

Association of Professional Engineers and Geoscientists of Alberta

Financial Statements
December 31, 2018
(in thousands of dollars)



Independent auditor's report

To the Members of Association of Professional Engineers and Geoscientists of Alberta

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Association of Professional Engineers and Geoscientists of Alberta (the Association) as at December 31, 2018 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.

What we have audited

The Association's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of changes in net assets for the year then ended;
- the statement of operations for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

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In preparing the financial statements, management is responsible for assessing the Association'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 the Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association'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 generally accepted auditing standards 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 generally accepted auditing standards, 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 the Association'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 the Association'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 the Association 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
March 21, 2019

Association of Professional Engineers and Geoscientists of Alberta

Statement of Financial Position

As at December 31, 2018

(in thousands of dollars)

	2018 \$	2017 \$
Assets		
Current assets		
Cash and cash equivalents	5,341	3,017
Short term investments	4,000	-
Accounts receivable	1,371	1,450
Prepaid expenses	627	380
	<u>11,339</u>	<u>4,847</u>
Tangible capital assets (note 3)	4,800	5,145
Intangible assets (note 4)	1,666	1,320
Investments (note 5)	15,837	16,462
Defined benefit pension plan surplus (note 6)	186	1,519
	<u>33,828</u>	<u>29,293</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,139	1,435
Government remittances payable	134	-
Deferred dues and fees revenues	12,780	11,865
Obligation under capital lease	30	36
	<u>15,083</u>	<u>13,336</u>
Deferred lease inducement	1,163	1,367
Obligation under capital lease	-	30
	<u>16,246</u>	<u>14,733</u>
Net Assets		
Invested in tangible capital and intangible assets	6,436	6,399
Internally restricted – legislative review	1,000	1,000
Internally restricted – regulatory risk management reserve	988	-
Unrestricted	9,158	7,161
	<u>17,582</u>	<u>14,560</u>
	<u>33,828</u>	<u>29,293</u>

Commitments and contingencies (note 7)

Approved by the Board of Directors

_____ Director _____ Director

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

Association of Professional Engineers and Geoscientists of Alberta

Statement of Changes in Net Assets

For the year ended December 31, 2018

(in thousands of dollars)

2018

	Internally restricted				Total \$
	Invested in tangible capital and intangible assets \$	Legislative review \$	Regulatory risk management reserve \$	Unrestricted \$	
Balance – Beginning of year	6,399	1,000	-	7,161	14,560
Excess of revenues over expenses for the year	-	-	-	4,457	4,457
Pension remeasurement and other items	-	-	-	(1,435)	(1,435)
Transfer to Risk Management Reserve	-	-	988	(988)	-
Purchases of tangible capital assets and intangible assets	1,487	-	-	(1,487)	-
Amortization of tangible capital assets and intangible assets	(1,486)	-	-	1,486	-
Repayment of capital lease obligation	36	-	-	(36)	-
Balance – End of year	6,436	1,000	988	9,158	17,582

2017

	Internally restricted				Total \$
	Invested in tangible capital and intangible assets \$	Legislative review \$	Regulatory risk management reserve \$	Unrestricted \$	
Balance – Beginning of year	6,336	1,100	-	4,792	12,228
Excess of revenues over expenses for the year	-	-	-	1,969	1,969
Pension remeasurement and other items	-	-	-	363	363
Transfers to legislative review	-	316	-	(316)	-
Transfers from legislative review	-	(416)	-	416	-
Purchases of tangible capital assets and intangible assets	1,142	-	-	(1,142)	-
Amortization of tangible capital assets and intangible assets	(1,113)	-	-	1,113	-
Repayment of capital lease obligation	34	-	-	(34)	-
Balance – End of year	6,399	1,000	-	7,161	14,560

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

Association of Professional Engineers and Geoscientists of Alberta

Statement of Operations

For the year ended December 31, 2018

(in thousands of dollars)

	2018 \$	2017 \$
Revenues		
Members' annual dues	21,857	19,804
Permit annual dues	3,129	2,143
Registration fees	1,454	1,709
Examination fees	1,213	1,584
Affinity program	2,714	531
Fees recovered for programs	1,135	655
General	649	288
Bank interest and investment income	75	31
	<hr/> 32,226	<hr/> 26,745
Expenses		
Salaries and benefits	14,274	13,104
Consultants and contractors	1,201	1,253
IT and telecommunications	1,966	2,273
Legal fees	1,215	1,056
Travel, meals and volunteers	1,312	1,241
Facilities lease and management	2,008	2,065
National assessment and premiums	1,199	1,076
Exam administration	534	722
Printing, supplies and distribution	750	773
Advertising and promotion	103	138
Sponsorships	165	62
Administration	411	271
Bank and financial charges	593	637
Depreciation and amortization	1,486	1,113
	<hr/> 27,217	<hr/> 25,784
Excess of revenues over expenses before realized and unrealized investment (loss) gain	5,009	961
Realized and unrealized investment (loss) gain	<hr/> (552)	<hr/> 1,008
Excess of revenues over expenses for the year	<hr/> <hr/> 4,457	<hr/> <hr/> 1,969

