



Laurence W. (Chip) Barrett MAIBC
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16 August 2010

Dear Chip:

RE: 08 May 2010 Annual Meeting: Forum - Queries: Financial Statements

Thanks for raising a number of interesting questions respecting the AIBC's financial operations, as represented by the Treasurer's Report (pp. 11 - 13) and the audited financial statements (pp. 51 – 64) within the AIBC's 2009 Annual Report. AIBC members are entitled to a reasonable extent of such information, clearly put forward. As you noted, the 2009 Treasurer's report was, indeed, more advanced graphically. It provided more information in different ways than its predecessors, as many members have positively expressed.

With that clarity, of course, comes the better ability for a reader to discern indicators of relative success and to ask good questions, as you did. Following, please find your comments and questions (as you phrased them) and our corresponding notes and answers (*italicized and embedded within your material, for ease of flow*). I've identified your submissions (written and verbal) in two parts (I & II) and added section-letters (A & B) for handy reference.

PART I: WRITTEN SUBMISSION

- (A) STATEMENT OF OPERATING FUND OPERATIONS & FUND BALANCES: PG. 2
(p. 54 of annual report)

AIBC Administration	<u>\$916,020</u>
vs. Total General Revenue	\$2,116,067 = 44% OK

(As shown on p. 12 Graphic #3 and its footnote, 'general' revenue is only about 70% of gross revenues; using only general revenue as a reference point provides only a part of the story. Using more appropriate measures (see p. 13, Graphics #4 & #5) Administration is either (i) 41.2% of net costs (\$2,223,000); or (ii) about 30% of gross costs (\$3,079,000). By any of the three measures, our Administration costs are well within industry norms and are, as you stated, OK.)

Question: Actual \$916,020 vs. Budget \$618,100 = 16% Over Budget (*Correct, regarding Administration in Schedule 3, p. 62, once the unbudgeted severance costs are deducted from the actuals.*)

Where I come from that calls for a re-design ... Starting to get concerned. (*Understood and shared; as reported on p.12 re Schedule 3 (Administration) the (16%) overage is " ... comprised primarily of... higher operating costs due to software licensing, severance-related legal fees and higher bank costs connected with costlier service fees for online fee-paying systems." Those items are receiving ongoing attention.*)

I would appreciate an answer to my question (*see above*) ... but that is not my main concern.

(B) SCHEDULES OF REVENUE AND EXPENDITURES: PGS. 10, 11 & 12
(*pp. 62, 63 & 64 of annual report*)

Salaries & Benefits

Sched. 3	Administration	\$494,669
Sched.7	Communications	\$196,477
Sched. 9	Registration & Lic.	\$254,374
Sched. 10	Practice	\$138,310
Sched. 11	Professional Dev.t	\$176,459
Sched. 12	Conduct (& Illegal Practice)	<u>\$233,632</u>

\$1,493,921 = 70.6% Total General Revenue

(*Correct and not a problematic ratio. As noted above, better measures would be calculated as 67% of net costs or 48.5% of gross costs.*)

That does not include Operating Costs, Accounting & Audit: \$224,783 (*Correct; nor should it*)

That does not include Severance Payments (*Correct; those costs are unusual and do not reflect the AIBC's normal operations. Additionally, as noted on p. 12 of the report re Schedule 3, the costs of the "...severance packages (were) recorded for both 2009 and 2010" having been incurred in 2009. No 2010 severance-related monies were actually spent in 2009.*)

Sched. 3	Administration	\$196,568	(<i>These are severance package figures</i>)
Sched.11	Professional Dev.	<u>\$57,826</u>	
		\$254,394	(I would appreciate more info on this)

Which, added to Salaries & Benefits = \$1,748,315 = 82.6% Total General Revenue (*Inappropriate ratio; as noted above, any comparison of a cost category against only 'general' revenue presents an incomplete picture; and the cost category of 'salaries & benefits' in 2009 does not (and should not) include your suggested figures for other items.*)

If you include Operating Costs, Acc'g & Audit: \$1,973,098 or 93% Total Gen. Revenue (*These components have nothing to do with salaries & benefits.*)

AIBC Administration is not \$916,020 as stated on page 2 of the Auditor's Report. (*Yes, it is, being an accurate representation of costs realized in 2009 [save for severance packages as noted above] for the expense categories aggregated ... as they have been for many years ... under the Administration Department of the AIBC. The majority of those categories are truly administrative, in the sense that they deal with the overall 'care and feeding' of this organization, even while providing some services directly to the public, the membership and industry stakeholders.*)

AIBC Administration cost exceed \$1.9 M (*No, they do not; the Service Centres outside the Administration department ... e.g. Registration & Licensing, Professional Development, Practice, Professional Conduct & Illegal Practice ... are not administering this organization. They provide services & programs and generate revenues, totaling about 30% of total revenue, i.e. an amount of about 43% of the general revenue) ... \$1 M more than stated above. (This determination is, with due respect, inappropriately based and fundamentally incorrect. There is a distinction between 'administration' and 'operations' ... comprising 100% of our budget ... of which administration is one component.)*)

THAT IS MY CONCERN!

PART II: VERBAL SUBMISSION

(A) How much of our dues are going to staff? (*There are two approaches to answering this question: First, and in fact, none of our dues go to staff. They go into a 'pot' along with all other forms of revenue and are allocated organizationally to service centres [including some without any staff] which make up the complete operation.*

Second, if one were interested in an indexed reply ... even though that is not how we operate ... since members' dues in 2009 [see schedule 1 on p. 62 of the annual report] were \$1,354,619, they constituted about 45% of total revenue and, therefore, could be said to cover about 45% of any cost and its attendant benefit.

The AIBC is a service-based organization with a regulatory mandate which must be fulfilled. Its single most important resource ... its primary operational capital, if you like ... is its staff, which provides the services to both the public and the membership. It is normal and necessary for 'salaries & benefits' to form a significant portion of our budget.)

The AIBC takes a relatively conservative approach to budgeting and we (staff, the Financial Health Task Force and Council) regularly monitor compliance with council's financial management policies. Our auditors provide an added layer of rigorous oversight. Budgeting is, nonetheless, an imperfect art; as architects, we are acutely aware of this. Reality, including external forces and unforeseen needs which must be fulfilled (especially by a regulatory body), can upset the best, well-intentioned cost projections.

Different perspectives can provide helpful insights. In the instance at hand, it's clear that some of your observations and conclusions are soundly based; others are somewhat misconstrued. I can assure you that the information we publish is provided truthfully and as accurately as possible, notwithstanding your allegation to the contrary at the annual meeting. In any event, the process of reviewing your concerns has been instructive for us.

Best wishes;

A handwritten signature in black ink that reads "Michael A. Ernest" with a horizontal line extending to the right.

Michael A. Ernest MAIBC
Executive Director

PS: Given that your submissions were made in a public forum attended by a large number of people, this reply will be posted on the AIBC web site and referenced in eNews.