



French statements drafted on March 8 KP

DRAFT Financial Statements of

ENGINEERS CANADA

Year ended December 31, 2018

INDEPENDENT AUDITORS' REPORT

To the Members of Engineers Canada

Opinion

We have audited the financial statements of Engineers Canada (the Entity), which comprise:

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

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Entity as at end of December 31, 2018, and its results of 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. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity 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 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 the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 the 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

date

ENGINEERS CANADA

Statement of Financial Position

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December 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Current assets:		
Cash (note 3)	\$ 1,400,672	\$ 629,357
Amounts receivable (note 4)	1,132,944	1,261,091
Prepaid expenses and deposits	361,161	320,209
	<u>2,894,777</u>	<u>2,210,657</u>
Investments (note 5)	6,187,639	6,274,236
Tangible capital and intangible assets (note 6)	887,220	1,129,676
	<u>\$ 9,969,636</u>	<u>\$ 9,614,569</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 7)	\$ 2,859,032	\$ 838,790
Deferred contributions	33,000	126,171
	<u>2,892,032</u>	<u>964,961</u>
Deferred lease inducement (note 8)	658,294	745,747
Net assets (note 9):		
Internally restricted:		
Four-year rolling operational reserve	4,000,000	4,000,000
General contingency reserve	1,325,000	1,325,000
Capital reserve for the purchase of assets	250,000	250,000
Other internally restricted	211,400	211,400
Invested in tangible capital and intangible assets	564,690	764,462
Unrestricted	68,220	1,352,999
	<u>6,419,310</u>	<u>7,903,861</u>
Commitments (note 10)		
	<u>\$ 9,969,636</u>	<u>\$ 9,614,569</u>

See accompanying notes to financial statements.

On behalf of the Board:

_____ Director

_____ Director

ENGINEERS CANADA

Statement of Operations

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Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Affinity and insurance (note 11)	\$ 5,970,478	\$ 5,905,316
Regulator assessment	3,021,619	2,949,363
Secondary professional liability insurance	684,143	729,719
Research and outreach	345,666	192,500
Public policy	170,225	46,691
Interest and dividend income	168,122	169,447
Rent revenue	23,450	28,809
National Council of Deans of Engineering and Applied Science	17,500	17,500
Accreditation	16,637	16,127
Other	344	4,429
Online competency project	-	6,563
Unrealized gain (loss) on investments	(218,340)	418,877
	10,199,844	10,485,341
Expenses:		
Human resources	5,501,105	5,324,750
Finance and administration	1,122,289	1,276,019
Affinity and insurance programs	912,161	1,127,841
Accreditation	841,164	567,746
Governance and executive office	745,475	513,251
Board meetings	593,984	684,843
Regulatory support	453,259	351,436
Research and outreach	448,470	385,600
Information services	276,060	119,311
Public policy	268,103	120,254
Qualifications	206,431	256,129
CEO and President's travel	83,141	115,559
Communications	69,915	67,588
Legal and brand protection	61,181	87,549
Public affairs	54,648	46,358
Board committees	47,009	148,569
National and international mobility	-	8,323
	11,684,395	11,201,126
Deficiency of revenue over expenses	\$ (1,484,551)	\$ (715,785)

See accompanying notes to financial statements.

ENGINEERS CANADA

Statement of Changes in Net Assets

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Year ended December 31, 2018, with comparative information for 2017

	Four-year rolling operational reserve (note 9)	General contingency reserve (note 9)	Capital reserve for the purchase of assets (note 9)	Other internally restricted (note 9)	Invested in tangible capital and intangible assets (note 9)	Unrestricted	2018	2017
Balance, beginning of year	\$ 4,000,000	\$ 1,325,000	\$ 250,000	\$ 211,400	\$ 764,462	\$ 1,352,999	\$ 7,903,861	\$ 8,619,646
Deficiency of revenue over expenses	-	-	-	-	-	(1,484,551)	(1,484,551)	(715,785)
Amortization of tangible capital and intangible assets	-	-	-	-	(291,948)	291,948	-	-
Additions to tangible capital and intangible assets	-	-	-	-	49,492	(49,492)	-	-
Amortization of leasehold inducement	-	-	-	-	42,684	(42,684)	-	-
Balance, end of year	\$ 4,000,000	\$ 1,325,000	\$ 250,000	\$ 211,400	\$ 564,690	\$ 68,220	\$ 6,419,310	\$ 7,903,861

See accompanying notes to financial statements.

