Real Estate Council of Alberta
Financial Statements
September 30, 2020

To the Administrator of Real Estate Council of Alberta:

Opinion

We have audited the financial statements of Real Estate Council of Alberta (the "Council"), which comprise the statement of financial position as at September 30, 2020, and the statements of operations, changes in net assets, cash flows and the related schedule for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Council as at September 30, 2020, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Council 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 Council'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 Council or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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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 Council'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 Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Calgary, Alberta

MNP LLP

December 9, 2020

Chartered Professional Accountants

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

	Council Operating Fund	Assurance Fund	2020	2019
ASSETS				
Current				
Cash and cash equivalents	$ 10,279,611	$ 55,297	$ 10,334,908	$ 8,612,787
Short-term investments (Note 5)	6,699,361	4,021,194	10,720,555	10,660,593
Accounts receivable and accrued interest receivable	51,651	-	51,651	51,266
Prepaid expenses	360,843	-	360,843	348,045
	17,391,466	4,076,491	21,467,957	19,672,691
Development costs (Note 6)	1,374,088	-	1,374,088	885,610
Long-term prepaid expenses (Note 7)	96,170	-	96,170	101,892
Lease inducements (Note 8)	130,202	-	130,202	30,536
Capital assets (Note 9)	23,001,567	-	23,001,567	24,127,682
	$ 41,993,493	$ 4,076,491	$ 46,069,984	$ 44,818,411
LIABILITIES AND NET ASSETS				
Current				
Accounts payable and accrued liabilities	$ 1,508,515	$ 3,523	$ 1,512,038	$ 1,273,539
Current portion of long-term debt (Note 11)	345,000	-	345,000	389,000
Deferred licensing revenue	7,210,775	-	7,210,775	7,302,150
	9,064,290	3,523	9,067,813	8,964,689
Long-term debt (Note 11)	13,809,362	-	13,809,362	14,019,762
	-	-	-	-
Assurance Fund Reserves	-	1,272,163	1,272,163	1,097,163
	22,873,652	1,275,686	24,149,338	24,081,614
Commitments and contingencies (Note 12)				
Net Assets				
Invested in capital assets (net of related debt)	8,847,205	-	8,847,205	9,718,920
Unrestricted Council Operating Fund	9,788,136	-	9,788,136	7,545,908
Internally restricted Council General Reserve	484,500	-	484,500	484,500
Externally restricted as Assurance Fund	-	2,800,805	2,800,805	2,987,469
	19,119,841	2,800,805	21,920,646	20,736,797
	$ 41,993,493	$ 4,076,491	$ 46,069,984	$ 44,818,411

Approved on behalf of the Real Estate Council of Alberta:

Duane Monea, the Administrator

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

	Council Operating Fund	Assurance Fund	2020	2019
Restricted revenue and claims				
Assessments	$ -	$ 100,700	$ 100,700	$ 119,700
Assurance Fund Reserves, net	-	(276,358)	(276,358)	(35,676)
	-	(175,658)	(175,658)	84,024
Revenue from operations				
Licence fees	8,374,675	-	8,374,675	8,572,755
Education courses	4,578,675	-	4,578,675	3,754,015
Office building rental revenue	412,781	-	412,781	392,002
Investment income	139,973	55,122	195,095	231,177
Penalties, fines and enforcement recovery	181,657	-	181,657	150,052
Sundry	-	-	-	4,876
	13,687,761	55,122	13,742,883	13,104,877
Expenses				
Salaries and benefits	7,163,895	-	7,163,895	6,955,873
Amortization of capital assets	1,567,854	-	1,567,854	1,582,703
Long-term debt interest	548,836	-	548,836	562,371
Professional services	511,974	17,017	528,991	1,146,694
Office building net of operating costs	519,380	-	519,380	496,366
Information systems	518,849	-	518,849	607,225
Credit card fees	319,925	-	319,925	298,823
Amortization of education course development costs	292,810	-	292,810	182,235
Council	199,703	-	199,703	357,978
Hearings	194,471	-	194,471	312,202
Subscriptions and memberships	129,229	-	129,229	136,911
GST	91,409	851	92,260	155,458
Training and development	67,064	-	67,064	232,346
Telephone	58,137	-	58,137	62,259
Supplies	42,953	-	42,953	71,375
Staff travel	36,866	-	36,866	119,317
Rent	20,105	-	20,105	28,794
Education courses	18,373	-	18,373	403,486
Postage and courier	5,536	-	5,536	9,644
	12,307,369	17,868	12,325,237	13,722,060
Excess (deficiency) of revenue over expenses before other items	1,380,392	(138,404)	1,241,988	(533,159)
Other items:				
Unrealized (loss) gain on investments	(14,733)	(11,006)	(25,739)	1,802
Loss on disposal of capital assets	(32,400)	-	(32,400)	-
Assurance fund administration (Note 4)	37,254	(37,254)	-	-
	(9,879)	(48,260)	(58,139)	1,802
Excess (deficiency) of revenue over expenses	$ 1,370,513	$ (186,664)	$ 1,183,849	$ (531,357)

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	2020	2019
Balance, beginning of year	$ 9,718,920	$ 7,545,908	$ 484,500	$ 2,987,469	$ 20,736,797	$ 21,268,154
Excess (deficiency) of revenue over expenses	(1,600,254)	2,970,767	-	(186,664)	1,183,849	(531,357)
Transfer from development costs	400,716	(400,716)	-	-	-	-
Purchase of capital assets, net of loss on disposal of capital asset	73,423	(73,423)	-	-	-	-
Repayment of capital asset related debt, net of deferred financing costs	254,400	(254,400)	-	-	-	-
Balance, end of year	$ 8,847,205	$ 9,788,136	$ 484,500	$ 2,800,805	$ 21,920,646	$ 20,736,797

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

	Council Operating Fund	Assurance Fund	2020	2019
Cash provided by (used for):				
Operating activities				
Excess (deficiency) of revenue over expenses for the year	$ 1,370,513	$ (186,664)	$ 1,183,849	$ (531,357)
Add (deduct) for items not involving cash:				
Amortization of capital assets	1,567,854	-	1,567,854	1,582,703
Amortization of education course development costs	292,810	-	292,810	182,235
Amortization of financing costs	3,600	-	3,600	3,600
Unrealized loss (gain) on investments	14,733	11,006	25,739	(1,802)
Loss on disposal of capital assets	32,400	-	32,400	-
Lease inducement	(99,666)	-	(99,666)	(30,536)
Net change in provision for Assurance Fund Reserves	-	276,358	276,358	35,676
	3,182,244	100,700	3,282,944	1,240,519
Changes in non-cash working capital balances:				
Accounts receivable and accrued interest receivable	(385)	-	(385)	472,123
Prepaid expenses	(12,798)	-	(12,798)	(11,917)
Accounts payable and accrued liabilities	238,532	(33)	238,499	(149,018)
Deferred licensing revenue	(91,375)	-	(91,375)	(161,225)
Payments from Assurance Fund Reserves	-	(101,358)	(101,358)	(145,062)
Due from/(to) funds	(1,100)	1,100	-	-
Net change in long-term prepaid expenses	5,722	-	5,722	(13,992)
Cash provided by (used for) operating activities	3,320,840	409	3,321,249	1,231,428
Investing activities				
(Purchase) redemption of short-term investments (net)	(87,536)	1,835	(85,701)	(28,606)
Investment in education course development	(799,633)	-	(799,633)	(463,584)
Investment in systems project development	(382,371)	-	(382,371)	(535,710)
Purchase of capital assets	(73,423)	-	(73,423)	(75,684)
Cash provided by (used for) investing activities	(1,342,963)	1,835	(1,341,128)	(1,103,584)
Financing activities				
Repayment of long-term debt	(258,000)	-	(258,000)	(375,000)
Increase (decrease) in cash and equivalents	1,719,877	2,244	1,722,121	(247,156)
Cash and equivalents, beginning of year	8,559,734	53,053	8,612,787	8,859,943
Cash and equivalents, end of year	$ 10,279,611	$ 55,297	$ 10,334,908	$ 8,612,787

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, as defined by the *Real Estate Act* as of September 30, 2020 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.

