
Financial statements of
Association of Professional Engineers
of Ontario

December 31, 2017

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Independent Auditor's Report

To the Members of
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, 2017, 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, 2017 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.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants
March 23, 2018

Association of Professional Engineers of Ontario
Statement of revenue, expenses and changes in net assets

Year ended December 31, 2017

	Notes	2017	2016
		\$	\$
Revenue			
P. Eng revenue		15,444,463	15,300,492
Application, registration, examination and other fees		6,450,742	6,186,429
Building operations	4	2,386,379	2,044,589
Investment income		287,341	171,538
Advertising income		269,958	437,187
		24,838,883	24,140,235
Expenses			
Staff salaries and benefits/retiree and future benefits	9	11,742,284	11,262,243
Building operations	4	2,401,801	2,485,858
Purchased services		1,492,430	1,402,475
Amortization		1,280,598	1,242,064
Engineers Canada		960,080	977,311
Legal (corporate, prosecution and tribunal)		913,788	614,293
Chapters	13	887,498	765,181
Computers and telephone		854,024	628,847
Occupancy costs	4	817,268	857,468
Volunteer expenses		738,032	660,736
Postage and courier		638,415	626,926
Transaction fees		536,201	500,306
Consultants		459,679	410,711
Contract staff		189,353	399,882
Recognition, grants and awards		178,010	196,051
Advertising		156,729	107,711
Office supplies		132,120	132,379
Professional development		120,985	168,011
Insurance		116,481	111,637
Printing		113,406	98,841
Staff expenses		100,522	83,808
		24,829,704	23,732,739
Excess of revenue over expenses before the undernoted		9,179	407,496
Council discretionary reserve expenses	8	34,967	36,871
(Deficiency) excess of revenue over expenses		(25,788)	370,625
Remeasurement and other items		80,755	1,342,820
Net assets, beginning of year		16,039,588	14,326,143
Net assets, end of year		16,094,555	16,039,588

The accompanying notes are an integral part of the financial statements.

Association of Professional Engineers of Ontario


Balance sheet

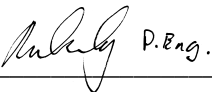
As at December 31, 2017

	Notes	2017	2016
		\$	\$
Assets			
Current assets			
Cash in interest bearing accounts		2,353,902	1,449,325
Marketable securities, at fair value		6,806,699	6,552,646
Accounts receivable		426,729	499,016
Prepaid expenses and deposits		389,089	265,014
Other assets		401,256	401,365
		10,377,675	9,167,366
Capital assets	3	35,078,815	37,061,925
		45,456,490	46,229,291
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	15	1,787,457	1,813,785
Fees in advance and deposits		9,048,378	8,862,418
Current portion of long-term debt	5	980,000	952,000
		11,815,835	11,628,203
Long-term			
Long-term debt	5	5,607,000	6,587,000
Employee future benefits	6	11,939,100	11,974,500
		29,361,935	30,189,703
Net assets	7	16,094,555	16,039,588
Total liabilities and net assets		45,456,490	46,229,291

The accompanying notes are an integral part of the financial statements.

Approved by the Council

 P.Eng. _____ Director

 P.Eng. _____ Director

Association of Professional Engineers of Ontario

Statement of cash flows

Year ended December 31, 2017

	Notes	2017	2016
		\$	\$
Operating activities			
(Deficiency) excess of revenue over expenses		(25,788)	370,625
Add (deduct) items not affecting cash			
Amortization		2,232,686	2,171,172
Amortization - other assets		68,852	63,914
Employee future benefits expensed		1,218,555	1,445,000
Change in unrealized (gains) losses on marketable securities		(190,013)	(23,259)
Losses (gains) on disposal of marketable securities		71,931	10,736
		3,376,223	4,038,188
Change in non-cash working capital items	10	107,844	(576,564)
		3,484,067	3,461,624
Financing activities			
Repayment of mortgage		(952,000)	(928,000)
Contributions to employee future benefit plans		(1,173,200)	(1,202,580)
		(2,125,200)	(2,130,580)
Investing activities			
Net change in marketable securities		(135,971)	(136,356)
Additions to capital assets		(249,576)	(1,521,795)
Additions to other assets		(68,743)	(75,000)
		(454,290)	(1,733,151)
Increase (decrease) in cash		904,577	(402,107)
Cash, beginning of year		1,449,325	1,851,432
Cash, end of year		2,353,902	1,449,325

The accompanying notes are an integral part of the financial statements.

Association of Professional Engineers of Ontario

Notes to the financial statements

December 31, 2017

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:

<u>Asset/liability</u>	<u>Measurement</u>
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 financial asset shall be written down and the resulting impairment loss shall be recognized in the statement of revenue, 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 the statement of revenue, expenses and changes in net assets 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;
- (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.

2. Significant accounting policies (continued)

b) Hedge accounting (continued)

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 revenue on a monthly basis over the license period. Building Fund revenue is recognized as revenue at the commencement of the license 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 is 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 once every year 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;
- (ii) The cost of the plan for the year.

