

Real Estate Council of Alberta
Financial Statements
September 30, 2018

Management's Responsibility

To the Council Members of the Real Estate Council of Alberta:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian accounting standards for not-for-profit organizations and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial reports are properly maintained to provide reliable information for the preparation of financial statements.

The Council and the Finance and Audit Committee are composed primarily of Council Members who are neither management nor employees of the Council. The Council is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Council fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and the external auditor. The Council is also responsible for recommending appointment of the Council's external auditor.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the Council Members to audit the financial statements and report directly to them; their report follows. The external auditor has full and free access to, and meet periodically and separately with, both the Council and management to discuss their audit findings.

January 29, 2019

Original Signed by Bob Myroniuk

B. Myroniuk, Executive Director

Original Signed by Dale Cawsey

D.R. Cawsey, Director of Corporate Services

Independent Auditors' Report

To the Council Members of the Real Estate Council of Alberta:

We have audited the accompanying financial statements of Real Estate Council of Alberta, which comprise the statement of financial position as at September 30, 2018, and the statements of operations, changes in net assets and cash flows for the year then ended, and 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.

Auditors' 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 auditors' 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Real Estate Council of Alberta as at September 30, 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.

Calgary, Alberta

January 29, 2019

MNP LLP
Chartered Professional Accountants

Real Estate Council of Alberta
Statement of Financial Position
As at September 30

	Council Operating Fund	Assurance Fund	2018	2017
ASSETS				
Current				
Cash and cash equivalents (Note 2(d))	\$ 8,821,981	\$ 37,962	\$ 8,859,943	\$ 11,555,580
Short-term investments (Note 2(h))	6,558,256	4,071,929	10,630,185	17,502,333
Accounts receivable and accrued interest receivable	523,389	-	523,389	72,860
Prepaid expenses	<u>336,128</u>	<u>-</u>	<u>336,128</u>	<u>300,264</u>
	16,239,754	4,109,891	20,349,645	29,431,037
Development costs (Notes 2(e) and 4)	769,345	-	769,345	514,349
Long-term prepaid expenses (Note 5)	87,900	-	87,900	77,079
Capital assets (Notes 2(f) and 6)	<u>24,933,907</u>	<u>-</u>	<u>24,933,907</u>	<u>2,242,747</u>
	\$ 42,030,906	\$ 4,109,891	\$ 46,140,797	\$ 32,265,212
LIABILITIES AND NET ASSETS				
Current				
Accounts payable and accrued liabilities	\$ 1,418,967	\$ 3,590	\$ 1,422,557	\$ 2,323,056
Current portion of long-term debt (Note 8)	375,000	-	375,000	-
Deferred licensing revenue (Note 2(b))	<u>7,463,375</u>	<u>-</u>	<u>7,463,375</u>	<u>7,341,725</u>
	9,257,342	3,590	9,260,932	9,664,781
Long-term Debt (Note 8)	14,405,162	-	14,405,162	-
Assurance Fund Reserves (Note 2(c))	<u>-</u>	<u>1,206,549</u>	<u>1,206,549</u>	<u>1,341,060</u>
	<u>23,662,504</u>	<u>1,210,139</u>	<u>24,872,643</u>	<u>11,005,841</u>
Commitments and contingencies (Note 9)				
Net Assets				
Invested in capital assets (net of related debt)	10,153,745	-	10,153,745	2,242,747
Unrestricted Council Operating Fund	7,730,157	-	7,730,157	7,105,819
Internally restricted Council General Reserve	484,500	-	484,500	8,584,500
Externally restricted as Assurance Fund	<u>-</u>	<u>2,899,752</u>	<u>2,899,752</u>	<u>3,326,305</u>
	<u>18,368,402</u>	<u>2,899,752</u>	<u>21,268,154</u>	<u>21,259,371</u>
	\$ 42,030,906	\$ 4,109,891	\$ 46,140,797	\$ 32,265,212

Approved on behalf of the Real Estate Council of Alberta:

Original Signed by Robert Telford

Chair

Real Estate Council of Alberta
Statement of Operations
For the year ended September 30

	Council Operating Fund	Assurance Fund	2018	Budget 2018 (Unaudited)	2017
Restricted revenue and claims (Note 2(a))					
Assessments	\$ -	\$ 132,500	\$ 132,500	\$162,000	\$ 143,600
Assurance Fund Reserves, net	-	(561,031)	(561,031)	(200,000)	(30,591)
	<u>-</u>	<u>(428,531)</u>	<u>(428,531)</u>	<u>(38,000)</u>	<u>113,009</u>
Revenue from operations (Note 2(b))					
Licence fees	8,565,190	-	8,565,190	8,505,925	8,533,322
Education courses	4,661,995	-	4,661,995	4,745,950	4,933,355
Office building rental revenue	221,604	-	221,604	342,000	-
Penalties, fines and enforcement recovery	202,763	-	202,763	270,000	338,076
Investment income	145,264	48,053	193,317	82,800	105,238
Sundry	-	-	-	-	25,000
	<u>13,796,816</u>	<u>48,053</u>	<u>13,844,869</u>	<u>13,946,675</u>	<u>13,934,991</u>
Expenses (Note 2(a))					
Salaries and benefits	6,486,555	-	6,486,555	7,015,420	6,367,713
Professional services	1,326,758	17,673	1,344,431	1,270,000	632,797
Amortization of capital assets	1,162,582	-	1,162,582	1,062,000	788,400
Education courses	773,436	-	773,436	879,100	809,293
Rent	533,291	-	533,291	573,000	725,061
Information systems	462,517	-	462,517	636,100	376,825
Council	398,136	-	398,136	402,000	390,366
Long-term debt interest	342,525	-	342,525	299,000	-
Credit card fees	309,762	-	309,762	292,500	305,487
Office building net operating costs	309,264	-	309,264	360,000	-
GST	222,535	884	223,419	240,100	151,883
Training and development	212,710	-	212,710	357,700	170,545
Hearings	182,596	-	182,596	384,500	167,897
Staff travel	150,520	-	150,520	204,700	112,109
Amortization of education course development costs	144,516	-	144,516	737,100	207,527
Subscriptions and memberships	125,297	-	125,297	132,800	119,586
Postage and courier	99,591	-	99,591	101,240	93,668
Supplies	88,325	-	88,325	94,980	53,808
Telephone	73,576	-	73,576	44,360	43,445
	<u>13,404,492</u>	<u>18,557</u>	<u>13,423,049</u>	<u>15,086,600</u>	<u>11,516,410</u>
Excess (deficiency) of revenue over expenses before other items	392,324	(399,035)	(6,711)	(1,177,925)	2,531,590
Other items:					
Unrealized gain (loss) on investments (Note 2(g))	1,975	1,979	3,954	-	12,962
Gain on sale of capital assets	11,540	-	11,540	-	-
Assurance fund administration (Note 3)	29,497	(29,497)	-	-	-
	<u>43,012</u>	<u>(27,518)</u>	<u>15,494</u>	<u>-</u>	<u>12,962</u>
Excess (deficiency) of revenue over expenses	\$ 435,336	\$ (426,553)	\$ 8,783	\$ (1,177,925)	\$ 2,544,552

Real Estate Council of Alberta
Statement of Changes in Net Assets
For the year ended September 30

Fund Balances	Invested in capital assets (net of related debt)	Unrestricted Council Operating Fund	Internally restricted Council General Reserve	Externally restricted as Assurance Fund	2018	2017
Balance, beginning of year	\$ 2,242,747	\$ 7,105,819	\$ 8,584,500	\$ 3,326,305	\$ 21,259,371	\$ 18,714,819
Excess (deficiency) of revenue over expenses	(1,162,582)	1,597,918	-	(426,553)	8,783	2,544,552
Transfer from development costs	165,721	(165,721)	-	-	-	-
Transfer to Council Operating Fund (Note 2(a))	-	8,100,000	(8,100,000)	-	-	-
Purchase of capital assets	23,688,021	(23,688,021)	-	-	-	-
Capital asset related debt	(14,780,162)	14,780,162	-	-	-	-
Balance, end of year	\$ 10,153,745	\$ 7,730,157	\$ 484,500	\$ 2,899,752	\$ 21,268,154	\$ 21,259,371

