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Questions and Answers on Operations

Annual Report

The Association of Professional Engineers and Geoscientists of British Columbia

Questions & Answers on APEGBC Operations

October 2007

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Questions and Answers on APEGBC Operations – October 2007

1. WHAT IS THE ASSOCIATION DOING TO ENSURE THAT OPERATIONS ARE FINANCIALLY SUSTAINABLE?

Development and implementation of a Sustainable Financial Model (SFM) was one of Council's top priorities this year. In May of this year, Council approved the following eight key policies of the model:

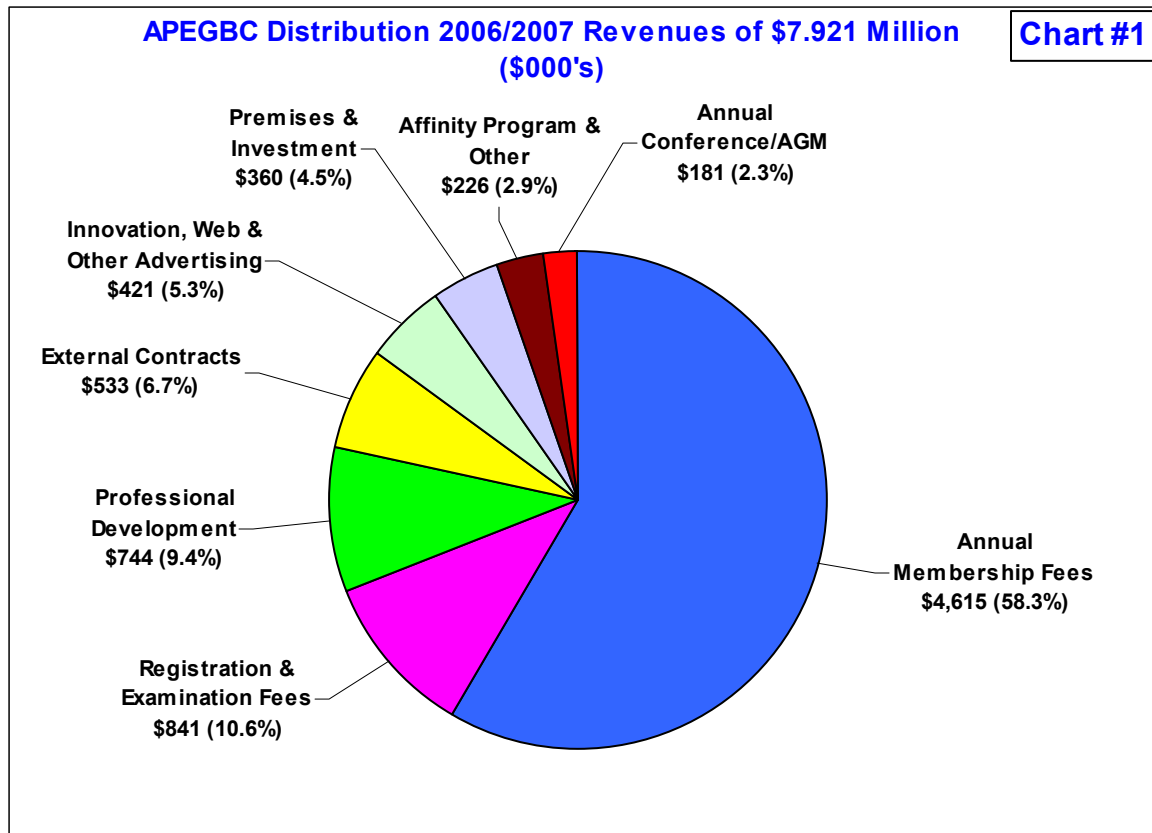
- 1) There is an annual review of economies, efficiencies and effectiveness of current expenditures and revenue strategies
- 2) The Applications and Registration program (the intake process) will be financially self-sustaining.
- 3) The Continuing Professional Development instructional and service delivery will be financially self-sustaining.
- 4) Non-core programs are generally financially self-sustaining.
- 5) The annual member fees fund only core programs.
- 6) Membership growth is actively pursued.
- 7) The annual fee setting authority requires member ratification.
- 8) The annual member fee is reviewed each year.

