

CEO/REGISTRAR'S FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2019

PEO generated an excess of revenue over expenses of \$2,928,108 for the 2019 fiscal year as compared to a budgeted loss of \$856,602. This was due to a reduction in expenses of \$2,723,855, or 10 per cent, lower than budget as discussed below in the cost management section. In addition, there was an increase in revenues of \$1,216,682, or 5 per cent, versus budget, attributable to a fee increase in May 2019.

The excess of revenue over expenses was offset by Council discretionary reserve expenses of \$298,827, resulting in a net excess of revenue over expenses of \$2,928,108 as indicated above.

The investment in capital assets for the year was \$929,202 (\$1,745,687 in 2018), and PEO incurred no additional debt for these expenditures in 2019, as these were funded from its cash reserves. At the end of the year, the closing balance in cash and investments was \$14,334,613 (\$9,592,446 in 2018) and net assets increased to \$24,727,697 (\$17,152,436 in 2018).

REVENUE

Total revenue in 2019 was \$27,976,093, which is 5 per cent above budget. This was higher due to the May 2019 fee increase mentioned above, which impacted P.Eng. revenue, as well as application, registration, exam and other fees revenue. In addition, investment income was higher by \$360,499, or 170 per cent, due to favourable market conditions, which included increased unrealized investment gains and higher bank interest. These were offset by building revenue, which was lower than budget by \$46,583 due to tenant vacancies; and advertising revenue, which was lower than budget by \$5,913 due to fewer ads in the digital version of *Engineering Dimensions*.

COST MANAGEMENT

Total expenses before costs for Council special projects were \$24,749,158, which is \$2,723,855, or 10 per cent, below budget due to various cost-saving measures in 2019. Major expense variances from the budget include:

- Staff salaries and benefits/retiree and future benefits were \$1,641,520 lower than budgeted;
- Legal expenses (corporate, prosecution and tribunal) were \$348,815 lower than planned;
- Computers and telephone costs were \$260,179 lower than budgeted;

- Amortization was \$219,894 lower than budgeted;
- Spend on consultants was \$164,570 lower than planned; and
- Volunteer expenses were \$136,933 lower than budgeted.

2019 BUDGET VARIANCES BY BUSINESS UNIT

Communications

Expenditures were \$121,259, or 9 per cent, below budget. The key variances include lower-than-budgeted purchased services (\$43,280), including printing costs for the *Engineering Dimensions* magazine and other corporate communications printing; lower postage costs for mailing the *Dimensions* magazine due to the transition to the digital version (\$41,294); and lower advertising costs, including newspaper and magazine advertising costs (\$33,432).

Corporate Services

Expenditures were \$934,663, or 9 per cent, below budget. Variances within the department include lower-than-budgeted costs for staff salaries and benefits along with retiree future benefits (\$986,627); lower costs for amortization due to delayed building improvement projects (\$88,110); lower-than-budgeted occupancy costs, including lower PEO rental recovery costs and outside space rental (\$68,956); lower-than-planned costs for volunteer expenses, including lower registration fees for Ontario Professional Engineers Awards and Government Liaison Program events (\$61,782); lower-than-budgeted costs for professional development related to staff and volunteer educational courses (\$39,237); and lower-than-budgeted spending for computers and telephone costs for teleconferencing and technical allowance (\$35,370). These reductions were partially offset by higher-than-budgeted costs for contract staff to cover vacant positions (\$189,363); higher legal costs related to HR matters (\$137,945); and higher 40 Sheppard Avenue West expenses, which included non-recoverable legal and leasing expenses (\$60,789).

Executive

Expenditures were \$66,772, or 4 per cent, below budget. Key variances include lower-than-budgeted costs for a strategic consultant (\$123,500); lower volunteer expenses, including accommodation and mileage for representing PEO at various events (\$34,962); and lower legal expenses on corporate matters (\$33,897).

Finance

Expenditures were \$259,259, or 18 per cent, above budget. This was due to higher-than-budgeted costs for transaction fees for credit card commission payments resulting from the 2019 fee increase (\$262,764), and higher spending on office supplies (\$14,299). This was offset by lower insurance costs, including travel insurance and lower directors and officers liability coverage (\$10,517); and lower postage and courier costs for mailing member correspondence (\$7,694).

