

Association of Professional Engineers and Geoscientists of Alberta

Financial Statements
December 31, 2017
(in thousands of dollars)



March 22, 2018

Independent Auditor's Report

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

We have audited the accompanying financial statements of Association of Professional Engineers and Geoscientists of Alberta, which comprise the statement of financial position as at December 31, 2017 and the statements of changes in net assets, operations and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Association of Professional Engineers and Geoscientists of Alberta as at December 31, 2017 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.

Other matter

The financial statements of Association of Professional Engineers and Geoscientists of Alberta for the year ended December 31, 2016 were audited by the predecessor auditor who issued an independent auditor's report without reservation on those financial statements on March 23, 2017.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Association of Professional Engineers and Geoscientists of Alberta

Statement of Financial Position

As at December 31, 2017

(in thousands of dollars)

	2017 \$	2016 \$
Assets		
Current assets		
Cash and cash equivalents	3,017	1,529
Accounts receivable	1,450	710
Prepaid expenses	380	255
	<hr/> 4,847	<hr/> 2,494
Tangible capital assets (note 3)	5,145	5,280
Intangible assets (note 4)	1,320	1,156
Investments (note 5)	16,462	15,501
Defined benefit pension plan surplus (note 6)	1,519	823
	<hr/> 29,293	<hr/> 25,254
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,435	980
Government remittances payable	-	97
Deferred dues and fees revenues	11,865	10,279
Obligation under capital lease (note 7)	36	34
	<hr/> 13,336	<hr/> 11,390
Deferred lease inducement	1,367	1,570
Obligation under capital lease (note 7)	30	66
	<hr/> 14,733	<hr/> 13,026
Net Assets		
Invested in tangible capital and intangible assets	6,399	6,336
Internally restricted – legislative review	1,000	1,100
Unrestricted	7,161	4,792
	<hr/> 14,560	<hr/> 12,228
	<hr/> 29,293	<hr/> 25,254

Commitments and contingencies (note 8)

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, 2017

(in thousands of dollars)

	<u>Internally restricted</u>			2017
	Invested in tangible capital and intangible assets \$	Legislative review \$	Unrestricted \$	Total \$
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

	<u>Internally restricted</u>			2016
	Invested in tangible capital and intangible assets \$	Legislative review \$	Unrestricted \$	Total \$
Balance – Beginning of year	5,925	1,000	3,799	10,724
Excess of revenues over expenses for the year	-	-	1,245	1,245
Pension remeasurement and other items	-	-	259	259
Transfers to legislative review	-	615	(615)	-
Transfers from legislative review	-	(515)	515	-
Purchases of tangible capital assets and intangible assets	1,612	-	(1,612)	-
Amortization of tangible capital assets and intangible assets	(1,233)	-	1,233	-
Repayment of capital lease obligation	32	-	(32)	-
Balance – End of year	6,336	1,100	4,792	12,228

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, 2017

(in thousands of dollars)

	2017 \$	2016 \$
Revenues		
Members' annual dues	19,804	18,500
Permit annual dues	2,143	1,950
Registration fees	1,709	1,552
Examination fees	1,584	1,503
Affinity program	531	571
Fees recovered for programs	655	764
General	288	292
Bank interest and investment income	31	7
	<hr/> 26,745	<hr/> 25,139
Expenses		
Salaries and benefits	13,104	12,471
Consultants and contractors	1,253	1,586
IT and telecommunications	2,273	1,387
Legal fees	1,056	817
Travel, meals and volunteers	1,241	1,461
Facilities lease and management	2,065	1,969
National assessment and premiums	1,076	1,210
Exam administration	722	723
Printing, supplies and distribution	773	1,042
Advertising and promotion	138	93
Sponsorships	62	100
Administration	271	455
Bank and financial charges	637	620
Depreciation and amortization	1,113	1,233
	<hr/> 25,784	<hr/> 25,167
Excess (deficiency) of revenues over expenses before realized and unrealized investment gain	961	(28)
Realized and unrealized investment gain	<hr/> 1,008	<hr/> 1,273
Excess of revenues over expenses for the year	<hr/> <hr/> 1,969	<hr/> <hr/> 1,245

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, 2017

(in thousands of dollars)