The SFM provides greater clarity with respect to key policy statements on managing efficiencies and effectiveness of expenditures, funding core and non-core programs, membership growth, and an annual review of the professional member fee.

Of critical importance is that the SFM ensures linkage and alignment between the Strategic Service Plan, Council's Annual Priorities, and the Annual Operating Budget. APEGBC will use the Sustainable Financial Model (SFM) in its planning, reporting and accountability that clearly outlines the Association's goals and enables the Public, Government, Members and other stakeholders to hold APEGBC accountable for its decisions and actions.

The SFM provides a framework in which APEGBC can more methodically address the issue of adequate financial resources to attain its goals and objectives while maintaining a long-term financially viable organization.

2. WHAT ARE THE ASSOCIATION'S SOURCES OF FUNDING?



3. QUESTIONS ABOUT 2006/2007 REVENUES

(Please refer to the Statement of Revenue and Expenses on page 36 in the 2006/2007 *Annual Report* and the Financial Overview on page 32 for additional information)

For 2006/2007, total revenues increased by \$596K or 8.1% to \$7.921 million from the 2005/2006 total of \$7.325 million. Membership, registration, and examination fees accounted for \$320K of the increase, which was due primarily to significantly higher application volumes and membership growth. In addition, Professional Development revenues increased by \$100K and Innovation magazine and other advertising increased by \$63K.

3.1 What is the annual net percentage growth in the membership and how much additional revenue does this generate?

The total net growth increased by approximately 5% for the second consecutive year. Correlated with this growth is an increase in Annual Membership Fee revenue for 2006/2007 of \$257K (from \$4.359 million to \$4.616 million). Membership fees are the primary source of monies collected, amounting to 58.3% of the Association's revenues.

3.2 How much does APEGBC earn from affinity programs?

Affinity revenue of \$184K was derived primarily from long-term contracts with three insurance providers for 2006/2007. However, the increase of 11.1% from the prior year was primarily due to members taking advantage of Esso fuel discounts and the Olympia Trust Company private health care plans. Certain other revenue line items, including part of the Annual Conference/AGM Sponsorship revenues and *Innovation* magazine advertising revenues, are generated from affinity program activities.

