

Financial statements of

**Association of Professional  
Engineers of Ontario**

December 31, 2012 and December 31, 2011

# **Association of Professional Engineers of Ontario**

December 31, 2012 and December 31, 2011

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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 sheets as at December 31, 2012, December 31, 2011 and January 1, 2011, and the statements of revenue, expenses and changes in net assets and of cash flows for the years ended December 31, 2012 and December 31, 2011, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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, 2012, December 31, 2011 and January 1, 2011, and the results of its operations and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.

*Deloitte LLP*

Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants  
March 22, 2013

# Association of Professional Engineers of Ontario

Statements of revenue, expenses and changes in net assets  
years ended December 31, 2012 and December 31, 2011

	2012	2011
	\$	(Note 2) \$
<b>Revenue</b>		
P. Eng Revenue	14,367,398	14,224,220
Application, registration, examination and other fees	5,452,203	5,189,979
Building operations (Note 5)	2,848,021	2,354,380
Advertising income	447,158	409,690
Investment income	114,353	311,462
	<b>23,229,133</b>	<b>22,489,731</b>
<b>Expenses</b>		
Staff salaries and benefits/Retiree and future benefits	10,483,525	9,659,586
Building operations (Note 5)	2,347,270	2,267,212
Purchased services	1,179,776	1,331,419
Amortization	960,662	728,513
Volunteer expenses	869,324	945,188
Engineers Canada	847,971	825,979
Occupancy costs (Note 5)	846,281	652,279
Computers and telephone	606,110	612,297
Chapters (Note 15)	590,794	598,260
Postage and courier	544,204	641,278
Legal (corporate, prosecution and tribunal)	514,531	1,159,134
Transaction fees	489,294	415,953
Contract staff	331,831	341,088
Consultants	248,933	274,272
Printing	153,642	142,768
Recognition, grants and awards	129,861	161,292
Insurance	115,375	139,747
Advertising	111,300	185,950
Office supplies	110,545	116,729
Staff expenses	107,307	167,161
Professional development	103,056	64,715
	<b>21,691,592</b>	<b>21,430,820</b>
Excess of revenue over expenses before the undernoted	1,537,541	1,058,912
Council Discretionary Reserve expenses (Note 9)	(139,639)	(324,011)
Write-off of building improvements (Note 10)	-	(945,247)
Excess of revenue over expenses	1,397,902	(210,346)
Net assets, beginning of year	14,220,243	14,430,589
<b>Net assets, end of year</b>	<b>15,618,145</b>	<b>14,220,243</b>

# Association of Professional Engineers of Ontario

## Balance sheets

as at December 31, 2012, December 31, 2011 and January 1, 2011

	December 31, 2012	December 31, 2011 (Note 2)	January 1, 2011 (Note 2)
	\$	\$	\$
<b>Assets</b>			
Current assets			
Cash in interest bearing accounts	1,363,674	794,808	2,245,695
Marketable securities at fair value	5,197,580	3,379,767	12,113,603
Accounts receivable	334,954	1,098,513	258,241
Prepaid expenses and deposits	203,488	242,258	166,870
Other assets	58,860	-	-
	<b>7,158,556</b>	<b>5,515,346</b>	<b>14,784,409</b>
Capital assets (Note 4)	<b>36,467,068</b>	<b>36,908,779</b>	<b>28,559,805</b>
<b>Total assets</b>	<b>43,625,624</b>	<b>42,424,125</b>	<b>43,344,214</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities (Note 17)	1,070,804	1,435,289	1,711,683
Fees in advance and deposits	8,907,075	8,592,054	8,698,335
Current portion of long term debt (Note 6)	854,000	826,400	789,400
	<b>10,831,879</b>	<b>10,853,743</b>	<b>11,199,418</b>
Long term			
Long term debt (Note 6)	10,246,000	11,100,000	11,926,400
Employee future benefits (Note 7)	6,929,600	6,250,139	5,787,807
Total liabilities	<b>28,007,479</b>	<b>28,203,882</b>	<b>28,913,625</b>
Net assets (Note 8)	<b>15,618,145</b>	<b>14,220,243</b>	<b>14,430,589</b>
<b>Total liabilities and net assets</b>	<b>43,625,624</b>	<b>42,424,125</b>	<b>43,344,214</b>