ENGINEERS CANADA

Statement of Cash Flows

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Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Deficiency of revenue over expenses	\$ (1,484,551)	\$ (715,785)
Items not involving cash:		
Amortization of tangible capital and intangible assets	291,948	387,825
Amortization of lease inducement	(87,453)	(87,453)
Net unrealized loss (gain) on investments (note 5)	218,340	(418,877)
Change in non-cash operating working capital:		
Decrease (increase) in amounts receivable	128,147	(68,704)
Increase in prepaid expenses and deposits	(40,952)	(28,362)
Increase in accounts payable and accrued liabilities	2,020,242	258,937
Decrease in deferred contributions	(93,171)	(44,728)
	952,550	(717,147)
Investing activities:		
Net decrease in investments	(131,743)	619,986
Additions to tangible capital and intangible assets	(49,492)	(70,337)
	(181,235)	549,649
Increase (decrease) in cash	771,315	(167,498)
Cash, beginning of year	629,357	796,855
Cash, end of year	\$ 1,400,672	\$ 629,357

See accompanying notes to financial statements.

ENGINEERS CANADA

Notes to Financial Statements

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Year ended December 31, 2018

1. Governing statutes and nature of operations:

Engineers Canada is a national federation of the twelve provincial and territorial associations authorized to license engineers and regulate the practice of the profession across Canada. Engineers Canada exists so that constituent associations have support for an advancing engineering profession and its self-regulation in the public interest at a cost that is justified by the results.

Engineers Canada was originally incorporated without share capital under Part II of the Canada Corporations Act. Effective October 31, 2013, Engineers Canada continued its articles of incorporation from Canada Corporations Act to the Canada Not-for-profit Corporations Act and changed its name to Engineers Canada from the Canadian Council of Professional Engineers. Engineers Canada is a not-for-profit organization and as such is exempt from income tax under Section 149(1)(l) of the Income Tax Act (Canada).

2. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Canada Handbook - Accounting and include the following significant accounting policies:

(a) Basis of presentation:

Engineers Canada follows the deferral method of accounting for contributions for not-for-profit organizations.

(b) Revenue recognition:

Engineers Canada's principal sources of revenue are provincial assessment fees from members, amounts from affinity and insurance programs, and government project funding.

Revenues for the provincial assessment fees are recognized when the constituent members have been invoiced. The amounts are included in finance and administration revenues on the statement of operations. Revenues from the Affinity Programs are recognized when the amount becomes collectible according to the terms of the arrangement.

Government funding that is externally restricted for specific projects are deferred and recognized as revenue in the period in which the related expenses are incurred. Funding received for tangible capital and intangible assets is deferred and amortized over the same term and on the same basis as the related asset.

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Notes to Financial Statements (continued)

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Year ended December 31, 2018

2. Significant accounting policies (continued):

(b) Revenue recognition (continued):

Interest income is recognized based on the number of days the investment was held during the year. Dividends are recognized as of the ex-dividend date. Gains or losses on the disposal of investments are determined using the average cost method. All investment revenues including realized and unrealized gains and losses on investments are recognized in the statement of operations.

Externally funded project revenues, which include government funded project revenues, are recognized using the deferral method of accounting as the related eligible expenses are incurred in accordance with the terms of each contract. Amounts received in excess of eligible expenses are disclosed as a liability.

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. Engineers Canada has elected to carry investments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using straight-line rate method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year. Where an indicator of impairment is present, Engineers Canada determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount Engineers Canada expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial impairment charge.

ENGINEERS CANADA

Notes to Financial Statements (continued)

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Year ended December 31, 2018

2. Significant accounting policies (continued):

(d) Tangible capital and intangible assets:

Tangible capital and intangible assets are recorded at cost less accumulated amortization. When a tangible capital or intangible asset no longer contributes to Engineers Canada's ability to provide services, its carrying amount is written down to its residual value.

Amortization of tangible capital and intangible assets is provided on the straight-line basis as follows:

Asset	Terms
Tangible capital:	
Furniture, fixtures and equipment	4 years
Computer hardware	4 years
Leasehold improvements	Remaining term of lease
Intangible:	
Computer software	4 years
Engineering Talent project	4 years

(e) Deferred lease inducement:

Leasehold inducements are deferred and amortized over the term of the lease. Annual amortization is recorded as a credit to rent expense.

(f) Allocated expenses:

In the statement of operations, Engineers Canada presents its expenses by function.

Engineers Canada does not allocate expenses between functions subsequent to initial recognition.

(g) Foreign currency translation:

Foreign currency transactions are initially recorded at the rate of exchange prevailing at the date of translation. Thereafter, monetary assets and liabilities are translated at the exchange rate in effect at the statement of financial position date. Revenue and expenses in a foreign currency are translated at the average monthly rate in effect during the year. Gains and losses resulting from the translation are included in investment income in the statement of operations.

