

Financial statements

British Columbia Real Estate Association

December 31, 2017



Building a better
working world

Independent auditors' report

To the Members of
British Columbia Real Estate Association

We have audited the accompanying financial statements of **British Columbia Real Estate Association**, which comprise the statement of financial position as at December 31, 2017, and the statements of changes in net assets, operations and cash flows for the year then ended, and 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 auditors consider 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 **British Columbia Real Estate Association** as at December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Report on other legal and regulatory requirements

As required by the *Societies Act* (British Columbia), we report that, in our opinion, Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceding year.

Vancouver, Canada
March 1, 2018

Ernst & Young LLP

Chartered Professional Accountants



British Columbia Real Estate Association

Statement of financial position

As at December 31

	Operating Fund	Applied Practice Course	Total 2017	Total 2016
	\$	\$	\$	\$
Assets				
Current				
Cash <i>[note 3]</i>	3,666,603	353,767	4,020,370	3,203,960
Investments <i>[note 4]</i>	3,250,000	251,153	3,501,153	2,875,534
Restricted cash <i>[note 7[b]]</i>	168,623	—	168,623	49,508
Accounts receivable	171,362	27,646	199,008	328,410
Due from BWC <i>[note 7[b]]</i>	11,113	—	11,113	—
Due from (to) other funds	(147,791)	147,791	—	—
Grants receivable <i>[note 11]</i>	60,000	—	60,000	95,000
Prepaid expenses	177,751	499	178,250	104,403
Total current assets	7,357,661	780,856	8,138,517	6,656,815
Capital assets, net <i>[note 5]</i>	79,463	—	79,463	131,015
Intangible assets, net <i>[note 6]</i>	447,107	—	447,107	436,695
	7,884,231	780,856	8,665,087	7,224,525
Liabilities and net assets				
Current				
Accounts payable and accrued liabilities	1,168,028	11,067	1,179,095	823,559
Restricted conference funds payable <i>[note 7[b]]</i>	168,623	—	168,623	49,508
Deferred revenue	—	195,125	195,125	409,875
Due to BWC <i>[note 7[b]]</i>	—	—	—	46,889
Total current liabilities	1,336,651	206,192	1,542,843	1,329,831
Deferred capital contributions <i>[note 8]</i>	283,008	—	283,008	99,858
Total liabilities	1,619,659	206,192	1,825,851	1,429,689
Commitments <i>[note 14]</i>				
Subsequent events <i>[note 16]</i>				
Net assets				
Unrestricted	3,306,644	—	3,306,644	2,064,218
Invested in capital and intangible assets	526,573	—	526,573	567,712
Internally restricted <i>[note 9]</i>	2,431,355	—	2,431,355	2,506,355
Externally restricted reserves <i>[note 10]</i>	—	574,664	574,664	656,551
Total net assets	6,264,572	574,664	6,839,236	5,794,836
	7,884,231	780,856	8,665,087	7,224,525

See accompanying notes

On behalf of the Board:



Director



Director

British Columbia Real Estate Association

Statement of changes in net assets

Year ended December 31

	Unrestricted	Invested in capital and intangible assets	Internally restricted	Externally restricted reserves	Total
	\$	\$	\$	\$	\$
Balance, December 31, 2015	1,996,551	833,643	2,481,355	748,594	6,060,143
Excess (deficiency) of revenue over expenses	232,410	(405,674)	—	407,957	234,693
Purchase of capital and intangible assets	(139,743)	139,743	—	—	—
Change in internally restricted net assets <i>[note 9]</i>	(25,000)	—	25,000	—	—
Transfer to Real Estate Council of BC <i>[note 10]</i>	—	—	—	(500,000)	(500,000)
Balance, December 31, 2016	2,064,218	567,712	2,506,355	656,551	5,794,836
Excess (deficiency) of revenue over expenses	1,531,441	(405,154)	—	(81,887)	1,044,400
Purchase of capital and intangible assets	(364,015)	364,015	—	—	—
Change in internally restricted net assets <i>[note 9]</i>	75,000	—	(75,000)	—	—
Balance, December 31, 2017	3,306,644	526,573	2,431,355	574,664	6,839,236