Information Technology

Expenditures were \$585,612, or 19 per cent, below budget in 2019. This was due to lower amortization for computer software projects that had been delayed and carried over (\$129,112); lower costs for support contracts to maintain networks (\$122,908); lower-than-planned consulting costs for application update projects (\$111,411); less-than-budgeted

contract staff for various projects (\$94,180); lower-than-budgeted staff salary and benefit costs (\$40,094); lower internet connection costs (\$24,565); and less-than-budgeted data security support (\$22,500). These expenses were somewhat offset by higher rental costs for telephone equipment (\$23,295).

Licensing and Registration

Expenditures were \$409,259, or 8 per cent, below budget. This was due to lower-than-planned costs for staff salaries and benefits (\$312,489); lower postage and courier for Professional Practice Exams and issuing P.Eng. licences (\$41,684); lower volunteer expenses, including air/train fare and meals for attending various committee meetings (\$29,826); lower costs for offsite record storage, as well as rental space for testing locations (\$14,564); and lower staff business expenses for mileage and accommodation (\$11,670). These were partially offset by higher consulting costs for a psychometric review (\$15,000).

Regulatory Compliance

Expenditures were \$287,956, or 11 per cent, below budget in 2019. A key variance was lower-than-budgeted legal costs for a discipline prosecution case (\$369,993). There were also lower-than-expected costs for discipline investigations (\$25,000); lower human rights challenges legal costs (\$24,655); lower enforcement survey spending (\$12,000); and lower staff business expenses for air/train fare and accommodation (\$10,022). These were partially offset by higher complaints investigation costs (\$66,650) and higher discipline appeals in 2019 (\$19,545).

Tribunals and Regulatory Affairs

Expenditures were \$743,591, or 32 per cent, below budget. A key variance was lower-than-budgeted spending on salaries and benefits due to unfilled positions (\$434,139). Other variances include lower independent legal counsel expenses for discipline and registration related activities (\$61,908); lower professional standards administrative law counsel (\$45,000); lower consultants for the Practice Evaluation and Knowledge (PEAK) program (\$40,000); lower computer support costs for the PEAK program (\$35,653); lower volunteer expenses for mileage and air/train fare to attend various meetings and events (\$33,277); and lower court reporter costs for discipline hearings (\$17,341).

COUNCIL-DIRECTED INITIATIVES

For 2019, the net expenditures for projects approved by Council amounted to \$298,827. This includes \$241,597 for the regulatory functions review, \$34,372 for the governance advisor, \$22,819 for the 30 by 30 Task Force, and \$39 for the Emerging Discipline Task Force.

BUILDING OPERATIONS

The building generated \$2,818,471 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 \$2,226,266 and other expenses totaled \$1,025,780, thereby creating a deficiency of revenue over expenses of \$433,575 (after all expenses, including loan interest), as compared to a budgeted loss of \$326,205. Total PEO building operations revenue was lower than budgeted by \$46,583, or 2.2 per cent, due to a delay in the leasing of available space. Total building operations expenses were over budget by \$60,787, or 2.5 per cent. PEO's share

of expenses totalled \$754,538. These costs were reclassified from building operations to occupancy costs in the financial statements. Because 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 2019 were \$845,733, which includes security, storage and other occupancy costs. PEO's total accommodation expense (including interest) was \$1,057,278.

PEO occupied 39,100 square feet at December 31, 2019. The market rent of this space is approximately \$15 per square foot and operating costs are \$20.86 per square foot. Therefore, PEO's equivalent costs for rent and operating costs would have been \$1,402,126 for 2019, leading to a net value to PEO of \$344,848.

CAPITAL EXPENDITURES

Capital expenditures for the year totalled \$929,202, compared to \$1,745,687 in 2018.

Base building improvements totalled \$632,326, which are recoverable from tenants. Improvements included costs for a generator replacement (\$404,273), additional fourth-floor corridor fit-up spending (\$110,145), exterior windows (\$52,448) and mechanical elevator costs (\$44,851). Non-recoverable building improvements, which are improvements made to PEO owners' space and other non-recoverable costs, totalled \$174,616 for the year. These costs were to prepare space for new tenants (\$148,161) and miscellaneous leasehold improvements, including the PEO portion of fourth-floor corridor improvements (\$26,455). PEO invested \$99,393 in computer hardware and software during 2019, including an Aptify upgrade (\$49,491), additional website project spending (\$31,777) and \$18,125 on another software upgrade project. Spending on audiovisual and furniture upgrades totalled \$22,858.

All of PEO's capital expenditures in 2019 were funded from PEO's cash reserves.

CONCLUSION

In 2019, PEO adopted cost-cutting measures and approved fee increases to address the challenges we faced. The association has managed its affairs responsibly, producing a surplus for the year and increasing reserve to carry out its regulatory mandate in the public interest. **e**