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.

On October 30, 2019, the *Real Estate Amendment Act, 2019* was proclaimed. Among other things, the Act dismissed all Council members. On November 8, 2019, the Minister of Service Alberta appointed an Official Administrator to act in the place of the Council members as a temporary measure until new Council members can be appointed. These actions were taken in response to an independent governance review commissioned by the Minister of Service Alberta under s. 76 of the *Real Estate Act*.

On June 17, 2020, the *Real Estate Amendment Act, 2020* was given Royal Assent and comes into force on December 1, 2020. This Act changes the governance structure of the Council, including the creation of a Board of Directors that sets the strategic direction for the Council, and four, sector-specific Industry Councils that set the licensing and education standards, and the standards of practice for their respective sectors. The official Administrator appointed in November 2019 is set to lose authority on December 10, 2020, at which point newly appointed/elected Industry Councils and the Board of Directors will govern 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. Change in accounting estimate

With changes to the Council's education mandate introduced by the *Real Estate Amendment Act, 2020*, amortization of licensing programs has been adjusted to complete no later than September 30, 2022. The change in the estimate of the useful lives of the licensing programs has been applied prospectively in the financial statements and is included in amortization of education course development costs on the income statement. The change in the accounting estimate resulted in an immaterial change in amortization of education course development costs.

3. 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.

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, 2020, the General Reserve balance is $484,500 (2019 - $484,500). During the year, the Council did not approve any new transfers to the General Reserve Fund (2019 - $nil).

(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.

3. Significant accounting policies - continued

(c) Assurance Fund Reserves - continued

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.

	2020	2019
Reserves, beginning of year	**$1,097,163**	$1,206,549
New Reserves set	**428,000**	133,000
Payments on applications	**(101,358)**	(145,062)
Adjustments to applications	**-**	-
Release of Reserves	**(151,642)**	(97,324)
Reserves, end of year	**$1,272,163**	$1,097,163

(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 the straight-line method 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% straight line

Capital assets not 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.

3. Significant accounting policies – continued

(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.

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 11). 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.

3. Significant accounting policies – continued

(i) Derivative financial instruments - continued

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.

In 2018, 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.

4. 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, 2020 by a fund balance of $2,800,805 (2019 - $2,987,469). 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, 2020, the Council has determined the administrative expenses incurred on behalf of the Assurance Fund to be $37,254 (2019 - $44,323).

5. Short-term investments

Short-term investments consist of Canadian Treasury Bills with yields to maturity between 0.12% and 0.13% (2019 – 1.65% and 1.70%) and maturity dates between October 29, 2020 and December 10, 2020 (2019 – October 3, 2019 and November 14, 2019). Short-term investments are stated at their market value. It is the intention of the Council to hold all investments until maturity.

6. Development costs

	2020		2019	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
System development	**$19,677**	**$ -**	$38,022	$ -
Education course development	**2,983,706**	**1,629,295**	2,184,073	1,336,485
	$3,003,383	**$1,629,295**	$2,222,095	$1,336,485
Net Book Value		**$1,374,088**		$885,610

During 2020, there was $382,371 (2019 – $535,710) added to system development costs and $400,716 (2019 – $700,794) was transferred from system development costs to capital assets upon commissioning. During 2020, there was $799,633 (2019 - $463,584) added to education course development costs.