Real Estate Council of Alberta
Statement of Cash Flows
For the year ended September 30

	Council Operating Fund	Assurance Fund	2018	2017
Cash provided by (used for):				
Operating activities				
Excess (deficiency) of revenue over expenses for the year	\$435,336	(\$426,553)	\$8,783	\$2,544,552
Add (deduct) for items not involving cash:				
Amortization of capital assets	1,162,582	-	1,162,582	788,400
Amortization of education course development costs	144,516	-	144,516	207,527
Amortization of financing costs	2,100	-	2,100	-
Unrealized loss (gain) on investments	(1,975)	(1,979)	(3,954)	(12,962)
Gain on sale of capital assets	(11,540)	-	(11,540)	-
Net change in provision for Assurance Fund Reserves	-	561,031	561,031	30,591
	<u>1,731,019</u>	<u>132,499</u>	<u>1,863,518</u>	<u>3,558,108</u>
Changes in non-cash working capital balances:				
Accounts receivable and accrued interest receivable	(450,529)	-	(450,529)	81,145
Prepaid expenses	(35,864)	-	(35,864)	(48,339)
Accounts payable and accrued liabilities	(900,745)	246	(900,499)	1,190,006
Deferred licensing revenue	121,650	-	121,650	15,050
Payments from Assurance Fund Reserves	-	(695,542)	(695,542)	(244,631)
Due from/(to) funds	(36)	36	-	-
Cash provided by (used for) operating activities	<u>465,495</u>	<u>(562,761)</u>	<u>(97,266)</u>	<u>4,551,339</u>
Investing and financing activities				
Redemption (purchase) of short-term investments (net)	6,453,470	422,632	6,876,102	(65,304)
Investment in education course development	(274,363)	-	(274,363)	(107,483)
Investment in systems project development	(125,149)	-	(125,149)	(77,957)
Proceeds from borrowing on long-term debt, net of financing costs	14,585,062	-	14,585,062	-
Repayment of long-term debt	(182,000)	-	(182,000)	-
Current portion of long-term debt	375,000	-	375,000	-
Payment of long-term prepaid expenses	(10,821)	-	(10,821)	(77,079)
Proceeds on sale of capital assets	11,540	-	11,540	-
Purchase of capital assets	(23,853,742)	-	(23,853,742)	(825,516)
Cash provided by (used for) investing and financing activities	<u>(3,021,003)</u>	<u>422,632</u>	<u>(2,598,371)</u>	<u>(1,153,339)</u>
Increase (decrease) in cash and equivalents	<u>(2,555,508)</u>	<u>(140,129)</u>	<u>(2,695,637)</u>	<u>3,398,000</u>
Cash and equivalents, beginning of year	<u>11,377,489</u>	<u>178,091</u>	<u>11,555,580</u>	<u>8,157,580</u>
Cash and equivalents, end of year	<u>\$8,821,981</u>	<u>\$37,962</u>	<u>\$8,859,943</u>	<u>\$11,555,580</u>

1. Nature of Operations

The Real Estate Council of Alberta (the "Council") is a not-for profit organization established as a corporation under the *Real Estate Act* (the "Act"). The purposes of the Council are:

- (a) To set and enforce standards of conduct for real estate brokers, mortgage brokers, real estate appraisers, and the business of industry members in Alberta, in order to promote the integrity of the industry and to protect consumers.
- (b) To provide services to enhance and improve the real estate, mortgage broker and real estate appraisal industries and the business of industry members.
- (c) To administer the rules and regulations per the Act.
- (d) To administer the Real Estate Assurance Fund (the "Assurance Fund"), the purpose of which is to pay any unsatisfied judgments obtained against a licenced brokerage, a broker, an associate broker or an agent of a licenced brokerage based on a finding of fraud or breach of trust in respect to a trade in real estate or a dealing in mortgages. For real estate transactions, the maximum claim is \$35,000 per applicant and \$350,000 in aggregate per industry member. For deals in mortgages, the maximum claim is \$25,000 per applicant and \$100,000 in aggregate per industry member.