ENGINEERS CANADA

Notes to Financial Statements (continued)

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Year ended December 31, 2018

2. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of the financial statements 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 year. Actual results could differ from these estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period they become known.

3. Cash:

Engineers Canada's operating cash is held in Canadian chartered banks. Substantially all the accounts are Canadian dollar accounts and earn interest at variable rates established from time to time by the bank based on its prime rate less 2.75% (2017 - prime rate less 2.75%).

Line of credit

Engineers Canada has a line of credit allowing it to borrow up to \$500,000 (2017 - \$500,000) at an interest rate of prime plus 1%. That line of credit is subject to annual renewal. There was no outstanding balance as at December 31, 2018 (2017 - \$Nil).

4. Amounts receivable:

	2018	2017
Affinity and insurance programs	\$ 1,058,956	\$ 1,092,224
Due from members	17,022	84,329
Government remittances receivable	56,966	84,538
	<u>\$ 1,132,944</u>	<u>\$ 1,261,091</u>

ENGINEERS CANADA

Notes to Financial Statements (continued)

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Year ended December 31, 2018

5. Investments:

	2018		2017	
	Fair value	Cost	Fair value	Cost
Cash and money market funds	\$ 428,515	\$ 428,515	\$ 237,952	\$ 237,952
Bond funds	2,668,838	2,681,008	2,520,186	2,496,629
Canadian equity funds	1,184,624	911,080	1,282,315	870,290
U.S. equity funds	1,203,589	855,917	1,414,557	930,129
International equity funds	702,073	566,710	819,226	578,315
	\$ 6,187,639	\$ 5,443,230	\$ 6,274,236	\$ 5,113,315

Investments are held by Engineers Canada to fund its internally restricted net assets for the purposes specified in note 9 (a).

6. Tangible capital and intangible assets:

	2018		2017	
	Cost	Accumulated amortization	Net book value	Net book value
Tangible capital:				
Furniture, fixtures and equipment	\$ 203,098	\$ 160,649	\$ 42,449	\$ 92,112
Computer hardware	492,776	442,806	49,970	44,558
Leasehold improvements	1,045,996	308,595	737,401	826,001
Intangible assets:				
Computer software	602,722	579,637	23,085	109,818
Engineering Talent project	91,500	57,185	34,315	57,187
	\$ 2,436,092	\$ 1,548,872	\$ 887,220	\$ 1,129,676

Cost and accumulated amortization at December 31, 2017 amounted to \$2,386,600 and \$1,256,924, respectively.

ENGINEERS CANADA

Notes to Financial Statements (continued)

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Year ended December 31, 2018

7. Accounts payable and accrued liabilities:

	2018	2017
Operating	\$ 289,963	\$ 391,911
Payroll related accruals	264,025	211,967
Accrued liabilities	2,264,968	192,254
Secondary Professional Liability insurance premiums repayable to members	40,077	42,658
	<u>\$ 2,859,033</u>	<u>\$ 838,790</u>

There are no amounts payable for government remittances such as sales or payroll-related taxes included in operating or accrued liabilities.

8. Deferred lease inducement:

In 2015, Engineers Canada entered into a lease agreement to rent premises for the next ten years. As part of this agreement, Engineers Canada received a tenant allowance to cover fit-up costs up to a maximum of \$30 per square foot of space rented, as well as a rent-free period for nine months.

	Rent-free leasehold inducements	Tenant allowance - fit-up costs	Total
Balance, beginning of year	\$ 380,533	\$ 365,214	\$ 745,747
Less amortization	(44,769)	(42,684)	(87,453)
Balance, end of year	<u>\$ 335,764</u>	<u>\$ 322,530</u>	<u>\$ 658,294</u>

9. Net assets:

Engineers Canada's overall objective with regard to its net assets is to fund future projects, ongoing operations and tangible capital and intangible assets. Engineers Canada manages its net assets by establishing restricted funds and committing amounts in the internally restricted net assets for anticipated future projects, contingencies and other capital requirements. These allocations are presented in the statement of changes in net assets and disclosed in note 9(a).

ENGINEERS CANADA

Notes to Financial Statements (continued)

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Year ended December 31, 2018

9. Net assets (continued):

Engineers Canada's objective with respect to unrestricted net assets is to maintain a balance sufficient to meet the needs associated with ongoing operations and to finance any unrealized losses on Engineers Canada's investments. Engineers Canada's net assets invested in its tangible capital and intangible assets is equal to their net book value less the corresponding lease inducement.

Engineers Canada is not subject to externally imposed capital requirements and its overall strategy with respect to net assets remains unchanged from the year ended December 31, 2017.