7. Long-term prepaid expenses

At September 30, 2020, the Council has eleven (2019 – eight) multi-year prepaid service and maintenance agreements with information systems and other service providers, which it is amortizing to operating expense on a monthly basis. In 2020, the Council paid brokerage and legal fees associated with a tenant lease agreement, which it is amortizing to operating expense over the life of the lease. The portion attributable to the period beyond the next fiscal year of $96,170 (2019 - $101,892) is shown as a long-term prepaid expense.

8. Lease inducements

During 2020, the Council entered into a lease agreement with a third party to rent space in the Council's building. The agreement includes a rent-free period and stepped lease rates that increase over the life of the lease. As it has done with the lease for another third party in the prior year, the Council is recognizing the rental income by using an average monthly amount calculated by dividing the total rental income by the total lease term. The differences between the average monthly income and the actual lease amounts paid by the tenants is recorded as the lease inducement. The lease inducement is expected to increase during the first part of the lease terms and will then be drawn down as lease rates increase. At September 30, 2020, the lease inducements are $130,202 (2019 - $30,536).

9. Capital assets

	2020		2019	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Computer hardware	**$1,465,007**	**$1,159,732**	$1,343,369	$814,220
System development	**4,498,146**	**3,709,599**	4,183,754	3,252,193
Office furnishings and equipment	**644,064**	**356,770**	644,064	238,224
Land	**2,996,778**	**-**	2,996,778	-
Building	**20,289,878**	**1,666,205**	20,287,770	1,023,416
	$29,893,873	**$6,892,306**	$29,455,735	$5,328,053
Net Book Value		**$23,001,567**		$24,127,682

During 2020, the Council transferred system development costs of $314,392 (2019 - $492,178) and computer hardware costs of $86,324 (2019 - $208,616) from development costs to capital assets upon commissioning.

10. 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 $112,228 (2019 - $110,091). 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, 2020 and 2019, all amounts are classified as current receivables.

11. Long-term debt

To fund the purchase of its 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.

In 2018, the Company paid financing fees to secure long-term debt in the amount of $89,938, which was 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 $3,600 (2019 - $3,600).

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, 2020, $nil (2019 - $nil) was drawn against this facility.

11. Long-term debt - continued

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 9) and a general security agreement. At September 30, 2020, the Council is compliant with all financial covenants, including the debt service coverage ratio.

As a result of COVID-19, the bank deferred principal payments on the facility from June 2020 to November 2020. Monthly blended payments will resume on December 1, 2020 and will be increased over the remaining term in order to repay the deferred amounts.

The current portion of long-term debt of $345,000 (2019 - $389,000) is included in current liabilities. Anticipated requirements to meet the principal portion of long-term debt repayments over the next five years are as follows:

2021 - $345,000
2022 - $428,000
2023 - $444,000
2024 - $462,000
2025 - $480,000

12. Commitments and contingencies

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

2021	368,894
2022	79,527
2023	57,924
2024	13,665
	$520,010

(b) 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 2020, the Council's share of these costs was $17,300 (2019 - $22,200).

(c) 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 $20,000.

(d) 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, 2020, $135,000 (GST additional) remains outstanding on this contract. During 2020 and subsequent to year-end, the Council entered into contracts for education course and system development work with estimated payments of $84,285 (GST additional) in 2021.

(e) Human resources
In 2020, the Council signed an agreement with an HR organizational consultancy for a two-year subscription to its pay database. For the second year of this subscription, the Council expects to pay $12,500 in 2021.

(f) 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.

13. Significant event

During the year, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Council as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

As at September 30

September 30, 2019	**Effective Interest Rates**	**Maturity Dates**	**Operating Fund Market Value**	**Assurance Fund Market Value**	**Total Market Value**
Canadian Treasury Bill	**1.65% - 1.70%**	**October 2019 - November 2019**	**$6,626,558**	**$4,034,035**	**$10,660,593**
Total Investments			**$6,626,558**	**$4,034,035**	**$10,660,593**

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