The Council is governed by twelve council members. Ten council members represent all aspects of the real estate, mortgage broker and real estate appraisal industries in Alberta and two council members represent the general public.

Part 1 (excluding section 10) and Section 84(1) of the Act were proclaimed on November 1, 1995, which allowed for the appointment of council members. The remainder of the Act was proclaimed on July 1, 1996, at which time the Council became fully operational and responsible for the regulation of the real estate and mortgage broker industries in Alberta. At that time, responsibility for the functions, and the assets, liabilities and surplus of the Real Estate Licensing Committee of the Alberta Real Estate Association ("AREA") and the Assurance Fund were acquired. On October 1, 2004, amendments to the Act were proclaimed in order to include real estate appraisers to the licensing and regulatory responsibilities of the Council.

The Council is a public body performing a function of government in Canada for the purposes of paragraph 149(1)(c) of the *Income Tax Act* (Canada), and under section 149(1) of the *Income Tax Act of Canada*, is exempt from the payment of income taxes.

2. Significant Accounting Policies

Management prepares the financial statements of the Council in accordance with accounting standards for not-for-profit organizations in Canada. The preparation of the financial statements in conformity with accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Fund Accounting

The Council's financial statements are prepared on a restricted fund method of accounting.

The Council Operating Fund reports the assets, liabilities, revenues and expenses related to the setting and enforcement of standards of conduct for the real estate, mortgage broker and real estate appraisal industries, and the administration of the rules and regulations per the Act.

The Assurance Fund reports the assets, liabilities, revenues and expenses related to the operations of the Assurance Fund. The Council is the trustee for the assets, liabilities, revenues and expenses held within the Assurance Fund.

2. Significant Accounting Policies - continued

(a) Fund Accounting - continued

The Council has established a General Reserve for future operations and significant capital replacement items. The General Reserve balance has been transferred from the Council Operating Fund. As of September 30, 2018, the General Reserve balance is \$484,500 (2017 - \$8,584,500). During the year, Council transferred \$8,100,000 to the Council Operating Fund to help fund the office building purchase. During the year, the Council did not approved any new transfers to the General Reserve Fund (2017 - \$484,500).

(b) Revenue Recognition

i. Licence fees and Assurance Fund assessments

Licence fees and Assurance Fund assessments are recognized as revenue in the period that relates to the term of the application. The term of an application expires on September 30th of each year. Licence fees and Assurance Fund assessments received in advance of the term of an application are recorded as deferred licensing revenue.

ii. Education courses

Education course fees are recognized as revenue when the course participant pays the course fees and the enrollment is accepted.

iii. Penalties, fines and enforcement recoveries

Recoveries from third parties for penalties, fines and enforcement costs are recorded as revenue when amounts can be reasonably estimated and collectability is reasonably assured. Otherwise, the recovery is recorded as revenue when received.

iv. Investment income

Investment income is recorded as revenue when earned and recognized in the fund in which the investments are maintained.

v. Office building rental income

Office building rental income is recorded as revenue in the period in which it is earned as per the lease agreements, generally paid in equal monthly instalments in advance of the first day of each month.

(c) Assurance Fund Reserves

Assurance Fund reserves under s. 44(3) of the Real Estate Act Bylaws (Reserves) are set on the basis of the following:

- Receipt of a notice of the commencement of a court action in fraud or breach of trust against an industry member;
- Notification of a brokerage's failure to account for or disburse money held in trust;
- Receipt of a potentially qualifying judgment;
- Review of facts and law; and,
- Other considerations

Reserves are reviewed and adjusted as required. When a Reserve is initially set, an expense is recorded in the Statement of Operations. If a Reserve is subsequently adjusted, it is recognized in the Statement of Operations. Any applications paid are adjusted against the Reserves, and any amount over or under the Reserve is adjusted in the Statement of Operations. By their nature, Reserves are estimates, are subject to measurement uncertainty, and estimate changes could affect the results of the financial statements in future periods.