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

Association of Professional Engineers and Geoscientists of Alberta

Statement of Cash Flows

For the year ended December 31, 2018

(in thousands of dollars)

	2018 \$	2017 \$
Cash provided by (used in)		
Operating activities		
Excess of revenues over expenses for the year	4,457	1,969
Items not affecting cash		
Depreciation and amortization	1,486	1,113
Amortization of deferred lease inducement	(204)	(203)
Non-cash portion of defined pension benefit expense	(102)	(333)
Unrealized loss (gain) on long-term investments	2,089	(364)
	<u>7,726</u>	<u>2,182</u>
Changes in non-cash working capital		
Accounts receivable	79	(740)
Prepaid expenses	(247)	(125)
Accounts payable and accrued liabilities	704	455
Government remittances payable	134	(97)
Deferred dues and fees revenues	915	1,586
	<u>1,585</u>	<u>1,079</u>
	<u>9,311</u>	<u>3,261</u>
Investing activities		
Purchases of tangible capital assets and intangible assets	(1,487)	(1,142)
Purchases of long-term investments	(1,980)	(645)
Proceeds on disposal of long-term investments	516	48
Purchases of short-term investments	(4,000)	-
	<u>(6,951)</u>	<u>(1,739)</u>
Financing activities		
Repayment of obligation under capital lease	(36)	(34)
	<u>2,324</u>	<u>1,488</u>
Increase in cash and cash equivalents during the year	<u>2,324</u>	<u>1,488</u>
Cash and cash equivalents – Beginning of year	<u>3,017</u>	<u>1,529</u>
Cash and cash equivalents – End of year	<u>5,341</u>	<u>3,017</u>

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

Association of Professional Engineers and Geoscientists of Alberta

Notes to Financial Statements

December 31, 2018

(in thousands of dollars)

1 Nature of the organization

Association of Professional Engineers and Geoscientists of Alberta (APEGA) is incorporated under the Engineering and Geoscience Professions Act of Alberta with the mission of serving the public interest by regulating the practices of engineering and geosciences in Alberta, by providing leadership for its professions and by upholding its members in their professional practices. As a not-for-profit organization under the Income Tax Act (Canada), APEGA is not subject to income taxes.

2 Summary of significant accounting policies

These financial statements were prepared in accordance with Part III of the Chartered Professional Accountants of Canada Handbook - Accounting standards for not-for-profit organizations, which sets out generally accepted accounting principles for not-for-profit organizations in Canada (GAAP), and include the significant accounting policies summarized below.

Revenue recognition

Revenue is recognized when evidence of an arrangement exists, the service has been rendered, the price is determinable and ultimate collection is reasonably assured.

Specific revenue recognition policies include the following:

- Dues and permit fees are set annually by Council and recognized as revenue proportionately over a fiscal year to which they relate.
- Registration fees are recognized when received.
- Examination fees are recognized when the examination is presented.
- Affinity program revenue is recognized when received.
- General revenue is recognized when the related services are provided or goods are shipped.
- Realized investment income includes interest and dividends and is recognized when earned.

APEGA follows the deferral method of accounting for contributions, which include grants and donations. Grants are recognized in the accounts when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Grants are deferred when initially recorded in the accounts and are recognized as revenue in the year in which the related expenses are recognized. Donations are recorded when received, since pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue when initially recorded in the accounts. Externally restricted contributions are deferred when initially recorded in the accounts and recognized as revenue in the year in which the related expenses are recognized.

Association of Professional Engineers and Geoscientists of Alberta

Notes to Financial Statements

December 31, 2018

(in thousands of dollars)

Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term investments with periods to initial maturity of less than 90 days.

Financial instruments

Investments are recorded at fair value. Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Other financial instruments, including cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, are initially recorded at fair value and subsequently measured at amortized cost.