Association of Professional Engineers of Ontario

Notes to the financial statements

December 31, 2017

2. Significant accounting policies (continued)

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

	2017			2016
	Cost	Accumulated amortization	Net book value	Net book value
	\$	\$	\$	\$
Building	19,414,668	3,419,487	15,995,181	16,383,475
Building improvements	8,903,086	2,872,507	6,030,579	6,404,697
Building improvements - common area	9,684,007	3,028,001	6,656,006	7,184,250
Land	4,366,303	—	4,366,303	4,366,303
Computer hardware and software	4,659,375	3,154,452	1,504,923	1,981,293
Furniture, fixtures and telephone equipment	1,431,775	1,019,948	411,827	526,857
Audio visual	1,008,316	895,403	112,913	215,050
Work-in-progress	1,083	—	1,083	—
	49,468,613	14,389,798	35,078,815	37,061,925

Association of Professional Engineers of Ontario

Notes to the financial statements

December 31, 2017

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:

	2017	2016
	\$	\$
Revenue		
Rental	804,236	742,060
Operating cost recoverable - tenants	1,313,369	1,052,318
Parking	139,259	124,035
Miscellaneous	129,515	126,176
	2,386,379	2,044,589
Operating cost recoverable - PEO	729,089	752,467
	3,115,468	2,797,056
Recoverable expenses		
Utilities	534,901	570,506
Amortization	563,795	540,813
Property taxes	442,424	446,086
Payroll	253,104	246,932
Janitorial	190,665	195,000
Repairs and maintenance	159,577	157,446
Property management and advisory fees	86,977	84,856
Security	4,798	35,928
Administrative	23,119	23,781
Road and ground	20,693	14,040
Insurance	18,247	18,104
	2,298,300	2,333,492
Other expenses		
Interest expense on note and loan payable	348,006	396,398
Amortization of building	388,293	388,293
Amortization of deferred costs	68,852	63,916
Other non-recoverable expenses	27,439	56,226
	832,590	904,833
	3,130,890	3,238,325
Excess of expenses over revenue	(15,422)	(441,269)

For purposes of the statement of revenue, expenses and changes in net assets, the operating costs recoverable from PEO of \$729,089 (2016 - \$752,467) have been eliminated. The portion of costs allocated to PEO is reallocated from Building operations and is included in Occupancy costs on the statement of revenue, expenses and changes in net assets.

Association of Professional Engineers of Ontario

Notes to the financial statements

December 31, 2017

4. Building operations (continued)

	2017	2016
	\$	\$
Building revenue per above	3,115,468	2,797,056
Eliminated PEO portion	(729,089)	(752,467)
	<u>2,386,379</u>	<u>2,044,589</u>
Building expenses per above	3,130,890	3,238,325
Eliminated PEO portion	(729,089)	(752,467)
	<u>2,401,801</u>	<u>2,485,858</u>

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, 2017 is \$6,587,000.

Principal repayments are due as follows:

	\$
2018	980,000
2019	<u>5,607,000</u>
	<u>6,587,000</u>

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% 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 3462 of the CPA Canada Handbook and accounted for as per Section 3463. 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 \$254,900 (2016 - \$214,512) in employer contributions to the self-directed RRSP.

Association of Professional Engineers of Ontario

Notes to the financial statements

December 31, 2017

6. Employee future benefits (continued)

The funded status of the Association's pension plans and post-retirement benefit plan using actuarial assumptions as of December 31, 2017 was as follows:

	Basic pension plan	Supplemental pension plan	Other non-pension benefit plan	Total
	\$	\$	\$	\$
Accrued benefit obligation	(24,412,500)	(1,905,800)	(14,241,800)	(40,560,100)
Plan assets at fair value	26,726,400	1,894,600	—	28,621,000
Funded status - plan surplus (deficit)	2,313,900	(11,200)	(14,241,800)	(11,939,100)

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)

PEO measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at December 31 each year based on the most recently completed actuarial valuation for funding purposes. The most recently completed actuarial valuation of the pension plans for funding purposes, was as of January 1, 2017.

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 \$28,491,815 (2016 - \$29,522,925).

Association of Professional Engineers of Ontario

Notes to the financial statements

December 31, 2017

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. These figures include costs of \$21,264 for salaries and benefits for staff time spent on these projects.

	2017	2016
	\$	\$
Emerging Discipline Task Force	1,376	1,790
Council Term Limits Task Force	10,506	30,276
Council Composition Task Force	23,085	4,805
	34,967	36,871

9. Full time salaries and benefits

During the year, the Association incurred a total of \$11,763,548 (2016 - \$11,286,681) for salary and benefits costs for its full-time staff of which \$21,264 (2016 - \$24,438) was directly attributable to special projects approved by Council and disclosed in Note 8.

10. Change in non-cash working capital items

	2017	2016
	\$	\$
Accounts receivable	72,287	28,298
Prepaid expenses and deposits	(124,075)	(39,236)
Accounts payable and accrued liabilities	(26,328)	(360,925)
Fees in advance and deposits	185,960	(204,701)
	107,844	(576,564)

11. Custodial account

The Association maintains a separate bank account for the Council of Ontario Deans of Engineering. Cash held in the bank account totaling \$142,264 (2016 - \$138,330) is not reported on the Association's balance sheet, as it is held in trust for the Council of Ontario Deans of Engineering.

Association of Professional Engineers of Ontario

Notes to the financial statements

December 31, 2017

12. Commitments

The Association has obligations under non-cancelable operating leases and agreements for various service agreements. The payments to the expiry of the leases and agreements are as follows:

	\$
2018	1,386,245
2019	662,752
2020	252,654
	<u>2,301,651</u>

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 \$887,498 (2016 - \$765,181) including \$596,775 (2016 - \$545,555) in chapter allotments and \$290,723 (2016 - \$219,626) in other disbursements to individual chapters. During the year, the Association also incurred additional costs of \$561,332 (2016 - \$495,694) 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, 2017, the most significant financial liabilities are: accounts payable and accrued liabilities, and long-term debt.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. PEO's international and US equity pooled fund investments are denominated in foreign currencies the value of which could fluctuate in part due to changes in foreign exchange rates.

15. Government remittances

Accounts payables and accrued liabilities includes \$318,916 (2016 - \$294,338), with respect to government remittances payable at year end.