Approved by the Board

 Director

 Director

# Association of Professional Engineers of Ontario

## Statements of cash flows

years ended December 31, 2012 and December 31, 2011

	2012	2011
	\$	(Note 2) \$
<b>Operating activities</b>		
Excess of revenue over expenses	1,397,902	(210,346)
Add (deduct) items not affecting cash		
Write-off of building improvements	-	945,247
Amortization	1,764,934	1,330,565
Amortization - other assets	45,101	-
Employee future benefits	2,231,300	1,930,337
Change in unrealized losses on marketable securities	29,053	235,140
(Gain) loss on disposal of marketable securities	(13,292)	280,420
	<b>5,454,998</b>	<b>4,511,363</b>
Change in non-cash working capital items (Note 12)	<b>752,865</b>	<b>(1,298,335)</b>
	<b>6,207,863</b>	<b>3,213,028</b>
<b>Financing activities</b>		
Repayment of mortgage	(826,400)	(789,400)
Contributions to employee future benefit plans	(1,551,839)	(1,468,005)
	<b>(2,378,239)</b>	<b>(2,257,405)</b>
<b>Investing activities</b>		
Proceeds of disposal of marketable securities	5,361,528	17,030,330
Acquisition of marketable securities	(7,195,102)	(8,812,054)
Additions to capital assets	(1,323,223)	(10,624,786)
Additions to other assets	(103,961)	-
	<b>(3,260,758)</b>	<b>(2,406,510)</b>
Increase (decrease) in cash	<b>568,866</b>	<b>(1,450,887)</b>
Cash, beginning of year	<b>794,808</b>	<b>2,245,695</b>
<b>Cash, end of year</b>	<b>1,363,674</b>	<b>794,808</b>

# Association of Professional Engineers of Ontario

## Notes to the financial statements

December 31, 2012 and December 31, 2011

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### 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. Adoption of a new accounting framework

During the year ended December 31, 2012, PEO adopted the new accounting standards for not-for profit organizations (the "new standards") issued by the Canadian Institute of Chartered Accountants ("CICA"). In accordance with Section 1501 of the CICA Handbook, First-time adoption, ("Section 1501"), the date of transition to the new standards is January 1, 2011 and PEO has prepared and presented an opening balance sheet at the date of transition to the new standards. This opening balance sheet is the starting point for the entity's accounting under the new standards. In its opening balance sheet, under the recommendations of Section 1501, PEO:

- (a) recognized all assets and liabilities whose recognition is required by the new standards;
- (b) did not recognize items as assets or liabilities if the new standards do not permit such recognition;
- (c) reclassified items that it recognized previously as one type of asset, liability or component of net assets, but are recognized as a different asset, liability or component of equity under the new standards; and
- (d) applied the new standards in measuring all recognized assets and liabilities.

In accordance with the requirements of Section 1501, the accounting policies set out in Note 3 have been consistently applied to all years presented and adjustments resulting from the adoption of the new standards have been applied retrospectively. PEO has elected to recognize cash and marketable securities at fair value at the date of transition to the new standards. PEO has not applied any other of the exemptions available in Section 1501.

*Impact of the adoption of the new standards on the balance sheet and net asset balances as at January 1, 2011:*

	Balance as previously reported	Adjustments	Reference	Balance as adjusted
	\$	\$		\$
<i>Assets</i>				
Prepaid expenses and deposits	189,070	(22,200)	(a)	166,870
Derivative asset	20,970	(20,970)	(c)	-
<i>Liabilities</i>				
Current portion of long term debt	808,000	(18,600)	(a)	789,400
Long term debt	11,930,000	(3,600)	(a)	11,926,400
<b>Net assets</b>	<b>14,451,559</b>	<b>(20,970)</b>	<b>(c)</b>	<b>14,430,589</b>



# Association of Professional Engineers of Ontario

## Notes to the financial statements

December 31, 2012 and December 31, 2011

### 2. Adoption of a new accounting framework (continued)

Impact of the adoption of the new standards on the balance sheet and net asset balances as at December 31, 2011:

	Balance as previously reported	Adjustments	Reference	Balance as adjusted
	\$	\$		\$
<i>Assets</i>				
Prepaid expenses and deposits	245,858	(3,600)	(a)	242,258
<i>Liabilities</i>				
Current portion of long term debt	830,000	(3,600)	(a)	826,400
Derivative liability	746,901	(746,901)	(c)	-
Net assets	13,473,342	746,901	(c)	14,220,243

The impact of the adoption of the new standards on the Statements of revenue, expenses and changes in net assets for the year ended December 31, 2011 is summarized as follows:

	Balance as previously reported December 31, 2011	Adjustment	Reference	Balance as adjusted as at December 31, 2011
	\$	\$		\$
Investment income	546,602	(235,140)	(b)	311,462
Excess of revenue over expenses	24,794	(235,140)		(210,346)

Explanations of adjustments:

a) *Transaction costs*

Under the new standards, transaction costs associated with the assumption of long-term debt is included as part of the amortized cost of the long-term debt. The purpose of the adjustment is to reclassify against the long-term debt the costs incurred on the assumption of the mortgage loan which were previously presented as deferred financing costs.

b) *Marketable securities*

Previously, in accordance with Section 3855 of the CICA Handbook, PEO classified its marketable securities as available for sale, with changes in fair value recorded through net assets in the statement of revenue, expenses and changes in net assets until realized through disposal or other than temporary impairment, at which time they were recorded through income in the statement of revenue, expenses and changes in net assets. Under the new standards, PEO will record marketable securities at fair value on the date of acquisition, with any subsequent changes in fair value recorded through income in the statement of revenue, expenses and changes in net assets. As a result of retroactively applying this policy, unrealized gains previously directly included in net assets, flow through income, with no impact on previously recorded net assets.

# Association of Professional Engineers of Ontario

## Notes to the financial statements

December 31, 2012 and December 31, 2011

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### 2. Adoption of a new accounting framework (continued)

#### c) *Derivative asset/liability*

Previously, in accordance with Section 3855 of the CICA Handbook, PEO measured its interest rate swap, which met the criteria for hedge accounting, at fair value with changes in fair value recorded through net assets in the statement of revenue, expenses and changes in net assets. Under the new standards, as the swap continues to be an effective hedge, PEO is no longer required to record the fair value of the swap as an asset or liability.

### 3. 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 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 instrument 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.

# Association of Professional Engineers of Ontario

## Notes to the financial statements

December 31, 2012 and December 31, 2011

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### 3. Significant accounting policies (continued)

#### b) *Hedge Accounting*

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 license period. Building Fund revenue is recognized into income 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*

The Association accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Association has adopted the deferral and amortization approach which includes the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method pro-rated on service, and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- The pension plan assets are valued at fair market value.
- Based on an actuarial assessment that is conducted every three years, the asset base of the pension plan may have to be adjusted and the amount of the adjustment could be material. The most recent actuarial valuation was performed as at January 1, 2011.
- All past service costs and actuarial gains or losses arising after January 1, 2000 are amortized starting with the fiscal year following the occurrence in accordance with the requirements of Chapter 3461 of the CICA handbook.
- The excess of the unamortized cumulative actuarial gains and losses, as of the beginning of the period, over 10% of the greater of the accrued benefit obligations and market value of assets at the same date, will be amortized over the employee average remaining service lifetime of active members, which is 9 years as at January 1, 2011.
- When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

# Association of Professional Engineers of Ontario

## Notes to the financial statements

December 31, 2012 and December 31, 2011

### 3. Significant accounting policies (continued)

#### f) Capital assets

Capital assets are recorded at cost. Amortization is calculated on a straight-line basis at the following annual rates.

Building	2%
Building improvements	5%
Building improvements – common area	3.3% to 10%
Furniture, fixtures and telephone equipment	10%
Audio visual	20%
Computer hardware and software	33%

The Association's investment in property, plant and equipment 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.

### 4. Capital assets

	December 31, 2012		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Building	19,414,668	1,478,021	17,936,647
Building improvements	7,010,410	706,639	6,303,771
Building improvements - common area	6,145,192	590,989	5,554,203
Land	4,366,303	-	4,366,303
Computer hardware and software	2,231,180	1,728,624	502,556
Furniture, fixtures and telephone equipment	1,350,847	400,218	950,629
Audio visual	950,111	146,287	803,824
Construction in progress	49,135	-	49,135
	<b>41,517,846</b>	<b>5,050,778</b>	<b>36,467,068</b>

	December 31, 2011		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Building	19,414,668	1,089,726	18,324,942
Building improvements	6,745,747	367,308	6,378,439
Building improvements - common area	5,993,968	173,557	5,820,411
Land	4,366,303	-	4,366,303
Computer hardware and software	2,043,614	1,389,324	654,290
Furniture, fixtures and telephone equipment	1,295,429	213,737	1,081,692
Audio visual	330,904	48,202	282,702
	<b>40,190,633</b>	<b>3,281,854</b>	<b>36,908,779</b>

# Association of Professional Engineers of Ontario

Notes to the financial statements

December 31, 2012 and December 31, 2011

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## 4. Capital assets (continued)