	2017 \$	2016 \$
Cash provided by (used in)		
Operating activities		
Excess of revenues over expenses for the year	1,969	1,245
Items not affecting cash		
Depreciation and amortization	1,113	1,233
Amortization of deferred lease inducement	(203)	50
Gain on pension benefit	(333)	(30)
	<u>2,546</u>	<u>2,498</u>
Changes in non-cash working capital		
Accounts receivable	(740)	459
Prepaid expenses	(125)	4
Accounts payable and accrued liabilities	455	157
Government remittances payable	(97)	160
Deferred dues and fees revenues	1,586	(487)
	<u>1,079</u>	<u>293</u>
	<u>3,625</u>	<u>2,791</u>
Investing activities		
Purchases of tangible capital assets and intangible assets	(1,142)	(1,586)
Net increase in investments	(961)	(1,211)
	<u>(2,103)</u>	<u>(2,797)</u>
Financing activities		
Repayment of obligation under capital lease	(34)	(32)
	<u>(34)</u>	<u>(32)</u>
Increase (decrease) in cash and cash equivalents during the year	1,488	(38)
Cash and cash equivalents – Beginning of year	<u>1,529</u>	<u>1,567</u>
Cash and cash equivalents – End of year	<u>3,017</u>	<u>1,529</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, 2017

(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.
- 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. 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.

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.

Association of Professional Engineers and Geoscientists of Alberta

Notes to Financial Statements

December 31, 2017

(in thousands of dollars)

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.

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.

Association of Professional Engineers and Geoscientists of Alberta

Notes to Financial Statements

December 31, 2017

(in thousands of dollars)

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, 2017 was \$411 (2016 – \$345).

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.

Contributed materials and services

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

Association of Professional Engineers and Geoscientists of Alberta

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(in thousands of dollars)

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

	2017			2016		
	Cost \$	Accumulated amortization \$	Net \$	Cost \$	Accumulated amortization \$	Net \$
Computer hardware	1,657	1,162	495	1,252	1,006	246
Leasehold improvements	7,101	3,218	3,883	7,101	2,643	4,458
Audio/visual equipment	1,176	796	380	793	668	125
Furniture and equipment	1,297	910	387	1,297	846	451
	<u>11,231</u>	<u>6,086</u>	<u>5,145</u>	<u>10,443</u>	<u>5,163</u>	<u>5,280</u>

Furniture and equipment includes assets under capital lease with a cost of \$171 (2016 – \$171) and accumulated amortization of \$68 (2016 – \$34).

Association of Professional Engineers and Geoscientists of Alberta

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4 Intangible assets

	2017			2016		
	Cost \$	Accumulated amortization \$	Net \$	Cost \$	Accumulated amortization \$	Net \$
Computer software	711	446	265	511	328	183
Membership database	4,746	3,691	1,055	3,880	2,996	884
Reviewers portal	172	172	-	172	172	-
Website	142	142	-	118	29	89
	<u>5,771</u>	<u>4,451</u>	<u>1,320</u>	<u>4,681</u>	<u>3,525</u>	<u>1,156</u>

Computer software and membership database include amounts incurred for intangible capital work-in-progress of \$982 as at December 31, 2017.

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.

	2017 \$	2016 \$
Fixed income	6,696	6,603
Canadian equity funds	4,670	4,431
International equity funds	5,096	4,467
	<u>16,462</u>	<u>15,501</u>

Fixed income securities have terms maturing between one and ten years and yields between 2.0% and 2.9% (2016 – 0.4% and 5.2%).

Association of Professional Engineers and Geoscientists of Alberta

Notes to Financial Statements

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6 Defined benefit pension plan

	2017 \$	2016 \$
Defined benefit pension plan surplus		
Plan assets at fair value	17,538	16,766
Accrued benefit obligations	(16,019)	(15,943)
	<u>1,519</u>	<u>823</u>

Contributions to the plan by APEGA during the year were \$715 (2016 – \$499) and by employees were \$155 (2016 – \$179). Benefit/termination payments from the plan during the year were \$1,282 (2016 – \$697).

The significant actuarial assumptions adopted in measuring APEGA's accrued benefit obligation and pension benefit costs include an annual discount rate of 5.25% (2016 – 5.75%), an annual rate of return on plan assets of 5.25% (2016 – 5.75%), an annual rate of salary increase of 3.5% (2016 – 4%) and an annual inflation rate of 2.5% (2016 – 2.5%).

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

7 Obligation under capital lease

	\$
Obligation under capital lease for equipment, interest rate of approximately 6.44%, maturing in December 2019	66
Less: Current portion	<u>36</u>
	<u>30</u>

Future minimum lease payments, including principal and interest, required under the capital lease for the next two years are as follows:

	\$
2018	36
2019	<u>30</u>
	<u>66</u>

The capital lease is secured by the underlying leased asset.

Association of Professional Engineers and Geoscientists of Alberta

Notes to Financial Statements

December 31, 2017

(in thousands of dollars)

8 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:

	\$
2018	2,108
2019	2,099
2020	2,068
2021	2,068
Thereafter	<u>12,479</u>
	<u>20,822</u>

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.

9 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.

Association of Professional Engineers and Geoscientists of Alberta

Notes to Financial Statements

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(in thousands of dollars)

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.

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.

10 Comparative figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.