2. Significant Accounting Policies - continued

(c) Assurance Fund Reserves - continued

	2018	2017
Reserves, beginning of year	\$1,341,060	\$1,555,100
New reserves set	581,447	219,063
Payments on applications	(695,542)	(244,631)
Adjustments to applications	-	-
Release of reserves	(20,416)	(188,472)
Reserves, end of year	\$1,206,549	\$1,341,060

(d) Cash and Cash Equivalents

Cash and cash equivalents include all balances held at banks, held by the trustee of the investment funds, cash on hand, and all financial instruments purchased with an original maturity of 90 days or less.

(e) Development Costs

Development costs include costs incurred for the development of education programs and system development projects in progress. Re-licensing education program costs are amortized in the year the program is a requirement for industry members to be re-licensed. Development costs for licensing programs are amortized on a straight line basis over three years, commencing in the year the program is fully developed and offered to participants. When a significant system development project is being developed, costs are recorded in development costs. When a system development project is commissioned, the development costs are transferred to capital assets and amortized on a 20% straight line basis.

(f) Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization is recorded using rates and methods designed to amortize the cost of capital assets over their estimated useful lives as follows:

Computer hardware	33% straight line
System development	20% straight line
Office furnishings and equipment	20% straight line
Building shell	2.5% straight line
Building service systems	4% straight line
Building finishes	5% straight line
Building design and professional fees	2.5% straightline

The Council's leasehold improvements are amortized over the life of the related lease. Capital assets net available for use during the year are not amortized.

(g) Long-lived Assets Held for Use

Long-lived assets held for use, consisting of buildings and equipment, are measured and amortized as described in the above accounting policy. When the Council determines that a long-lived asset no longer has any long-term service potential to the organization, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Write-downs are not reversed.

(h) Financial Instruments

The Council recognizes its financial instruments when the Council becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value, including financial assets and liabilities originated and issued in a related party transaction with management. Financial assets and liabilities originated and issued in all other related party transactions are initially measured at their carrying or exchange amount in accordance with Section 3840 Related Party Transactions.

2. Significant Accounting Policies – continued

(h) Financial Instruments - continued

At initial recognition, the Council may irrevocably elect to subsequently measure any financial instrument at fair value. The Council has not made such an election during the year.

The Council subsequently measures investments in equity instruments quoted in an active market and all derivative instruments, except those designated in a qualifying hedging relationship. The fair values of short-term investments are determined by reference to published third-party bid price quotations in an active market at year-end. All other financial assets and liabilities are subsequently measured at amortized cost.

Transaction costs and financing fees directly attributable to the origination, acquisition, issuance or assumption of financial instruments subsequently measured at fair value are immediately recognized in excess of revenue over expenses. Conversely, transaction costs and financing fees are added to the carrying amount for those financial instruments subsequently measured at amortized cost or cost

Credit Risk

Credit risk is the possibility that other parties may default on their financial obligations. In compliance with the Investment Policies for the Operating Fund and Assurance Fund, fixed income investments are in the financial obligations of governments and major financial institutions with investment grade ratings. The risk is mitigated through the use of an investment manager who is guided by the Investment Policies for the Operating Fund and Assurance Fund for short-term and long-term investments. Substantially all of the Council's cash is held at one financial institution and as such the Council is subject to the risks associated with that financial institution.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in market interest rates. The Council is exposed to interest rate risk through its short-term investments. The primary objective of the Council with respect to its investments in short-term investments is to ensure security of principal amounts invested and provide a high degree of liquidity.

