

Real Estate Council of Alberta
Financial Statements
September 30, 2021

Management's Responsibility

To the Board 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 Board and the Finance and Audit Committee are composed primarily of Board Members who are neither management nor employees of the Council. The Board 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 Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and the external auditor. The Board 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 Board 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 Board and management to discuss their audit findings.

January 21, 2022

e-Signed by Russ Morrow
2022-01-21 12:54:20:20 MST

R. Morrow, Chief Executive Officer

e-Signed by Warren Martinson
2022-01-21 13:33:27:27 MST

W. Martinson, Director, Corporate Services

To the Board 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, 2021, and the statements of operations, changes in net assets and cash flows 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, 2021, 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.

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

January 21, 2022

MNP LLP

Chartered Professional Accountants

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

	Council Operating Fund	Assurance Fund	2021	2020
ASSETS				
Current				
Cash and cash equivalents	\$ 23,026,758	\$ 4,018,201	\$ 27,044,959	\$ 10,334,908
Short-term investments (Note 4)	-	-	-	10,720,555
Accounts receivable and accrued interest receivable	48,172	-	48,172	51,651
Prepaid expenses	377,682	-	377,682	360,843
Due from/(to) funds	(128)	128	-	-
	<u>23,452,484</u>	<u>4,018,329</u>	<u>27,470,813</u>	<u>21,467,957</u>
Development costs (Note 5)	1,059,782	-	\$ 1,059,782	1,374,088
Long-term prepaid expenses (Note 6)	117,912	-	117,912	96,170
Lease inducements (Note 7)	99,546	-	99,546	130,202
Capital assets (Note 8)	<u>21,888,419</u>	<u>-</u>	<u>21,888,419</u>	<u>23,001,567</u>
	<u>\$ 46,618,143</u>	<u>\$ 4,018,329</u>	<u>\$ 50,636,472</u>	<u>\$ 46,069,984</u>
LIABILITIES AND NET ASSETS				
Current				
Accounts payable and accrued liabilities	\$ 1,220,459	\$ -	\$ 1,220,459	\$ 1,512,038
Current portion of long-term debt (Note 10)	428,000	-	428,000	345,000
Deferred licensing revenue	7,717,675	-	7,717,675	7,210,775
	<u>9,366,134</u>	<u>-</u>	<u>9,366,134</u>	<u>9,067,813</u>
Long-term debt (Note 10)	13,384,962	-	13,384,962	13,809,362
Assurance Fund Reserves (Note 2d)	<u>-</u>	<u>893,230</u>	<u>893,230</u>	<u>1,272,163</u>
	<u>22,751,096</u>	<u>893,230</u>	<u>23,644,326</u>	<u>24,149,338</u>
Commitments and contingencies (Note 11)				
Net Assets				
Invested in capital assets (net of related debt)	8,075,457	-	8,075,457	8,847,205
Unrestricted Council Operating Fund	9,307,090	-	9,307,090	9,788,136
Internally restricted Council General Reserve	6,484,500	-	6,484,500	484,500
Externally restricted as Assurance Fund (Note 3)	<u>-</u>	<u>3,125,099</u>	<u>3,125,099</u>	<u>2,800,805</u>
	<u>23,867,047</u>	<u>3,125,099</u>	<u>26,992,146</u>	<u>21,920,646</u>
	<u>\$ 46,618,143</u>	<u>\$ 4,018,329</u>	<u>\$ 50,636,472</u>	<u>\$ 46,069,984</u>

Approved on behalf of the Real Estate Council of Alberta:

e-Signed by Patricia McLeod
2022-01-21 10:30:26:26 MST

Patricia McLeod, Board Chair

e-Signed by Jai Parihar
2022-01-21 16:27:01:01 MST

Jai Parihar, Finance and Audit Committee Chair

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

	Council Operating Fund	Assurance Fund	2021	2020
Restricted revenue and claims				
Assessments	\$ -	\$ 180,800	\$ 180,800	\$ 100,700
Assurance Fund Reserves, net change	-	144,288	144,288	(276,358)
	<u>-</u>	<u>325,088</u>	<u>325,088</u>	<u>(175,658)</u>
Revenue from operations				
Licence fees	8,540,950	-	8,540,950	8,374,675
Education courses	8,130,515	-	8,130,515	4,578,675
Office building rental revenue	383,073	-	383,073	412,781
Investment income	47,310	8,988	56,298	195,095
Sundry	37,886	-	37,886	-
	<u>17,139,734</u>	<u>8,988</u>	<u>17,148,722</u>	<u>13,561,226</u>
Expenses				
Salaries and benefits	7,004,842	-	7,004,842	7,163,895
Amortization of capital assets	1,219,798	-	1,219,798	1,567,854
Professional services	930,318	7,510	937,828	528,991
Amortization of education course development costs	683,334	-	683,334	292,810
Long-term debt interest	539,964	-	539,964	548,836
Information systems	473,367	-	473,367	518,849
Office building net operating costs	451,011	-	451,011	519,380
Credit card fees	392,852	-	392,852	319,925
Board and Industry Councils	300,591	-	300,591	199,703
Hearings	200,567	-	200,567	194,471
Subscriptions and memberships	119,874	-	119,874	129,229
GST	78,551	375	78,926	92,260
Telephone	51,891	-	51,891	58,137
Training and development	50,370	-	50,370	67,064
Education courses	44,140	-	44,140	18,373
Supplies	29,951	-	29,951	42,953
Office equipment leases	20,105	-	20,105	20,105
Staff travel	10,297	-	10,297	36,866
Postage and courier	2,528	-	2,528	5,536
	<u>12,604,351</u>	<u>7,885</u>	<u>12,612,236</u>	<u>12,325,237</u>
Excess of revenue over expenses before other items	4,535,383	326,191	4,861,574	1,060,331
Other items:				
Penalties, fines and enforcement recovery	211,629	-	211,629	181,657
Unrealized loss on investments	-	-	-	(25,739)
Realized loss on investments	(908)	(795)	(1,703)	-
Loss on disposal of capital assets	-	-	-	(32,400)
Assurance fund administration	1,102	(1,102)	-	-
	<u>211,823</u>	<u>(1,897)</u>	<u>209,926</u>	<u>123,518</u>
Excess of revenue over expenses	\$ 4,747,206	\$ 324,294	\$ 5,071,500	\$ 1,183,849

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	2021	2020
Balance, beginning of year	\$ 8,847,205	\$ 9,788,136	\$ 484,500	\$ 2,800,805	\$ 21,920,646	\$ 20,736,797
Excess (deficiency) of revenue over expenses	(1,219,798)	5,967,004	-	324,294	5,071,500	1,183,849
Transfer from development costs	27,603	(27,603)	-	-	-	-
Transfer to Council General Reserve (Note 13)	-	(6,000,000)	6,000,000	-	-	-
Purchase of capital assets, net of loss on disposal of capital assets	79,047	(79,047)	-	-	-	-
Repayment of capital asset related debt, net of deferred financing costs	341,400	(341,400)	-	-	-	-
Balance, end of year	\$ 8,075,457	\$ 9,307,090	\$ 6,484,500	\$ 3,125,099	\$ 26,992,146	\$ 21,920,646

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

	Council Operating Fund	Assurance Fund	2021	2020
Cash provided by (used for):				
Operating activities				
Excess of revenue over expenses for the year	\$ 4,747,206	\$ 324,294	\$ 5,071,500	\$ 1,183,849
Add (deduct) for items not involving cash:				
Amortization of capital assets	1,219,798	-	1,219,798	1,567,854
Amortization of education course development costs	683,334	-	683,334	292,810
Amortization of financing costs	3,600	-	3,600	3,600
Realized or unrealized loss on investments	908	795	1,703	25,739
Loss on disposal of capital assets	-	-	-	32,400
Lease inducement	30,656	-	30,656	(99,666)
Net change in provision for Assurance Fund Reserves	-	(144,288)	(144,288)	276,358
	<u>6,685,502</u>	<u>180,801</u>	<u>6,866,303</u>	<u>3,282,944</u>
Changes in non-cash working capital balances:				
Accounts receivable and accrued interest receivable	3,479	-	3,479	(385)
Prepaid expenses	(16,839)	-	(16,839)	(12,798)
Accounts payable and accrued liabilities	(288,056)	(3,523)	(291,579)	238,499
Deferred licensing revenue	506,900	-	506,900	(91,375)
Payments from Assurance Fund Reserves	-	(234,645)	(234,645)	(101,358)
Due from/(to) funds	128	(128)	-	-
Net change in long-term prepaid expenses	(21,742)	-	(21,742)	5,722
Cash provided by (used for) operating activities	<u>6,869,372</u>	<u>(57,495)</u>	<u>6,811,877</u>	<u>3,321,249</u>
Investing activities				
Redemption (purchase) of short-term investments (net)	6,698,453	4,020,399	10,718,852	(85,701)
Investment in education course and examination development	(368,890)	-	(368,890)	(799,633)
Investment in systems project development	(27,741)	-	(27,741)	(382,371)
Purchase of capital assets	(79,047)	-	(79,047)	(73,423)
Cash provided by (used for) investing activities	<u>6,222,775</u>	<u>4,020,399</u>	<u>10,243,174</u>	<u>(1,341,128)</u>
Financing activities				
Repayment of long-term debt	(345,000)	-	(345,000)	(258,000)
Increase in cash and equivalents	<u>12,747,147</u>	<u>3,962,904</u>	<u>16,710,051</u>	<u>1,722,121</u>
Cash and equivalents, beginning of year	<u>10,279,611</u>	<u>55,297</u>	<u>10,334,908</u>	<u>8,612,787</u>
Cash and equivalents, end of year	<u>\$ 23,026,758</u>	<u>\$ 4,018,201</u>	<u>\$ 27,044,959</u>	<u>\$ 10,334,908</u>

