2016. Salaries and benefits costs were lower than budgeted (\$59,641) due to the elimination of a managerial position and lower postage costs (\$51,028) related to the mailing of fee renewal, application and other administrative correspondence. This decrease was offset partially by higher costs for contract staff (\$24,507) and higher costs for office supplies (\$8,653).

Information Technology

Expenditures were \$154,109 or 7 per cent below budget. This was due to lower costs for contract staff (\$302,450) largely due to the departure of the IT director; lower amortization costs (\$170,302) due to delayed spending and cancelled capital projects; and lower than budgeted costs for computers and telephone-related expenses (\$85,343) resulting from lower costs for support and maintenance contracts, communications link costs, web portal costs, software non-capital upgrades, etc.

Licensing

Expenditures were \$47,305 or 1 per cent below budget. This was largely due to lower than budgeted staff salaries and benefits (\$113,911), lower volunteer travel expenses (\$61,859) for attending various committee meetings and lower than budgeted costs for consultants (\$27,057). These were offset by higher than budgeted costs for contract staff (\$125,084) and higher costs for purchased services (\$49,845) related to catering costs for various committee meetings and an increase in scanning costs for applicant records.

Communications

Expenditures were \$214,309 or 16 per cent above budget. The key variances include higher than budgeted salaries and benefits (\$262,132) and higher postage costs (\$46,586) due to the mailing out of hard copies of the *Engineering Dimensions* magazine. These increases were partially offset by lower than budgeted costs for purchased services (\$59,954) largely due to lower printing costs for the *Engineering Dimensions* magazine and lower than budgeted advertising costs (\$23,586) for corporate communications.

Regulatory Compliance

Expenditures were \$105,636 or 5 per cent above budget in 2016. Legal expenses (\$63,621), including costs for complaints investigations, were higher than budgeted; costs for contract staff (\$46,233) were higher due to staff being away on maternity leave. These were partially offset by lower than expected costs for purchased services (\$6,765) and lower staff travel and business expenses (\$5,336).

Tribunals and Regulatory Affairs

Expenditures were \$474,860 or 23 per cent below budget. The key variances include lower than budgeted salaries and benefits (\$345,735) due to unfilled positions; lower than budgeted volunteer expenses for meals, travel and accommodation for various committee meetings and events (\$74,209); and lower expenses (\$56,237) for legal costs, including tribunal fees, court reporters, and independent legal counsel for registration hearings, complaints review councillor and discipline hearings.

COUNCIL-DIRECTED INITIATIVES

For 2016, the net expenditures for the projects approved by council amounted to \$36,871. This includes \$30,276 for the Council Term Limits Task Force, \$4,805 for the Council Composition Task Force and \$1,790 for the Emerging Disciplines Task Force.

BUILDING OPERATIONS

The building generated \$2,797,056 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 \$2,333,492 and other expenses totalled \$904,833, thereby creating a deficiency of revenue over expenses of \$441,269 (after all expenses, including loan interest), as compared to a budgeted surplus of \$97,041. Total revenues were lower than budgeted by \$364,250 or 12 per cent due to a delay in the leasing of available space. Total expenses were under budget by \$20,021 or 0.6 per cent. PEO's share of expenses totalled \$752,467. 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 costs. Total occupancy costs for 2016 were \$857,468, which includes security,



storage and other occupancy costs. PEO's total accommodation expense (including interest) was \$1,253,866.

PEO occupied 39,100 square feet at December 31, 2016. The market rent of this space is approximately \$15 a square foot and operating costs are \$21.86 a square foot. Therefore, PEO's equivalent costs for rent and operating costs would have been \$1,441,226 for 2016, leading to a net value to PEO of \$187,360.

CAPITAL EXPENDITURES

Capital expenditures for the year totalled \$1,521,795, compared to \$2,447,378 in 2015.

Base building improvements totalled \$918,829, which are recoverable from tenants. This includes costs for pedestrian paving carried over from 2015 (\$298,496), replacement of an emergency generator also carried over from 2015 (\$225,274) and mechanical upgrades on the parking garage elevator (\$140,453). Other projects include window replacement (\$59,598), underground garage wall painting (\$59,120), insulated window glazing units (\$54,232) and other improvements. Non-recoverable building improvements, which are improvements made to PEO's space, totalled \$1,560 for the year. This was to replace PEO's exterior ground floor signage. PEO invested \$560,155 in computer hardware and software during 2016, including the Aptify software project (\$282,240), LAN room hardware upgrade (\$246,091), upgrade PCs and laptops (\$31,824) and several smaller projects. Spending on audiovisual and furniture upgrades totalled \$41,281.

All of PEO's capital expenditures in 2016 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 2016 with a healthy reserve to carry out its regulatory mandate in the public interest. **e**