The Council entered into an interest swap agreement with a Canadian chartered bank effective January 31, 2018. The purpose of the swap is to hedge the interest rate risk with regards to the long-term debt based on floating interest rates (refer to Note 8). The agreement exchanges the variable interest at the lender's floating rates for a fixed rate of 3.81% as predetermined by the lender. The agreement terminates on January 31, 2043.

(i) Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value changes in response to a change in an underlying variable, such as specified interest rate, financial instrument or commodity price, or foreign exchange rate. The Council enters into derivative contracts to manage its exposure to interest rate risks associated with its long-term debt. Derivative financial instruments may be designated as hedges, provided that certain criteria are met.

Derivative financial instruments may be designated for hedge accounting, provided that the Council formally documents the hedging relationship at its inception by outlining the risks being hedged along with the details of both the hedged and hedging item. The documentation identifies the specific asset, liability, or anticipated transaction being hedged, the hedging item, the risk that is being hedged, and the intended term of the hedging relationship. The Council must formally assess, at inception and over the term of the hedging relationship, whether the critical terms of the hedging and hedged item match. When the hedged item is an anticipated transaction, the Council must also assess whether it is probable that the transaction will occur at the time and amount designated. If it is determined that the critical terms of the hedged and hedging item cease to match, the hedge or hedging item cease to exist, it becomes probable that an interest bearing-asset or liability hedged with an interest rate or cross-currency interest rate swap will be prepaid, or the hedged anticipated transaction is no longer probable to occur in the amount designated or within 30 days of the maturity date of the hedging item, the Council will discontinue the application of hedge accounting.

2. Significant Accounting Policies – continued

(i) Derivative Financial Instruments - continued

The Council entered into an interest rate swap to reduce the impact of fluctuating interest rates on its long-term debt. This swap agreement requires periodic exchange of the notional principal amount. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swap.

Interest on the hedged item is recognized using the effective interest method. Net amounts receivable on the hedging item adjust the interest on the hedged item in the period accrued.

(j) Financial Asset Impairment

The Council assesses impairment of its financial assets measured at cost or amortized cost. An impairment of financial assets carried at cost or amortized cost is recognized in excess of revenue over expenses when the asset's carrying value exceeds the present value of estimated future cash flows discounted at the current market rate of return for similar assets.

The Council reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. Where an impairment charge is subsequently reversed, the carrying amount of the financial asset is increased to the revised recoverable amount to the extent that it does not exceed the carrying amount that would have been determined had no impairment charge been recognized in previous periods. The amount of the reversal is recognized in excess of revenue over expenses in the year the reversal occurs.

3. Assurance Fund

Council is allowed to levy assessments on industry professionals to pay compensation in respect of claims. During the year, levies for renewing real estate industry professionals and mortgage broker industry professionals were waived. New real estate registrants and mortgage broker registrants were still required to pay levy assessments for the year. The minimum fund balance to be maintained to pay claims under the Act is \$2,000,000, which was met at September 30, 2018 by a fund balance of \$2,899,752 (2017 - \$3,326,305). The excess of the fund balance over the prescribed amount is restricted and may be expended only for purposes authorized in the regulations, and with the prior written approval of the Minister of Service Alberta.

The Act allows the Council to pay administrative costs associated with the Assurance Fund from the investment income earned on the funds in the Assurance Fund. For the year ended September 30, 2018, the Council has determined the administrative expenses incurred on behalf of the Assurance Fund to be \$29,497 (2017 - \$2,373).

4. Development Costs

	2018		2017	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
System development	\$203,106	\$ -	\$77,957	\$ -
Education course development	<u>1,720,489</u>	<u>1,154,250</u>	<u>1,446,126</u>	<u>1,009,734</u>
	<u>\$1,923,595</u>	<u>\$1,154,250</u>	<u>\$1,524,083</u>	<u>\$1,009,734</u>
Net Book Value		<u>\$769,345</u>		<u>\$514,349</u>

During 2018, there was \$290,870 (2017 – \$202,883) added to system development costs and \$165,721 (2017 – \$124,926) was transferred from development costs to capital assets upon commissioning. During 2018, there was \$274,363 (2017 - \$107,483) added to Education course development costs.

