Financial statements of
Association of Professional Engineers of Ontario

December 31, 2023

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Independent Auditor's Report

To the Members of the
Association of Professional Engineers of Ontario

Opinion

We have audited the accompanying financial statements of the Association of Professional Engineers of Ontario ("PEO") which comprise the Statement of financial position at December 31, 2023, and the statements of operations and changes in net assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PEO as at December 31, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of PEO in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing PEO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate PEO or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing PEO's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 PEO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on PEO's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause PEO to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
April 5, 2024

Association of Professional Engineers of Ontario
Statement of operations and changes in net assets
Year ended December 31, 2023

	Notes	2023 $	2022 $
Revenue			
P. Eng. revenue		**20,419,085**	20,283,903
Application, registration, examination and other fees		**10,799,527**	10,348,205
Building operations	4	**2,522,215**	2,413,344
Investment (loss) income		**2,450,361**	(586,793)
Affinity program	6	**1,140,377**	—
Chapter revenues		**183,548**	134,816
Advertising income		**56,266**	77,922
		37,571,379	32,671,397
Expenses			
Staff salaries and benefits/retiree and future benefits	10	**14,755,423**	14,339,852
Building operations	4	**2,181,367**	2,088,204
Purchased services		**2,031,333**	1,620,689
Legal (corporate, prosecution and tribunal)		**1,889,585**	1,369,996
Computers and telephone		**1,502,568**	1,515,379
Contract staff		**1,155,291**	795,590
Engineers Canada		**1,033,732**	1,013,057
Chapters	13	**987,561**	817,516
Occupancy costs	4	**868,604**	769,050
Transaction fees		**795,656**	770,105
Consultants		**510,595**	497,066
Amortization		**471,094**	575,519
Volunteer expenses		**297,730**	191,178
Professional development		**221,746**	79,044
Postage and courier		**177,842**	272,015
Insurance		**144,885**	166,296
Recognition, grants and awards		**138,143**	56,653
Office supplies		**72,264**	47,930
Staff expenses		**66,710**	63,275
Printing		**57,000**	50,218
Advertising		**30,583**	38,390
		29,389,712	27,137,022
Excess of revenue over expenses before the undernoted		**8,181,667**	5,534,375
Council discretionary and strategic plan projects	9	**3,879,859**	3,463,329
Excess of revenue over expenses		**4,301,808**	2,071,046
Remeasurement and other items	7	**1,198,300**	(2,353,119)
Net assets, beginning of year		**34,205,646**	34,487,719
Net assets, end of year		**39,705,754**	34,205,646

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

Association of Professional Engineers of Ontario

Statement of financial position

As at December 31, 2023

	Notes	2023 $	2022 $
Assets			
Current assets			
Cash		**8,986,393**	7,585,346
Accounts receivable		**914,468**	1,012,188
Prepaid expenses and deposits		**471,016**	436,251
Other assets		**36,496**	101,167
		10,408,373	9,134,952
Marketable securities		**29,112,173**	27,117,590
Capital assets	3	**27,213,403**	28,423,601
		66,733,949	64,676,143
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	15	**2,233,693**	3,589,143
Fees in advance and deposits		**12,370,498**	12,169,554
Current portion of long-term debt	5	**362,904**	1,088,796
		14,967,095	16,847,493
Long-term			
Long-term debt	5	**—**	362,904
Employee future benefits	7	**12,061,100**	13,260,100
		27,028,195	30,470,497
Commitments and contingencies	12 and 16		
Net assets	8	**39,705,754**	34,205,646
		66,733,949	64,676,143

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

Approved by the Council

___________________________________, Director

___________________________________, Director

Association of Professional Engineers of Ontario

Statement of cash flows

Year ended December 31, 2023

	Notes	2023 $	2022 $
Operating activities			
Excess of revenue over expenses		**4,301,808**	2,071,046
Add (deduct) items not affecting cash			
Amortization		**1,318,134**	1,410,942
Amortization – other assets		**64,671**	70,152
Employee future benefits expensed		**1,375,100**	1,314,300
Change in unrealized losses (gains) on marketable securities		**(1,514,609)**	1,453,489
Losses (gains) on disposal of marketable securities		**225,128**	(115,400)
		5,770,232	6,204,529
Change in non-cash working capital items	11	**(1,091,551)**	1,233,115
		4,678,681	7,437,644
Financing activities			
Repayment of mortgage	5	**(1,088,796)**	(1,088,796)
Contributions to employee future benefit plans		**(1,375,800)**	(1,305,800)
		(2,464,596)	(2,394,596)
Investing activities			
Net change in marketable securities		**(705,102)**	(8,632,266)
Additions to capital assets		**(107,936)**	(144,769)
		(813,038)	(8,777,035)
Increase (decrease) in cash		**1,401,047**	(3,733,987)
Cash, beginning of year		**7,585,346**	11,319,333
Cash, end of year		**8,986,393**	7,585,346

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

1. Nature of operations

The Association of Professional Engineers of Ontario ("PEO" or the "Association") 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 financial asset shall be written down and the resulting impairment loss shall be recognized in the statement of operations 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 Statement of financial position. Gains and losses on such instruments are recognized in the Statement of operations 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.

