Financial statements of

Association of Professional Engineers of Ontario

December 31, 2013

Association of Professional Engineers of Ontario
December 31, 2013

Table of contents

Deloitte.

Deloitte LLP
5140 Yonge Street
Suite 1700
Toronto ON M2N 6L7
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

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, 2013, and the statement of revenue, expenses and changes in net assets and of 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, 2013, 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 LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
March 21, 2014

Association of Professional Engineers of Ontario

Statement of revenue, expenses and changes in net assets
year ended December 31, 2013

	2013	2012
	$	$
Revenue		
P. Eng revenue	**14,630,128**	14,367,398
Application, registration, examination and other fees	**5,788,072**	5,452,203
Building operations (Note 4)	**2,937,867**	2,848,021
Advertising income	**426,567**	447,158
Investment income	**183,296**	114,353
	23,965,930	23,229,133
Expenses		
Staff salaries and benefits/Retiree and future benefits	**10,689,976**	10,483,525
Building operations (Note 4)	**2,383,229**	2,347,270
Purchased services	**1,069,658**	1,179,776
Amortization	**950,980**	960,662
Occupancy costs (Note 4)	**902,378**	846,281
Engineers Canada	**867,094**	847,971
Volunteer expenses	**852,302**	869,324
Computers and telephone	**644,523**	606,110
Chapters (Note 13)	**610,795**	590,794
Contract staff	**506,580**	331,831
Transaction fees	**487,760**	489,294
Legal (corporate, prosecution and tribunal)	**461,735**	514,531
Postage and courier	**357,372**	544,204
Consultants	**353,962**	248,933
Advertising	**198,040**	111,300
Recognition, grants and awards	**187,326**	129,861
Professional development	**156,409**	103,056
Printing	**152,244**	153,642
Office supplies	**121,376**	110,545
Insurance	**98,600**	115,375
Staff expenses	**85,283**	107,307
	22,137,622	21,691,592
Excess of revenue over expenses before the undernoted	**1,828,308**	1,537,541
Council discretionary reserve expenses (Note 8)	**233,912**	139,639
Excess of revenue over expenses	**1,594,396**	1,397,902
Net assets, beginning of year	**15,618,145**	14,220,243
Net assets, end of year (Note 7)	**17,212,541**	15,618,145

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

Association of Professional Engineers of Ontario

Balance sheet
as at December 31, 2013

	2013	2012
	$	$
Assets		
Current assets		
Cash in interest bearing accounts	**3,052,243**	1,363,674
Marketable securities at fair value	**5,350,515**	5,197,580
Accounts receivable	**379,240**	334,954
Prepaid expenses and deposits	**173,193**	203,488
Other assets	**285,412**	58,860
	9,240,603	7,158,556
Capital assets (Note 3)	**36,729,079**	36,467,068
Total assets	**45,969,682**	43,625,624
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 15)	**1,660,977**	1,070,804
Fees in advance and deposits	**8,919,164**	8,907,075
Current portion of long-term debt (Note 5)	**878,000**	854,000
	11,458,141	10,831,879
Long-term		
Long-term debt (Note 5)	**9,368,000**	10,246,000
Employee future benefits (Note 6)	**7,931,000**	6,929,600
Total liabilities	**28,757,141**	28,007,479
Net assets (Note 7)	**17,212,541**	15,618,145
Total liabilities and net assets	**45,969,682**	43,625,624