1. Nature of operations

The Real Estate Council of Alberta (RECA) is a not-for profit organization established as a corporation under the *Real Estate Act* (the "Act"). The purposes of the RECA, its Board, and its Industry Councils, as defined by the *Real Estate Act* as of September 30, 2021 are:

- (a) To set and enforce standards of conduct for real estate brokers, mortgage brokers, property managers and condominium managers, and the business of licensees in Alberta, in order to promote the integrity of the industry and to protect consumers. (Industry Councils)
- (b) to protect against, investigate, detect and suppress fraud as it relates to the business of licensees and to protect consumers; (Board)
- (c) to provide, or support the provision of, services and other things that facilitate the business of licensees, as provided for in the regulations; (Board)
- (d) to administer this Act as provided in this Act, the regulations, the bylaws and the rules. (Board)
- (e) 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. (Board)

The *Real Estate Act* was heavily amended by the *Real Estate Amendment Act, 2020*, which was proclaimed on December 1, 2020 and altered the governance structure of RECA. The amendments included 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. In the leadup to the passing of these amendments, RECA was governed by a government-appointed Administrator from November 8, 2019 until December 10, 2020.

The original Act was proclaimed on July 1, 1996, at which time RECA 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 amendments made on December 1, 2020 removed real estate appraisers from the Act, and added condominium managers as a licensed activity.

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 condominium management 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.

(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 when amounts can be reasonably estimated, and collectability is reasonably assured. Otherwise, the recovery is recorded when received. Starting in 2021, the Council includes these amounts in Other items rather than in operating revenues to more accurately reflect their incidental nature.

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

2. 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.

	2021	2020
Reserves, beginning of year	\$1,272,163	\$1,097,163
New reserves set	147,812	428,000
Payments on applications	(234,645)	(101,358)
Release of reserves	(292,100)	(151,642)
Reserves, end of year	\$893,230	\$1,272,163

(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. Development costs for licensing programs have been amortized on a straight-line basis over their remaining useful life of the education courses, commencing in the year the program is fully developed and offered to participants. 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. 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% 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.

2. 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 has been 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 10). 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.

2. 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.

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, 2021 by a fund balance of \$3,125,099 (2020 - \$2,800,805). 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, 2021, the Council has determined the administrative expenses incurred on behalf of the Assurance Fund to be \$1,102 (2020 - \$37,254).

4. Short-term investments

In March 2021, the Council liquidated its short-term investments in Canadian Treasury Bills for proceeds of \$10,718,852 and is holding these funds in its savings accounts on September 30, 2021.

The Council made this change to its investment portfolio to benefit from higher savings returns than historically low investment returns. The Council continues to monitor investment returns and will reinvest in a more managed portfolio when it is financially prudent to do so.

At the end of the prior year, the Council held short-term investments consisting of Canadian Treasury Bills with yields to maturity between 0.12% and 0.13% and maturity dates between October 29, 2020 and December 10, 2020.