5. Long-Term Prepaid Expenses

At September 30, 2018, the Council has seven (2017 – three) multi-year prepaid service and maintenance agreements with information systems service providers, which it is amortizing to operating expense on a monthly basis. The portion attributable to the period beyond the next fiscal year of \$87,900 (2017 - \$77,079) is shown as a long-term prepaid expense.

6. Capital Assets

	2018		2017	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer hardware	\$1,433,387	\$860,833	\$936,746	\$610,267
System development	3,691,576	2,748,228	3,525,855	2,283,202
Office furnishings and equipment	634,029	120,506	741,061	736,180
Leasehold improvements	-	-	841,537	841,537
Land	2,996,778	-	-	-
Building (note 8)	20,284,752	377,048	-	-
Building development	<u>-</u>	<u>-</u>	<u>668,734</u>	<u>-</u>
	<u>\$29,040,522</u>	<u>\$4,106,615</u>	<u>\$6,713,933</u>	<u>\$4,471,186</u>
Net Book Value		<u>\$24,933,907</u>		<u>\$2,242,747</u>

During 2018, the Council transferred system development costs of \$165,721 (2017 - \$124,926) from development costs to capital assets upon commissioning and wrote off \$841,537 of fully amortized leasehold improvements and \$685,617 of fully amortized office furnishings and equipment related to its previously leased office space.

In January 2018, the Council completed the purchase of its new office building and capitalized \$2,996,778 of land, \$20,284,752 of building costs, and \$578,585 of office furnishings and equipment. The previously reported \$668,734 of building development costs was transferred to building (\$495,904), computer hardware (\$90,686), and office furnishings and equipment (\$82,144).

7. Service Contracts

The Council has a service arrangement with the Real Estate Insurance Exchange (“REIX”) to provide maintenance and updates to the real estate database, as well as ongoing and annual premium billing and collection. This contract is renewable on an annual basis.

For the current year, these services amounted to \$139,585 (2017 - \$136,245). REIX reimburses Council for the cost of these services. This reimbursement is charged against the respective expense category to which it applies in the Statement of Operations. As of September 30, 2018 and 2017, all amounts are classified as current receivables.

8. Long-Term Debt

To fund the purchase of the new office building, the Council entered into a fixed rate term credit facility on January 31, 2018 with a Canadian chartered bank in the amount of \$15,050,000, utilizing an interest rate swap. The loan is repayable by consecutive monthly blended payments based on a 300-month amortization. All outstanding principal and interest is payable in full at the end of the term. No amount is eligible for prepayment.

During 2018, the Company paid financing fees to secure long-term debt in the amount of \$89,938, which has been included in the cost of the debt. The financing fees are being amortized over the term of the loan. During the year, amortization of financing fees has been recorded in the amount of \$2,100.

The Council designates the interest rate swap as a hedge of the interest rate risk in the 25-year floating rate debt issue. The swap matures on the maturity date of the debt and requires Council to pay 3.81%. The floating rate side of the swap exactly matches the interest payments on the debt. The net effect of the swap is to convert the exposure to floating rate to fixed rate debt to allow the Council to predict cash outflows with greater reliability.

When hedging interest rate risk, interest on the debt is recorded at the stated interest rate plus or minus amortization of transaction costs and financing fees. Net amounts receivable or payable on the interest rate swap are recognized as an adjustment to the interest expense on the debt in the period during which they accrue.

As part of the financing arrangement, the Council has access to an operating demand loan via overdraft protection, with a facility limit of \$250,000, bearing interest at the lender’s prime rate plus 0.25%. At September 30, 2018, \$nil (2017 - \$nil) was drawn against this facility.

The term loan and the operating demand loan via overdraft protection are secured by a collateral mortgage in the amount of \$21,500,000 over the building (note 6) and a general security agreement. At September 30, 2018, the Council is compliant with all financial covenants, including the debt service coverage ratio.