Approved by the Board

____________________________________ Director

____________________________________ Director

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

Association of Professional Engineers of Ontario

Statement of cash flows
year ended December 31, 2013

	2013	2012
	$	$
Operating activities		
Excess of revenue over expenses	**1,594,396**	1,397,902
Add (deduct) items not affecting cash		
Amortization	**1,761,531**	1,764,934
Amortization - other assets	**32,896**	45,101
Employee future benefits	**2,419,700**	2,231,300
Change in unrealized losses on marketable securities	**(17,415)**	29,053
Loss (gain) on disposal of marketable securities	**12,322**	(13,292)
	5,803,430	5,454,998
Change in non-cash working capital items (Note 10)	**588,271**	752,865
	6,391,701	6,207,863
Financing activities		
Repayment of mortgage	**(854,000)**	(826,400)
Contributions to employee future benefit plans	**(1,418,300)**	(1,551,839)
	(2,272,300)	(2,378,239)
Investing activities		
Proceeds of disposal of marketable securities	**1,857,745**	5,361,528
Acquisition of marketable securities	**(2,005,587)**	(7,195,102)
Additions to capital assets	**(2,023,542)**	(1,323,223)
Additions to other assets	**(259,448)**	(103,961)
	(2,430,832)	(3,260,758)
Increase in cash	**1,688,569**	568,866
Cash, beginning of year	**1,363,674**	794,808
Cash, end of year	**3,052,243**	1,363,674

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

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, 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.

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 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.

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%
Furniture, fixtures and telephone equipment	10%
Audio visual	20%
Computer hardware and software	33%

The Association's investment in capital assets is included as part of Net assets on the Balance sheet.

2. Significant accounting policies (continued)

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

			2013	2012
	Cost	**Accumulated amortization**	**Net book value**	Net book value
	$	**$**	**$**	$
Building	**19,414,668**	**1,866,313**	**17,548,355**	17,936,647
Building improvements	**7,485,398**	**1,065,831**	**6,419,567**	6,303,771
Building improvements - common area	**6,181,499**	**1,013,247**	**5,168,252**	5,554,203
Land	**4,366,303**	**-**	**4,366,303**	4,366,303
Computer hardware and software	**2,503,228**	**2,028,098**	**475,130**	502,556
Furniture, fixtures and telephone equipment	**1,369,489**	**532,888**	**836,601**	950,629
Audio visual	**950,924**	**305,932**	**644,992**	803,824
Work in progress	**1,269,879**	**-**	**1,269,879**	49,135
	43,541,388	**6,812,309**	**36,729,079**	36,467,068

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:

	2013	2012
	$	$
Revenue		
Rental	**1,295,119**	1,080,969
Operating cost reimbursements - tenants	**1,410,533**	1,490,013
Parking	**156,150**	150,582
Miscellaneous	**76,065**	126,457
	2,937,867	2,848,021
Operating cost reimbursements - PEO	**819,374**	1,001,307
Total revenue	**3,757,241**	3,849,328
Recoverable expenses		
Property taxes	**452,586**	631,642
Utilities	**479,628**	463,960
Amortization and interest	**422,258**	589,106
Janitorial	**218,299**	208,651
Payroll	**251,908**	255,093
Repairs and maintenance	**201,377**	100,496
Property management and advisory fees	**78,797**	76,875
Administrative	**31,620**	33,781
Insurance	**20,915**	22,397
Road and ground	**19,217**	15,722
Security	**21,826**	23,784
	2,198,431	2,421,507
Other expenses		
Amortization of deferred costs	**32,896**	48,701
Amortization of building	**388,293**	388,293
Interest expense on note and loan payable	**527,834**	560,424
Other costs (net of imputed interest) on recoverable expenses	**55,149**	(70,348)
	1,004,172	927,070
Total expenses	**3,202,603**	3,348,577
Excess of revenue over expenses	**554,638**	500,751

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.

4. Building operations (continued)

	2013	2012
	$	$
Building revenue per above	**3,757,241**	3,849,328
Eliminated PEO portion	**(819,374)**	(1,001,307)
	2,937,867	2,848,021
Building expenses per above	**3,202,603**	3,348,577
Eliminated PEO portion	**(819,374)**	(1,001,307)
	2,383,229	2,347,270

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, 2013 is $10,246,000.

Principal repayments are due as follows:

	$
2014	878,000
2015	901,000
2016	928,000
2017	952,000
2018-2019	6,587,000
	10,246,000

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% 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 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 RRSP (registered retirement savings plan). During the year, the Association recognized $134,919 (2012 - $129,442) in employer contributions to the self-directed RRSP.