		January 1, 2011	
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Building	19,414,668	701,433	18,713,235
Building improvements	4,028,450	131,046	3,897,404
Building improvements - common area	124,612	3,049	121,563
Land	4,366,303	-	4,366,303
Computer hardware and software	3,618,984	3,110,175	508,809
Furniture, fixtures and telephone equipment	1,949,309	1,256,241	693,068
Audio visual	486,518	227,095	259,423
	<u>33,988,844</u>	<u>5,429,039</u>	<u>28,559,805</u>

During the year, building improvements with a cost of \$Nil (2011 - \$1,007,980) and accumulated amortization of \$Nil (2011 - \$62,733) were written off. Refer to Note 10 for details.

# Association of Professional Engineers of Ontario

## Notes to the financial statements

December 31, 2012 and December 31, 2011

### 5. 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:

	2012	2011
	\$	\$
Revenue		
Rental	1,080,969	902,179
Operating cost reimbursements - tenants	1,490,013	1,264,988
Parking	150,582	114,950
Miscellaneous	126,457	72,263
	<u>2,848,021</u>	<u>2,354,380</u>
Operating cost reimbursements - PEO	1,001,307	773,079
Total revenue	<u>3,849,328</u>	<u>3,127,459</u>
Recoverable expenses		
Property taxes	631,642	624,867
Utilities	463,960	429,976
Amortization and interest	589,106	253,301
Janitorial	208,651	239,717
Payroll	255,093	176,335
Repairs and maintenance	100,496	120,796
Property management and advisory fees	76,875	76,339
Administrative	33,781	29,184
Insurance	22,397	18,525
Road and ground	15,722	14,303
Security	23,784	13,586
	<u>2,421,507</u>	<u>1,996,929</u>
Other expenses		
Amortization of deferred costs	48,701	18,600
Amortization of building	388,293	388,293
Interest expense on note and loan payable	560,424	613,520
Leasing fees net of imputed interest on recoverable expenses	(70,348)	22,949
	<u>927,070</u>	<u>1,043,362</u>
Total expenses	<u>3,348,577</u>	<u>3,040,291</u>
Excess of revenue over expenses	<u>500,751</u>	<u>87,168</u>

For purposes of the statement of revenue, expenses and changes in net assets, the operating cost reimbursements from PEO have been eliminated. The portion of costs allocated to PEO is reallocated from Building operations to Occupancy costs.

# Association of Professional Engineers of Ontario

## Notes to the financial statements

December 31, 2012 and December 31, 2011

### 5. Building operations (continued)

	2012	2011
	\$	\$
Building revenue per above	3,849,328	3,127,459
Eliminated PEO	(1,001,307)	(773,079)
	<u>2,848,021</u>	<u>2,354,380</u>
Building expenses per above	3,348,577	3,040,291
Eliminated PEO	(1,001,307)	(773,079)
	<u>2,347,270</u>	<u>2,267,212</u>

### 6. 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, 2012 is \$11,100,000.

Principal repayments are due as follows:

	\$
2013	854,000
2014	878,000
2015	901,000
2016	928,000
2017	952,000
2018-2020	6,587,000
	<u>11,100,000</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.

### 7. Employee future benefits

The Association's pension plans and post-retirement benefits plan covering substantially all employees (full time and retirees) are defined benefit plans as defined in section 3461 of the CICA 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 defined contribution plan. During the year, the Association recognized \$129,442 (2011 - \$107,730) in employer contributions to the self-direct defined contribution plan.

# Association of Professional Engineers of Ontario

Notes to the financial statements

December 31, 2012 and December 31, 2011

## 7. 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, 2012 was as follows:

	Basic pension plan	Supplemental pension plan	Other non-pension benefit plan	Total
	\$	\$	\$	\$
Accrued benefit obligation	(22,851,900)	(1,143,700)	(11,018,900)	(35,014,500)
Plan assets at fair value	16,698,700	1,591,300	-	18,290,000
Funded status - plan surplus (deficit)	(6,153,200)	447,600	(11,018,900)	(16,724,500)
Unamortized transitional asset (obligation)	(114,100)	105,700	454,300	445,900
Unamortized net actuarial loss	6,711,700	343,400	2,293,900	9,349,000
Accrued benefit asset (liability)	444,400	896,700	(8,270,700)	(6,929,600)

Details of the accrued benefit obligation are as follows:

	Basic pension plan	Supplemental pension plan	Other non-pension benefit plan	Total
	\$	\$	\$	\$
Accrued benefit obligation, beginning of year	(19,642,086)	(989,268)	(10,761,782)	(31,393,136)
Current service cost	(800,945)	(38,100)	(148,300)	(987,345)
Contributions by the employees	(242,025)	-	-	(242,025)
Interest cost on accrued benefit obligation	(914,427)	(45,000)	(488,000)	(1,447,427)
Benefit payments	486,920	54,361	130,500	671,781
Actuarial gain (loss) on accrued benefit obligation	(1,739,337)	(125,693)	248,682	(1,616,348)
Accrued benefit obligation, end of year	(22,851,900)	(1,143,700)	(11,018,900)	(35,014,500)

The plan expense for the year is determined as follows:

	Basic pension plan	Supplemental pension plan	Other non-pension benefit plan	Total
	\$	\$	\$	\$
Current service cost	801,000	38,100	148,300	987,400
Interest cost on accrued benefit obligation	914,300	45,000	488,000	1,447,300
Expected return on plan assets	(910,000)	(46,500)	-	(956,500)
Amortization of transitional obligation	(22,800)	26,500	90,900	94,600
Amortization of net actuarial gain	460,800	14,400	183,300	658,500
Benefit expense	1,243,300	77,500	910,500	2,231,300



# Association of Professional Engineers of Ontario

## Notes to the financial statements

December 31, 2012 and December 31, 2011

### 7. 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, 2011 was as follows:

	Basic pension plan	Supplemental pension plan	Other non-pension benefit plan	Total
	\$	\$	\$	\$
Accrued benefit obligation	(19,642,086)	(989,268)	(10,761,782)	(31,393,136)
Plan assets at fair value	14,009,400	1,477,968	-	15,487,368
Funded status - plan surplus (deficit)	(5,632,686)	488,700	(10,761,782)	(15,905,768)
Unamortized transitional asset (obligation)	(136,894)	132,200	545,332	540,638
Unamortized net actuarial loss	6,111,605	277,630	2,725,756	9,114,991
Accrued benefit asset (liability)	342,025	898,530	(7,490,694)	(6,250,139)

Details of the accrued benefit obligation are as follows:

	Basic pension plan	Supplemental pension plan	Other non-pension benefit plan	Total
	\$	\$	\$	\$
Accrued benefit obligation, beginning of year	(17,698,941)	(889,264)	(9,261,067)	(27,849,272)
Current service cost	(721,794)	(23,298)	(354,577)	(1,099,669)
Contributions by the employees	(226,788)	-	-	(226,788)
Interest cost on accrued benefit obligation	(943,417)	(46,499)	(501,396)	(1,491,312)
Benefit payments	1,128,560	53,735	130,482	1,312,777
Actuarial gain (loss) on accrued benefit obligation	(1,179,706)	(83,942)	(775,224)	(2,038,872)
Accrued benefit obligation, end of year	(19,642,086)	(989,268)	(10,761,782)	(31,393,136)

The plan expense for the year is determined as follows:

	Basic pension plan	Supplemental pension plan	Other non-pension benefit plan	Total
	\$	\$	\$	\$
Current service cost	721,794	23,298	354,577	1,099,669
Interest cost on accrued benefit obligation	943,417	46,499	501,396	1,491,312
Expected return on plan assets	(937,795)	(47,661)	-	(985,456)
Amortization of transitional obligation	(22,815)	26,500	90,889	94,574
Amortization of net actuarial gain	116,413	-	113,825	230,238
Benefit expense	821,014	48,636	1,060,687	1,930,337

# Association of Professional Engineers of Ontario

## Notes to the financial statements

December 31, 2012 and December 31, 2011

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### 7. Employee future benefits (continued)

The employer contributions to the plans amounted to \$1,551,937 (December 31, 2011 - \$1,468,005; January 1, 2011 - \$847,606). The increase in contributions reflects the most recent actuarial valuation performed as at January 1, 2011.

The significant actuarial assumptions adopted in measuring the Association's accrued benefit obligation are as follows:

	Basic pension plan %	Supplemental pension plan %	Other non-pension benefit plan %
Discount rate	4.00	4.00	4.00
Expected long-term rate of return on plan assets	5.50	2.75	n/a
Salary projection	3.00	3.00	n/a
Medical benefits cost escalation			
Hospitalization			(a)
Extended health care			(b)
Dental benefits cost escalation			(c)

- (a) 6.75% cost escalation in fiscal 2013, decreasing 0.75% per year, until an ultimate rate of 5% per annum
- (b) A 9% cost escalation in fiscal 2012, decreasing 1.00% per year, until an ultimate rate of 5% per annum
- (c) A 4.0% cost escalation per annum

### 8. 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 \$25,367,068 (December 31, 2011 - \$24,978,779; January 1, 2011 - \$15,821,805).