Tangible capital assets

Tangible capital assets are recorded at acquisition cost. Contributed tangible capital assets are recorded at fair value at the date of the contribution. Amortization is determined using the straight-line method over the estimated useful lives of the assets as follows:

Computer hardware	4 years
Leasehold improvements	lease term
Audio/visual equipment	5 years
Furniture and equipment	10 years

Intangible assets

Intangible assets are recorded at acquisition cost. Contributed intangible assets are recorded at fair value at the date of the contribution.

Costs associated with maintaining software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by APEGA are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Association of Professional Engineers and Geoscientists of Alberta

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December 31, 2018

(in thousands of dollars)

Developed software includes the membership database and the document management system. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use.

Amortization is determined using the straight-line method over the estimated useful lives of the assets as follows:

Computer software	3 - 5 years
Membership database	6 years

Leases

Leases are classified as capital or operating leases. Leases that transfer substantially all of the benefits and risks incident to the ownership of property are classified as capital leases. All other leases are accounted for as operating leases, wherein rental payments are expensed as incurred.

Lease inducements

Tenant lease inducements are recorded as a liability and amortized on a straight-line basis over the term of the lease.

Defined contribution pension plan

APEGA closed entry to the defined benefit pension plan at December 31, 2012 and initiated a new defined contribution pension plan for employees commencing after January 1, 2013, with a plan start date of July 1, 2013. Contributions to the defined contribution pension plan are recognized on the accrual basis. Total contribution expense for the year ended December 31, 2018 was \$454 (2017 – \$411).

Defined benefit pension plan

APEGA accounts for its defined benefit pension plan using the immediate recognition method. APEGA recognizes the amount of the accrued benefit obligation, net of the fair value of any assets measured at the year-end date, adjusted for any valuation allowance, in the statement of financial position. The accrued benefit obligation for the pension plan is determined based on an actuarial valuation report prepared for funding purposes, which is required to be prepared at least on a triennial basis. During those years where an actuarial valuation is not prepared, APEGA estimates the obligation.

The annual current service and finance costs of the defined benefit pension plan are recorded as pension benefit costs in the statement of operations. Remeasurements and other items, which include the difference between the actual return on plan assets and the return, calculated using the annual discount rate, actuarial gains and losses, past service costs and gains and losses arising from settlements and curtailments are recorded as pension remeasurements and other items in the statement of changes in net assets.

Association of Professional Engineers and Geoscientists of Alberta

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Contributed materials and services

Contributed materials and services are not recognized in the financial statements.

Foreign currency translation

Investments in foreign currencies have been translated into Canadian dollars at year-end exchange rates. Revenues and expenses have been translated at the average rate of exchange during the year. Foreign exchange gains and losses are included in the statement of operations.

Use of estimates and key judgments

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses and disclosure of contingent assets and liabilities. The most significant estimates made by management include the allowance for doubtful accounts, the estimated useful lives of tangible capital and intangible assets and assumptions used in the valuation of pension benefit obligations. Actual results could differ from those estimates.

3 Tangible capital assets

	2018			2017		
	Cost \$	Accumulated amortization \$	Net \$	Cost \$	Accumulated amortization \$	Net \$
Computer hardware	2,403	1,559	844	1,657	1,162	495
Leasehold improvements	7,120	3,785	3,335	7,101	3,218	3,883
Audio/visual equipment	1,080	791	289	1,176	796	380
Furniture and equipment	1,301	969	332	1,297	910	387
	<u>11,904</u>	<u>7,104</u>	<u>4,800</u>	<u>11,231</u>	<u>6,086</u>	<u>5,145</u>

Furniture and equipment includes assets under capital lease with a cost of \$171 (2017 – \$171) and accumulated amortization of \$142 (2017 – \$106).

Association of Professional Engineers and Geoscientists of Alberta

Notes to Financial Statements

December 31, 2018

(in thousands of dollars)

4 Intangible assets

	2018			2017		
	Cost \$	Accumulated amortization \$	Net \$	Cost \$	Accumulated amortization \$	Net \$
Computer software	1,879	623	1,256	711	446	265
Membership database	4,391	3,981	410	4,746	3,691	1,055
Reviewers portal	-	-	-	172	172	-
Website	-	-	-	142	142	-
	<u>6,270</u>	<u>4,604</u>	<u>1,666</u>	<u>5,771</u>	<u>4,451</u>	<u>1,320</u>

Computer software include amounts incurred for intangible capital work-in-progress of \$702 (2017 – \$982).

5 Investments

Investments consist of fixed income and equity-based instruments. The investment portfolio, managed by a third party investment manager, is subject to an investment policy set by Council. Fixed income investments, consisting of federal, provincial and corporate bonds, are capable of prompt liquidation. The equity-based investments are widely held and diversified and are traded on a regular basis at the discretion of the investment manager.