The current portion of long-term debt of \$375,000 (2017 - \$nil) is included in current liabilities. Anticipated requirements to meet the principal portion of long-term debt repayments are as follows:

2019 - \$375,000
2020 - \$389,000
2021 - \$404,000
2022 - \$420,000
2023 - \$436,000

9. Commitments and Contingencies

(a) Lease Commitment

The Council's commitment for its previously leased office space expired on May 31, 2018. In addition to base rent, the Council was responsible for paying its portion of operating costs and property taxes. In 2018, operating costs, direct utilities, and property taxes for this leased office space were \$160,684 (2017 - \$283,117).

With the purchase of the new office building in January 2018, the Council no longer has any lease commitments for office space.

(b) Service and Equipment Commitments

The Council has entered into contractual agreements for internet, telecommunications, information technology equipment and services, and operating leases for office equipment. The future estimated payments are:

2019	470,859
2020	211,373
2021	197,933
2022	<u>12,921</u>
	<u>\$893,086</u>

(c) Mortgage Broker Regulators' Council of Canada (MBRCC)

The Council shares, based on an agreed-upon cost-sharing formula, the costs incurred for the maintenance of the MBRCC Secretariat in the development of harmonizing standards and practices across jurisdictions and modernizing regulatory frameworks governing mortgage brokers across Canada. In 2018, the Council's share of these costs was \$27,700 (2017 - \$24,800).

(d) Real Estate Regulators of Canada (RERC)

The Council signed an agreement with a third party to fund the administrative and operational support services for RERC. The annual costs are expected to be \$25,000.

(e) Educational Course and System Development

In 2016, the Council signed an agreement with an educational institution to develop materials for the Practice of Commercial Real Estate course. At September 30, 2018, \$210,000 (GST additional) remains outstanding on this contract. During 2018 and subsequent to year-end, the Council entered into contracts for education course and system development work with estimated payments of \$432,888 (GST additional) in 2019.

(f) Board Communication and Leadership Collaboration Tool

In 2018, the Council entered into an initial 24-month service agreement with a third party for a board communication and leadership collaboration tool for one-time implementation fees of \$2,500 and annual subscription fees of \$10,500. Council implemented this tool in 2018.

(g) Human Capital Management System

In September 2017, the Council entered into a 36-month service agreement with a third party for a human capital management system with estimated one-time fees of \$9,400 and annual subscription fees of \$23,000. Council expects to implement this system in 2019.

(h) Training Videos

In September 2018, the Council entered into an agreement with a visual arts company for the production of two hearing panel training videos for an expected cost of \$61,700 in 2019.

9. Commitments and Contingencies - continued

(i) Communications Consulting Services

In 2018, the Council entered into an agreement with a communications consulting firm to provide communications services for an expected cost of \$25,000 in 2019.

(j) Claims and Legal Proceedings

The Council may from time to time be subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. Management believes that adequate provisions have been made in the financial statements where required and the ultimate resolution of such contingencies will not have a material adverse effect on the financial position of the Council.

10. Budget information

On July 6, 2017, the Council approved its operating budget based on planned expenses relating to the current year funding and other current year sources of revenue. The budget balances have been included for information purposes only and are unaudited.

**Real Estate Council of Alberta
Schedule of Investments (Unaudited)
As at September 30**

September 30, 2018	Effective Interest Rates	Maturity Dates	Operating Fund Market Value	Assurance Fund Market Value	Total Market Value
Canadian Treasury Bill	1.35% - 1.49%	November 2018 - December 2018	\$6,558,256	\$4,071,929	\$10,630,185
Total Investments			\$6,558,256	\$4,071,929	\$10,630,185

September 30, 2017	Effective Interest Rates	Maturity Dates	Operating Fund Market Value	Assurance Fund Market Value	Total Market Value
Canadian Treasury Bill	0.94% - 1.13%	October 2017 - November 2017	\$13,009,750	\$4,492,583	\$17,502,333
Total Investments			\$13,009,750	\$4,492,583	\$17,502,333