2. Significant accounting policies (continued)

(b) Hedge accounting (continued)

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.

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. Affinity program revenue is recognized when received. 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 financial statements 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 on the going concern basis for funding purposes 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 the most recent accounting actuarial valuation 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 allowance in the statement of changes in net assets;

(ii) The cost of the plan for the year.

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 – PEO	5%
Building improvements – common area	3.3% to 10%
Building improvements – non-recoverable	10% to 20%
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 Statement of financial position.

(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

	Cost **$**	**Accumulated amortization** **$**	**2023 Net book value** **$**	2022 Net book value $
Building	**19,414,668**	**5,749,247**	**13,665,421**	14,053,715
Building improvements – PEO	**8,961,067**	**5,569,211**	**3,391,856**	3,834,323
Building improvements – common area	**11,467,957**	**6,127,945**	**5,340,012**	5,610,146
Building improvements – non recoverable	**741,332**	**459,334**	**281,998**	373,224
Land	**4,366,303**	**—**	**4,366,303**	4,366,303
Computer hardware and software	**5,287,238**	**5,287,238**	**—**	9,116
Furniture, fixtures and telephone equipment	**1,493,430**	**1,442,882**	**50,548**	135,577
Audio visual	**1,132,526**	**1,015,261**	**117,265**	41,197
	52,864,521	**25,651,118**	**27,213,403**	28,423,601

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:

	2023	2022
	$	$
Revenue		
Rental	**831,928**	841,039
Operating cost recoverable – tenants	**1,430,153**	1,305,588
Parking	**159,000**	160,200
Miscellaneous	**101,134**	106,517
	2,522,215	2,413,344
Operating cost recoverable – PEO	**794,919**	716,235
	3,317,134	3,129,579
Recoverable expenses		
Property taxes	**441,198**	431,295
Utilities	**419,844**	423,478
Amortization	**367,521**	355,904
Security	**297,229**	122,577
Repairs and maintenance	**242,727**	164,547
Janitorial	**203,467**	202,503
Payroll	**145,333**	254,702
Property management and advisory fees	**107,504**	54,151
Road and ground	**11,689**	20,357
Administrative	**33,028**	68,954
Insurance	**37,870**	39,373
	2,307,410	2,137,841
Other expenses		
Interest expense on note and loan payable	**25,099**	71,551
Amortization of building	**388,294**	388,294
Amortization of deferred costs	**64,671**	70,152
Amortization of tenant inducements	**91,225**	91,225
Other non-recoverable expenses	**99,587**	45,376
	668,876	666,598
	2,976,286	2,804,439
Excess of revenue over expenses	**340,848**	325,140

For purposes of the Statement of operations and changes in net assets, the operating costs recoverable from PEO of $794,919 ($716,235 in 2022) 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 operations and changes in net assets.

4. Building operations (continued)

	2023 $	2022 $
Building revenue per above	**3,317,134**	3,129,579
Eliminated PEO portion	**(794,919)**	(716,235)
	2,522,215	2,413,344
Building expenses per above	**2,976,286**	2,804,439
Eliminated PEO portion	**(794,919)**	(716,235)
	2,181,367	2,088,204

5. Building financing

On April 5, 2019, the Association refinanced its outstanding loan of $5,443,952 with the Bank of Nova Scotia. The refinanced loan 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 loan is repayable in monthly installments of principal plus interest and bears a floating interest rate based on variable banker's acceptances. The Association entered into a swap agreement related to this loan, where the floating rate debt is swapped for a fixed rate debt at an interest rate of 3.47% and settled on a net basis. The notional value of the swap is $5,443,952 with a start date of April 5, 2019, and a maturity date of April 5, 2024, on which date the loan will be fully paid.