	2018 \$	2017 \$
Fixed income	7,536	6,696
Canadian equity funds	4,047	4,670
International equity funds	4,254	5,096
	<u>15,837</u>	<u>16,462</u>

Fixed income securities comprise a weighted average term of 4.5 years to maturity with a yield of 2.7% (2017 – range between 2.0% and 2.9%).

Association of Professional Engineers and Geoscientists of Alberta

Notes to Financial Statements

December 31, 2018

(in thousands of dollars)

6 Defined benefit pension plan

	2018 \$	2017 \$
Defined benefit pension plan surplus		
Plan assets at fair value	16,555	17,538
Accrued benefit obligations	(16,369)	(16,019)
	<u>186</u>	<u>1,519</u>

Contributions to the plan by APEGA during the year were \$457 (2017 – \$715) and by employees were \$129 (2017 – \$155). Benefit/termination payments from the plan during the year were \$1,043 (2017 – \$1,282).

The significant actuarial assumptions adopted in measuring APEGA's accrued benefit obligation and pension benefit costs include an annual discount rate of 5.25% (2017 – 5.25%), an annual rate of return on plan assets of 5.25% (2017 – 5.25%), an annual rate of salary increase of 3.5% (2017 – 3.5%) and an annual inflation rate of 2.5% (2017 – 2.5%).

The most recent actuarial valuation of the plan for funding purposes was performed as at December 31, 2016.

7 Commitments and contingencies

a) Commitments

APEGA is committed to lease agreements relating to its office premises in Edmonton and Calgary, as well as certain office equipment. Minimum future lease payments under the agreements are as follows:

	\$
2019	2,187
2020	2,520
2021	2,750
2022	2,750
2023	2,236
Thereafter	<u>2,236</u>
	<u>14,679</u>

Subsequent to December 31, 2018, APEGA entered into a lease agreement for additional office space in the existing Edmonton office premises. The lease commitments begin on January 1, 2020 and are included in the commitment amounts shown above.

Association of Professional Engineers and Geoscientists of Alberta

Notes to Financial Statements

December 31, 2018

(in thousands of dollars)

b) Contingencies

From time to time, legal claims may be pending against APEGA in the normal course of operations. Management is of the opinion that any pending litigation will not have a material adverse impact on APEGA's financial position or the results of its operations.

8 Financial instruments

APEGA is exposed to various financial risks through transactions in financial instruments. The fair value of financial instruments carried at amortized cost approximates their carrying amounts due to the short-term maturity of these instruments.

Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. APEGA is exposed to credit risk from accounts receivable. In the normal course of business, APEGA evaluates the financial condition of its members and customers on a continuing basis and reviews the creditworthiness of all new applicants. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. APEGA has a significant number of members, which minimizes concentration of credit risk.

APEGA's investment in bonds and interest accrued thereon is primarily with federal and provincial governments with a portion allocated to investment grade corporate bonds concentrated in Canada.

A portion of the assets held in the pension plan is exposed to credit risk, similar to the risks on APEGA's bond portfolio. In the event of loss in the pension plan, APEGA would be obligated to fund any deficiency that may arise. The investment fund invests in a mix of government and investment grade corporate bonds.

Cash and cash equivalents and term deposits are maintained with a Schedule I financial institution. There has been no change to credit risk from the prior year.

Market and other price risk

APEGA's equity interests are primarily focused on the Canadian public market and are subject to fluctuations due to changes in market prices of individual securities, general market and industry trends, changes in interest rates, and creditworthiness and foreign exchange rates. APEGA is also exposed to interest rate risk through its holdings of bonds. Market and other price risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. All investments are of large market entities regularly traded on the exchanges.

A portion of the assets held in the pension plan is exposed to market and other price risk, similar to the risks on APEGA's investment portfolio. In the event of loss in the pension plan, APEGA would be obligated to fund any deficiency that may arise. The investment fund invests in a mix of large market entities or funds regularly traded on the exchanges.

Association of Professional Engineers and Geoscientists of Alberta

Notes to Financial Statements

December 31, 2018

(in thousands of dollars)

There has been no change to these risks from the prior year.

Liquidity risk

APEGA is exposed to the risk that it will encounter difficulty in meeting obligations associated with its financial liabilities. The investments may create liquidity risk if APEGA is required to sell at a time that the market for the investments is unfavourable.

Currency risk

Currency risk is the risk to APEGA's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of those rates. APEGA is exposed to foreign currency exchange risk on cash and investments held in US dollars. APEGA does not use derivative instruments to reduce its exposure to foreign currency risk.