(a) Internally restricted net assets:

Internally restricted net assets are funds committed for specific purposes, which reflect the application of Engineers Canada's Board policy as follows:

The Four Year Rolling Operational Reserve is to provide Engineers Canada with sufficient resources to identify other sources of revenue in the eventuality that significant sources of revenues are no longer available, or in the event of a severe disruption of operations to downsize activities in a rational manner. This reserve is being maintained at a target level of \$4,000,000.

The General Contingency Reserve ensures that funds are available in case of legal challenge, to provide funds to cover the deductibles for insurances, and to assist the constituent members where it is demonstrated that they do not have the financial resources to defend an enforcement action and/or statutory obligation that has a clear and significant impact on the other members. This reserve has a target level of \$1,325,000.

The Capital Reserve for the Purchase of Assets is to provide funds which are available to allow for replacement of capital assets. This reserve has a target level of \$1,000,000 by 2026.

The other internally restricted net assets category was effectively established by Engineers Canada's Board of Directors to reflect budgetary decisions made by Engineers Canada's Board of Directors when the funding source is not budgeted revenue. As at December 31, 2018, these decisions relate to legal defence costs and other program enhancements of \$211,400 (2017 \$211,400).

Engineers Canada's Board of Directors will also create new reserves and/or discontinue existing reserves, if and when required.

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Notes to Financial Statements (continued)

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Year ended December 31, 2018

10. Commitments:

- (a) Engineers Canada leases office space under an operating lease which expires on June 30, 2026. The future minimum rental payments required over the next five years and thereafter are as follows:

2019	\$	321,846
2020		321,846
2021		341,003
2022		360,161
2023		360,161
Thereafter		900,403
	\$	2,605,420

11. Affinity and insurance programs:

The Engineers Canada is a party to a number of agreements with financial services companies. Under these agreements Engineers Canada derives revenues, referred to in these financial statements as affinity program and secondary professional liability insurance based on the purchase of goods and services by the members of Engineers Canada's various provincial and territorial member associations.

ENGINEERS CANADA

Notes to Financial Statements (continued)

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Year ended December 31, 2018

11. Affinity and insurance programs (continued):

These agreements have varying terms and conditions as well as varying termination dates and methods, some of which have fixed expiry dates with renewal options and some of which are on-going until terminated with notice by either party.

The two most significant agreements account for 89% (2017 - 71%) of the affinity and insurance program revenues and have the following terms:

- twelve-year term expiring December 2029 with automatic five year renewals until terminated by either party with 180 days' notice prior to the end of any such period which accounts for 64% (2017 - 64%) of the affinity program revenues; and
- on-going with no fixed expiry date which accounts for 25% (2017 - 24%) of the insurance program revenues.

12. Pension plan contributions:

Engineers Canada is the administrator of the Staff Pension Plan for Employees of Engineers Canada, which is a defined contribution plan registered with Financial Services Commission of Ontario. The contributions to the plan are \$193,938 (2017 - \$181,305), which are included in salaries and benefits expense.

13. Financial risk management:

Engineers Canada is exposed to various financial risks resulting from both operational and investment activities. Engineers Canada's management addresses the situation by having different related policies such as the Reserves Policy, the Financial Commitments and Payment Policy, amongst others. Engineers Canada also outsources the management of its investment portfolio to an outside firm.

(a) Market risk:

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Engineers Canada is exposed to market risk with respect to its investments, as disclosed in note 5.

ENGINEERS CANADA

Notes to Financial Statements (continued)

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Year ended December 31, 2018

13. Financial risk management (continued):

(b) Foreign currency risk:

Engineers Canada is exposed to foreign currency risk with respect to U.S. currency holdings and investments in U.S. and international equity mutual funds. As at December 31, 2018, \$Nil USD (2017 - \$576 USD) currency was held along with U.S. equity and international equity mutual fund balances are disclosed in note 5.

(c) Credit and interest and rate risk:

Engineers Canada is exposed to credit and interest rate risk with respect to its interest-bearing investments. The bond mutual funds held by Engineers Canada are disclosed in note 5 and bear interest at fixed rates and Engineers Canada is therefore, exposed to the risk resulting from interest rate fluctuations. Engineers Canada's other financial assets and financial liabilities do not bear significant amounts of interest at fixed rates and therefore do not comprise any significant interest rate risk exposure to Engineers Canada. Engineers Canada does not use derivative financial instruments to reduce its interest rate risk exposure.

(d) Liquidity risk:

Liquidity risk is the risk that Engineers Canada will be unable to fulfill its obligations on a timely or cost effective manner. Engineers Canada manages its liquidity risk by monitoring its operating requirements. Engineers Canada prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

There has been no change to the risk exposures from 2017.

14. Comparative information:

Certain 2017 comparative information has been reclassified to conform to the financial statement presentation adopted for 2018.