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, 2013 was as follows:

	Basic pension plan	Supplemental pension plan	Other non-pension benefit plan	Total
	$	$	$	$
Accrued benefit obligation	(22,309,800)	(1,180,800)	(9,712,000)	(33,202,600)
Plan assets at fair value	20,098,200	1,752,200	-	21,850,400
Funded status - plan surplus (deficit)	(2,211,600)	571,400	(9,712,000)	(11,352,200)
Unamortized transitional (asset) obligation	(91,300)	79,200	363,500	351,400
Unamortized net actuarial loss	2,468,400	223,400	378,000	3,069,800
Accrued benefit asset (liability)	165,500	874,000	(8,970,500)	(7,931,000)

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	(22,851,900)	(1,143,700)	(11,019,000)	(35,014,600)
Current service cost	(939,400)	(48,500)	(160,300)	(1,148,200)
Contributions by the employees	(209,800)	-	-	(209,800)
Interest cost on accrued benefit obligation	(940,100)	(46,600)	(444,300)	(1,431,000)
Benefit payments	788,200	54,400	144,700	987,300
Actuarial gain on accrued benefit obligation	1,843,200	3,600	1,766,900	3,613,700
Accrued benefit obligation, end of year	(22,309,800)	(1,180,800)	(9,712,000)	(33,202,600)

6. Employee future benefits (continued)

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	939,400	48,500	160,300	1,148,200
Interest cost on accrued benefit obligation	940,100	46,600	444,300	1,431,000
Expected return on plan assets	(935,400)	(44,100)	-	(979,500)
Amortization of transitional obligation	(22,800)	26,600	90,900	94,700
Amortization of net actuarial loss	553,300	23,000	149,000	725,300
Benefit expense	1,474,600	100,600	844,500	2,419,700

The employer contributions to the plans amounted to $1,418,300 (2012 - $1,551,839). The decrease 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	4.75	4.75	4.00
Expected long-term rate of return on plan assets	6.00	3.00	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) 7.50% cost escalation in fiscal 2014, decreasing 0.75% per year, until an ultimate rate of 5% per annum

(b) A 10% cost escalation in fiscal 2014, decreasing 1% per year, until an ultimate rate of 5% per annum

(c) A 4% cost escalation per annum

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 $26,483,079 (2012 - $25,367,068).

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. Expenditures from the discretionary reserve were as follows.

	2013	2012
	$	$
Legal Reserve - Elliot Lake/Other	**177,362**	73,875
Experienced Practitioners Task Force	**30,381**	3,600
Emerging Discipline Task Force	**9,612**	14,074
Overlapping Practices Committee	**6,755**	14,084
Building Development Committee	**5,865**	-
National Frame Work Task Force	**2,382**	347
Licensure Engineering Task Force	**1,555**	-
Elections Webcasting	**-**	23,370
EWB Sponsorship	**-**	7,417
Professional Technologist Task Force	**-**	1,517
Repeal Industrial Exception Task Force	**-**	1,355
	233,912	139,639

9. Full time salaries and benefits

During the year, the Association incurred a total of $10,841,516 (2012 - $10,525,793) for salary and benefits costs for its full time staff of which $151,540 (2012 - $42,268) was directly attributable to special projects approved by Council and disclosed under Note 8.

10. Change in non-cash working capital items

	2013	2012
	$	$
Accounts receivable	**(44,286)**	763,559
Prepaid expenses and deposits	**30,295**	38,770
Accounts payable and accrued liabilities	**590,173**	(364,485)
Fees in advance and deposits	**12,089**	315,021
	588,271	752,865

11. Custodial account

The Association maintains a separate bank account for the Council of Ontario Deans of Engineering. Cash totaling $127,695 in this account (December 31, 2012 - $72,567) 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:

	$
2014	652,114
2015	405,725
2016	16,836
	1,074,675

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 from each chapter for consolidation purposes far exceed the benefits from doing so.

During the year, the Association paid chapter expenses totaling $610,795 (2012 - $590,794) including $392,945 (2012 - $388,540) in chapter allotments and $217,850 (2012 - $202,254) in other disbursements to individual chapters. In 2013, the Association also incurred additional costs of $525,924 (2012 - $487,167) 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, 2013, the most significant financial liabilities are: accounts payable and accrued liabilities, and long-term debt.

15. Government remittances

Accounts payables and accrued liabilities include $198,219 (2012 - $208,275), with respect to government remittances payable at year end.