# Association of Professional Engineers of Ontario

## Notes to the financial statements

December 31, 2012 and December 31, 2011

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### 9. Council Discretionary Reserve

The 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. Expenditures from the discretionary reserve were as follows.

	2012 Actual	2011 Actual
	\$	\$
Legal Reserve - Elliot Lake/Other	73,875	6,502
Elections Webcasting	23,370	-
Emerging Discipline Task Force	14,074	62,608
EWB Sponsorship	7,417	-
Overlapping Practices Committee	14,084	-
Experienced Practitioners Task Force	3,600	-
Professional Technologist Task Force	1,517	148
Repeal Industrial Exception Task Force	1,355	88,020
National Frame Work Task Force	347	9,061
Referendum	-	117,437
Global Engineering Workshop	-	23,064
Complaints and Discipline Task Force	-	14,927
2011 Transition Team	-	6,045
Licensed Specialties Task Force	-	3,504
Engineering and Natural Science Task Force	-	1,020
Building Development Committee	-	656
PEO License Plate Program	-	(8,981)
	<b>139,639</b>	<b>324,011</b>

### 10. Write-off of building improvements

During 2012, previously capitalized building improvement costs with a net book value of \$Nil (December 31, 2011 - \$945,247) were written off. The improvements were incurred in 2009 and 2010 in order to facilitate the move from 25 Sheppard Ave. West. Management has determined that there is no ongoing benefit arising from these costs.

### 11. Full time salaries and benefits

During the year, the Association incurred a total of \$10,525,793 (December 31, 2011 - \$9,817,995) for salary and benefits costs for its full time staff of which \$42,268 (December 31, 2011 - \$158,409) was directly attributable to special projects approved by Council and disclosed under Council Discretionary Reserve.

# Association of Professional Engineers of Ontario

## Notes to the financial statements

December 31, 2012 and December 31, 2011

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### 12. Change in non-cash working capital items

	2012	2011
	\$	\$
Accounts receivable	763,559	(840,272)
Prepaid expenses	38,770	(75,388)
Accounts payable and accrued liabilities	(364,485)	(276,394)
Fees in advance and deposits	315,021	(106,281)
	<u>752,865</u>	<u>(1,298,335)</u>

### 13. Trust accounts

The Association maintains a separate bank account for the Council of Ontario Deans of Engineering. Cash totaling \$72,567 (December 31, 2011 - \$75,111; January 1, 2011 - \$73,297) is not reported on the Association's balance sheet, as it is held in trust for the Council.

### 14. 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:

	\$
2013	298,000
2014	310,000
2015	265,000
	<u>873,000</u>

### 15. Chapters of the Association

The financial information of the 36 chapters of the Association has not been consolidated in these financial statements, as such information is considered to be insignificant. Furthermore, management believes that the effort and cost required to prepare financial statements from each chapter for consolidation purposes far exceed the benefits from doing so.

During the year, the Association paid chapter expenses totaling \$590,794 (December 31, 2011 - \$598,260) including \$388,540 (December 31, 2011 - \$391,000) in Chapter allotments and \$202,254 (December 31, 2011 - \$207,260) in other disbursements to individual chapters. In 2012, the Association also incurred additional costs of \$487,167 (December 31, 2011 - \$499,302) 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.

# Association of Professional Engineers of Ontario

## Notes to the financial statements

December 31, 2012 and December 31, 2011

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### 16. Financial instruments and risk management

#### *Fair value*

The fair value of accounts receivable, accounts payable and accrued expenses approximates fair value due to the short-term maturities of these instruments. The carrying value of the long-term debt also approximates fair value as interest rates approximate market rates.

#### *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.

#### *Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. PEO's Bond fund, Overseas equity fund and US equity fund investments include foreign currency investments the value of which fluctuates in part as a result of changes in foreign exchange rates.

#### *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, 2012, December 31, 2011 and January 1, 2011, the most significant financial liabilities are: accounts payable and accrued liabilities, and long-term debt.

### 17. Government remittances

Accounts payables and accrued liabilities include \$208,275 (December 31, 2011 - \$120,685; January 1, 2011 - \$95,681), with respect to government remittances payable at year end.