5. Development costs

		2021		2020
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
System development	\$19,815	\$ -	\$19,677	\$ -
Education programs and examination development	3,352,596	2,312,629	2,983,706	1,629,295
	\$3,372,411	\$2,312,629	\$3,003,383	\$1,629,295
Net Book Value		\$1,059,782		\$1,374,088

During 2021, there was \$27,741 (2020 – \$382,371) added to system development costs and \$27,603 (2020 – \$400,716) was transferred from development costs to capital assets upon commissioning. During 2021, there was \$368,890 (2020 - \$799,633) added to Education course and examination development costs.

6. Long-term prepaid expenses

On September 30, 2021, the Council has thirteen (2020 – eleven) multi-year prepaid service and maintenance agreements with information systems and other service providers. The Council also paid brokerage and legal fees associated with two tenant lease agreements, which it is amortizing to operating expense over the life of the leases. The portion attributable to the period beyond the next fiscal year of \$117,912 (2020 - \$96,170) is shown as a long-term prepaid expense.

7. Lease inducements

The Council entered into lease agreements with third parties to rent space in the Council's building. The agreements include rent-free periods and stepped lease rates that increase over the life of the leases. 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. On September 30, 2021, the lease inducements are \$99,546 (2020 - \$130,202).

8. Capital assets

	2021		2020	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer hardware	\$1,544,054	\$1,369,020	\$1,465,007	\$1,159,732
System development	4,525,749	3,955,144	4,498,146	3,709,599
Office furnishings and equipment	644,064	475,115	644,064	356,770
Land	2,996,778	-	2,996,778	-
Building	20,289,878	2,312,825	20,289,878	1,666,205
	\$30,000,523	\$8,112,104	\$29,893,873	\$6,892,306
Net Book Value		\$21,888,419		\$23,001,567

During 2021, the Council transferred system development costs of \$27,603 (2020 - \$314,392) and computer hardware costs of \$nil (2020 - \$86,324) from development costs to capital assets upon commissioning.

9. 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 \$115,534 (2020 - \$112,228). 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.

10. 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 (2020 - \$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%. On September 30, 2021, \$nil (2020 - \$nil) was drawn against this facility.

10. 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 8) and a general security agreement. On September 30, 2021, 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 resumed on December 1, 2020 and were increased over the remaining term in order to repay the deferred amounts.

The current portion of long-term debt of \$428,000 (2020 - \$345,000) is included in current liabilities. Anticipated requirements to meet the principal portion of long-term debt repayments are as follows:

2022 - \$428,000
2023 - \$444,000
2024 - \$462,000
2025 - \$480,000
2026 - \$498,000

11. 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:

2022	872,476
2023	259,394
2024	138,932
2025	36,026
2026	1,539
	\$1,308,367

(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 2021, the Council's share of these costs was \$17,200 (2020 - \$17,300).

(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 Program and System Development

The Council entered into a contract for condominium corporation governance training material development with estimated payments of \$28,500 (GST additional) in 2022.

(e) Executive Office

In August 2021, the Council signed an engagement letter with a consultancy to provide enterprise risk management consulting services with expected payments of \$38,700 (GST additional) in 2022. After year-end, the Council entered an agreement with another consulting firm for strategic planning facilitation services with expected fees of \$54,240 in 2022.

(f) Hearing Panel Training

After year-end, the Council signed an agreement with a law firm to provide regulatory training, related services, and advice with an expected fee of \$8,500 in 2022.

11. Commitments and contingencies - continued

(g) 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.

12. Significant event

In early March 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. COVID-19 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. The extent of the impact of COVID-19 on the financial results of RECA will depend on future developments, including the duration or resurgence of the pandemic and related government responses, which remain uncertain.

13. Internally restricted funds

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, 2021, the General Reserve balance is \$6,484,500 (2020 - \$484,500). On November 10, 2021, the Council's Board of Directors approved the transfer of \$6,000,000 to the General Reserve Fund (2020 - \$nil).

**Real Estate Council of Alberta
Schedule of Investments (Unaudited)**

As at September 30

September 30, 2021	Effective Interest Rates	Maturity Dates	Operating Fund Market Value	Assurance Fund Market Value	Total Market Value
Canadian Treasury Bill	None	None	\$0	\$0	\$0
Total Investments			\$0	\$0	\$0

September 30, 2020	Effective Interest Rates	Maturity Dates	Operating Fund Market Value	Assurance Fund Market Value	Total Market Value
Canadian Treasury Bill	0.12% - 0.13%	October 2020 - December 2020	\$6,699,361	\$4,021,194	\$10,720,555
Total Investments			\$6,699,361	\$4,021,194	\$10,720,555