3.3 What are Grant and Project Administration Revenue? Does APEGBC lose money on these activities?

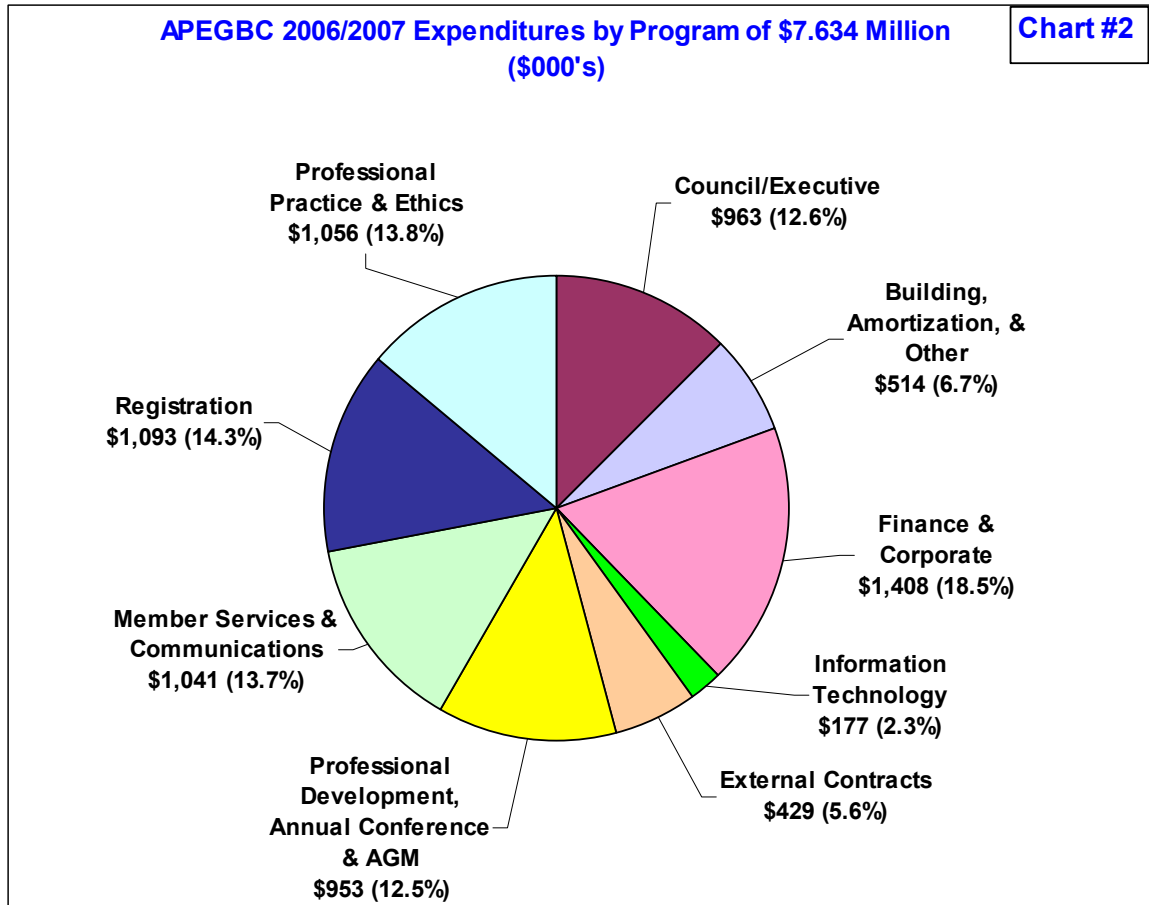
In the past few years, APEGBC has participated in projects funded by the provincial and federal governments and in strategic alignment with our mandate. For 2006/2007, these projects include the Seismic Risk Assessment and the Licensed Environmental Professional project. Total revenues for 2006/2007 were \$533K compared to \$527K for 2005/2006. In general, revenues more than offset direct program costs, including staff salaries and allocated overhead.

3.4 How much does Continuing Professional Development revenue contribute to revenues and the bottom line?

Continuing Professional Development (CPD) revenue has increased in each of the past seven years since the inception of the program. For 2006/2007, CPD revenue increased by 15.5% or \$100K to \$744K. CPD revenue now accounts for 9.4% (2005/2006 = 8.8%) of total revenues, which is the third largest revenue component for the Association. The professional development program is financially structured to recover all direct costs including salaries and benefits.

4. HOW MUCH DOES EACH OF THE PROGRAM AREAS COST?

Chart #2 below shows total expenditures of \$7.634 million, by program, for 2006/2007.



5. QUESTIONS ABOUT 2006/2007 EXPENDITURES

Total expenditures for 2006/2007 of \$7.634 million are \$1.032 million or 15.6% higher than 2005/2006 expenditures of \$6.602 million.

5.1 Why did annual conference facilities and meal costs increase significantly from 2005/2006?

Annual conference & AGM costs can vary significantly depending on the location, facility, and number of attendees. The increase in facilities and meal costs to \$151K in 2006/2007 from \$87K in 2005/2006 was due primarily to significantly higher pricing for the Victoria location and facility compared to the Richmond venue. Attendance is also generally higher for the more popular non Lower Mainland annual conferences.

5.2 What is included in “Contract and Consulting Services”?

For 2006/2007, contract and consulting services of \$1.138 million increased by \$131K from 2005/2006 due primarily to CPD program growth, higher advertising commissions, staff training, and IT upgrading.