6. Affinity program

In 2023, PEO entered into an insurance affinity agreement with Engineers Canada (EC). Like other provincial and territorial engineering regulators, PEO is a member association of EC. EC has negotiated a national home and automobile insurance affinity program with Meloche Monnex Inc. (MMI). Under this agreement, MMI provides EC with a share of insurance revenues it derives from professional engineers. EC in turn pays PEO for providing MMI with an exclusive opportunity to offer home and automobile insurance to PEO members. These monies are the payment from EC to PEO under this agreement.

7. 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 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 or group RRSP (registered retirement savings plan). During the year, the Association recorded $411,816 ($355,476 in 2022) in employer contributions to the self-directed and group RRSP.

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, 2023, was as follows:

	Basic pension plan $	Supplemental pension plan $	Other non-pension benefit plan $	Total $
Accrued benefit obligation	**(38,682,300)**	**(2,794,600)**	**(8,633,000)**	**(50,109,900)**
Plan assets at fair value	**35,628,100**	**2,420,700**	**—**	**38,048,800**
Funded status – plan surplus (deficit)	**(3,054,200)**	**(373,900)**	**(8,633,000)**	**(12,061,100)**

The funded status of the Association's pension plans and post-retirement benefit plan using actuarial assumptions as of December 31, 2022, was as follows:

	Basic pension plan $	Supplemental pension plan $	Other non-pension benefit plan $	Total $
Accrued benefit obligation	(37,551,800)	(2,744,500)	(8,612,000)	(48,908,300)
Plan assets at fair value	33,416,900	2,231,300	—	35,648,200
Funded status – plan surplus (deficit)	(4,134,900)	(513,200)	(8,612,000)	(13,260,100)

PEO measures its defined benefit obligations and the fair value of plan assets related to the basic and supplemental pension plans 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, 2022 with the liabilities projected forward to December 31, 2023. PEO measures its obligations related to its other non-pension benefit plan using an actuarial valuation for accounting purposes. The most recent actuarial valuation for accounting purposes for the non-pension benefit plan is as of December 31, 2023.

Remeasurements and other items resulting from these valuations are reported directly in net assets in the Statement of financial position and are reported separately as a change in net assets in the Statement of operations and changes in net assets.

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 $26,850,499 ($26,971,901 in 2022).

9. 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 and strategic plan projects approved by Council. These figures include $391,076 ($58,843 in 2022) for salaries and benefits costs of full-time staff for time spent on these projects. Expenses from the discretionary reserve were incurred on the following projects:

9. Council discretionary reserve (continued)

	2023	2022
	$	$
Council discretionary projects		
Fair Access to Regulated Professions and Compulsory Trades Act ("FARPACTA") project	**1,627,489**	704,995
HR information system and other initiatives	**818,398**	581,503
Information Discovery & Digitization Capability ("IDDC") project	**432,571**	597,800
Organizational transformation and other initiatives	**119,787**	364,055
Governance related matters	**32,567**	356,488
Anti-racism working group	**28,972**	112,926
Councillor training	**19,080**	—
Various IT initiatives	**1,647**	745,562
Strategic plan projects		
Improve licensing processes	**302,009**	—
Optimize organizational performance	**299,760**	—
Refresh vision	**151,106**	—
Implement governance improvement program	**46,473**	—
	3,879,859	3,463,329

10. Full time salaries and benefits

During the year, the Association incurred a total of $15,146,499 ($14,398,695 in 2022) for salary and benefits costs for its full-time staff. Out of this amount, $391,076 ($58,843 in 2022) was directly attributable to special projects approved by Council and disclosed in Note 9.

11. Change in non-cash working capital items

	2023	2022
	$	$
Accounts receivable	**97,720**	(311,644)
Prepaid expenses and deposits	**(34,765)**	27,779
Accounts payable and accrued liabilities	**(1,355,450)**	1,078,018
Fees in advance and deposits	**200,944**	438,962
	(1,091,551)	1,233,115

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:

	$
2024	2,309,642
2025	898,389
2026	649,499
2027	262,102
	4,119,632

13. Chapters of the Association

During the year, the Association paid chapter expenses totaling $987,561 ($817,516 in 2022) and also incurred additional costs of $345,628 ($386,439 in 2022) 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 operations 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, 2023, the most significant financial liabilities are accounts payable and accrued liabilities.

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 $145,147 ($173,549 in 2022), with respect to government remittances payable at year end.

16. Contingencies

PEO has been named in litigation matters, the outcome of which is undeterminable and accordingly, no provision has been provided for any potential liability in these financial statements. Should any loss result from these claims, which is not covered by insurance, such loss would be charged to operations in the year of resolution or earlier if the loss is likely and determinable.