For 2006/2007, 60% of contract and consulting services were related to External Contracts of \$429K, Professional Development of \$138K (seminar instructors), and Practice Reviews of \$122K (practice reviewers). With respect to Practice Review, most professions conduct some type of practice audit but engineering/geoscience is somewhat behind the norm, as only BC and Quebec are currently performing practice reviews. In 2006/2007, 117 members had their practice review files adjudicated, which included the completion of a mix of general, technical and follow-up reviews.

The remaining 40% of contract and consulting services costs, or approximately \$449K, relates to services that have been strategically outsourced to external parties for expertise in the areas of advertising, public relations, advertising commissions (*Innovation* magazine and web advertising sales), *Innovation* magazine/Annual Report design, Annual Conference/Awards/AGM, computer systems/web services, recruitment, general consulting, interviewers for the structural qualifications process, etc.

5.3 How much is spent on legal fees each year and what is the Association doing to control these costs?

Total legal costs for 2006/2007 of \$253K increased by \$51K from the prior year. This figure is however lower than historical averages due to lower activity levels and more legal assessment work being done in-house. The Professional Practice & Ethics Department accounts for approximately 90% of the annual legal budget for the following areas, the majority of which are mandated by the *Engineers and Geoscientists Act*:

- a) Investigating complaints against members
- b) Disciplinary inquiries
- c) Enforcement against unlicensed practice and use of restricted title
- d) Practice Review program
- e) Setting practice standards and developing practice guidelines
- f) Providing advice to members and the public on practice and ethical issues
- g) Liaising with all levels of government on practice and ethical issues

The discipline process requires outside legal assistance for the prosecution of cases, the cost of which averages approximately \$250K per year. Budgeting for the annual legal cost is always difficult, as a small change in the anticipated number of disciplinary inquiries, and/or the length of inquiries, has a significant effect on our legal costs. In addition to using in-house counsel for general legal advice, the Association reviews its investigation and discipline processes on an ongoing basis, for among other things, cost efficiencies.

5.4 Why have there been significant increases from the prior year for expenses such as Meetings & Special Events, Premises & Operating Costs, Printing/Publication, and Travel?

Meetings and special events costs are primarily driven by changes in activity levels such as CPD program growth and government and public relations activities. Operating costs for the APEGBC building was higher than usual due to renovation costs and commissions required to lease out one of the three office suites. Printing, publication, and distributions costs have increased due to a significant increase in application for membership, membership growth, CPD program growth, and enhanced communication materials. Travel costs can vary depending on the number of out-of-town volunteers serving on Council, committees, branch representatives, etc. In addition, travel costs have also been affected by program and activity growth in areas such as CPD.

6. WHAT ACTIVITIES ARE MANDATED BY THE *ENGINEERS AND GEOSCIENTISTS ACT AND BYLAWS*?

The following activities are mandated by the *Act and Bylaws*:

- a) Registration and licensing, including examinations and issuance of certificates and seals
- b) Enforcement against non-members
- c) Investigation of complaints and discipline of members
- d) Council elections
- e) Annual General Meeting
- f) Setting and collection of fees
- g) Preparation of financial statements for audit and delivery of audited financial statements to the members
- h) Practice Reviews

7. DOES THE ASSOCIATION OWN OR RENT FACILITIES?

The Association has owned the land and building at the Burnaby location since the mid-1990s after temporarily renting facilities in Burnaby for a few years in the early 1990s. The purchase and equity in the current property was made possible by the capital appreciation from properties held in Vancouver in past decades prior to the move to Burnaby.

The current book value of the land and building is \$2.825 million with mortgage liabilities of \$256K at June 30, 2007. For 2006/2007, the Association collected \$158K in rental income from the three ground-floor rental suites, as the Association occupies the second floor of the building. Operating costs and mortgage interest were \$291K and \$18K respectively for 2006/2007.

8. WHAT DOES APEGBC GET FOR THE ASSESSMENT FEES PAID TO CCPE/CCPG?

In 2006/2007, the Association paid assessments of \$201K and \$35K for membership in CCPE and CCPG, respectively, or a total of \$236K. CCPE has other sources of funding in the form of user fees for educational assessments, affinity program agent fees, and government grants for external contracts, such as the *From Consideration to Integration*

project, for the improved integration of international engineering graduates into the profession and the workplace.

CCPE and CCPG conduct business activities in support of APEGBC's core regulatory activities in the areas of admissions, practice, discipline, and enforcement. The assessments paid by each provincial and territorial association support the work of CCPE and CCPG Boards and Committees. APEGBC members and professional staff volunteer their time to serve on these national Boards and Committees, along with their colleagues in other provinces, to work towards:

- a) Harmonized requirements and information for internship
- b) Licensure
- c) Discipline and enforcement across the country
- d) Inter-provincial and international agreements to enhance the practice mobility of the members nationally and internationally
- e) Accreditation of Canadian bachelors programs in engineering and geoscience
- f) National awards
- g) Government relations at the federal and provincial level
- h) National databases to provide enhanced sharing of information, improve efficiencies, and to support both strategic and mobility initiatives
- i) Issues of concern to the professions, such as liability insurance, climate change, and the improved integration of internationally trained graduates into the professions

As the fourth largest province/territory, APEGBC often leads in the development of pilot programs and other initiatives. While this time is volunteered in the name of CCPE and CCPG, these pilot programs and initiatives are developed based on the professions' needs in British Columbia, and have put BC on the map as a leader among the professions in Canada.

9. HOW MANY PEOPLE ARE EMPLOYED BY THE ASSOCIATION?

For 2006/2007, APEGBC employed 35.5 FTE staff to conduct its mandated regulatory functions, member service programs (including affinity programs), and administrative service functions for approximately 24,500 members, including students. Of the 35.5 staff, 24.5 are employed in Regulatory Functions, 6 in Member Services, 4 in Professional Development, and 1 in External Contracts. At one staff member working to provide regulatory functions for every 1,000 members (i.e. 24,500 members / 24.5 staff responsible for regulatory functions), this figure compares very favourably to other Canadian self-regulatory organizations given the complexity and scope of APEGBC's operation for a mid-sized organization.

APEGBC also contracts work to its members who provide professional services in the form of practice reviews, expert witnesses, and job-site interviews. APEGBC's operations are also supported by over 1,000 member volunteers who donate their time and expertise to the self-regulation of engineering and geoscience in BC. In addition to their operational commitments, senior staff also donate over 100 days of their time each year to volunteer activities on behalf of the professions.

10. DOES THE ASSOCIATION SET ASIDE FUNDS FOR SPECIFIC PURPOSES? WHAT ARE THE OBJECTIVES OF THESE FUNDS?

Along with two general funds, Council has established two restricted funds in order to maintain reserves required for specific purposes.

General Funds

- a) *Invested in Property and Equipment* of \$2.759 Million – are funds invested in the building and other capital assets net of outstanding mortgage debt.
- b) *Operating Fund* of \$671K – are funds that are generally available for program delivery, administrative activities, mortgage repayments, and equipment purchases. This balance represents approximately one month of operating funds, which is significantly below the 3 to 6 months of operating funds targeted by similar professional associations. For the Association, a financially prudent balance of liquid assets would be a *General Operating Fund* balance equal to at least 3 months of operating expenses. However, a minimum target balance of \$900,000 or 1.5 months could be considered adequate given the Association's ability to access an existing \$500,000 line of credit backed by the building equity.

Restricted Funds

- a) *Information Systems Replacement Fund* of \$800K – are funds available to replace or upgrade information technology systems. This fund was increased by \$200K for 2006/2007 to implement the IT Transformation Project to replace obsolete legacy member database, financial, and web transaction systems.
- b) *Legal and Insurance Fund* of \$260K – are funds available to absorb two consecutive years of extraordinary legal and/or insurance costs.

Combined, these four funds represent the net worth of the Association of \$4.491 million as at June 30, 2007.