See accompanying notes

British Columbia Real Estate Association

Statement of operations

Year ended December 31

	Operating Fund	Applied Practice Course	Total 2017	Total 2016
	\$	\$	\$	\$
Revenue				
Members' assessments	5,198,138	—	5,198,138	4,832,669
Members' initiation fees	1,274,595	—	1,274,595	1,278,090
Course fees	1,250,122	1,977,018	3,227,140	3,280,560
Other income [note 8]	104,638	1,295	105,933	52,919
Event revenue	—	—	—	79,000
Investment income, net [note 4]	159,973	2,958	162,931	120,444
Grant income [note 11]	60,000	—	60,000	199,514
	8,047,466	1,981,271	10,028,737	9,843,196
Expenses [schedule 1]				
Education				
Course development and production	281,760	26,361	308,121	142,430
Salaries, benefits and training	453,432	307,233	760,665	947,350
Cost of sales course materials	177,478	—	177,478	159,388
Consulting fees	316,391	17,942	334,333	202,678
Travel and meetings	85,729	130,943	216,672	211,391
Revenue-sharing	89,327	—	89,327	91,827
Instructor fees and training	3,289	412,499	415,788	408,238
Applied Practice Course administration fees	—	52,850	52,850	61,575
Collaboration platforms	240,118	562,478	802,596	495,526
General department expenses	104,112	206,963	311,075	280,126
Communications	438,633	—	438,633	578,848
Government relations	556,149	—	556,149	408,738
Economics	360,816	—	360,816	332,933
Operations	553,007	—	553,007	601,095
Governance	578,655	—	578,655	464,302
Strategic plan [note 13]	145,587	—	145,587	1,514,383
Banff Western Connection, net [note 7[b]]	(54,986)	—	(54,986)	10,928
REvia: Real Estate Knowledge Network – write-off [note 7[a]]	—	—	—	484,019
Administration and overhead costs				
Amortization of capital assets	137,775	819	138,594	129,156
Amortization of intangible assets	263,420	—	263,420	276,518
Audit and accounting	19,115	—	19,115	21,230
Salaries, benefits and training	1,720,200	—	1,720,200	1,005,953
Rent	215,879	21,260	237,139	215,467
Legal	60,600	—	60,600	100,306
Travel and meetings	171,655	—	171,655	124,242
Other overhead costs	301,690	25,158	326,848	339,856
	7,219,831	1,764,506	8,984,337	9,608,503
Applied Practice Course overhead allocation [note 12]	299,471	(299,471)	—	—
Excess (deficiency) of revenue over expenses for the year	1,127,106	(82,706)	1,044,400	234,693

See accompanying notes

British Columbia Real Estate Association

Statement of cash flows

Year ended December 31

	2017	2016
	\$	\$
Operating activities		
Excess of revenues over expenses for the year	1,044,400	234,693
Add (deduct) items not affecting cash		
Amortization of capital assets	138,594	129,156
Amortization of intangible assets	263,420	276,518
Recognition of deferred capital contributions	(101,850)	(45,184)
Write-off of investment in REvia Joint Venture [note 7[a]]	—	484,019
Unrealized losses on investments	18,116	25,337
Loss on disposal of capital and intangible assets	3,140	—
	1,365,820	1,104,539
Changes in non-cash working capital balances related to operations		
Grants receivable	35,000	(45,000)
Accounts receivable	129,402	(124,930)
Inventories	—	504
Prepaid expenses	(73,845)	(11,447)
Accounts payable and accrued liabilities	355,536	290,552
Deferred revenue	(214,750)	227,000
Cash provided by operating activities	1,597,163	1,441,218
Investing activities		
Capital asset purchases	(41,099)	(54,031)
Contribution to REvia joint arrangement, net of recovery	—	(102,219)
Deferred capital contributions	285,000	55,000
Purchase of investments, net	(643,736)	(1,012,844)
Intangible assets capitalized	(322,916)	(85,709)
Due from/to Banff Western Connection	(58,002)	48,263
Transfer to Real Estate Council of BC [note 10]	—	(500,000)
Cash used in investing activities	(780,753)	(1,651,540)
Net increase (decrease) in cash during the year	816,410	(210,322)
Cash, beginning of year	3,203,960	3,414,282
Cash, end of year	4,020,370	3,203,960
Represented by		
Operating Fund – cash and cash equivalents	3,623,668	2,817,325
Operating Fund – investment cash	42,935	32,820
Applied Practice Course	353,767	353,815
	4,020,370	3,203,960

See accompanying notes

British Columbia Real Estate Association

Notes to financial statements

December 31, 2017

1. Purpose of organization

British Columbia Real Estate Association ["BCREA"] represents the interests of the Real Estate Boards and Associations and their REALTORS® on all provincial issues. BCREA provides continuing professional education, advocacy, economic research and standard forms to help REALTORS® provide value for their clients.

BCREA is exempt from income taxes under Section 149(1)(l) of the *Income Tax Act* (Canada).

In March 2017, BCREA continued under the *Societies Act* (British Columbia).

2. Summary of significant accounting policies

Basis of accounting

These financial statements were prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, "Accounting Standards for Not-for-Profit Organizations" which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the significant accounting policies described hereafter.

Fund accounting

BCREA maintains its accounts on a fund basis and follows the restricted fund method of accounting for the Trading Services Applied Practice Course ["Applied Practice Course"]. Under this method of accounting, two separate funds have been established as follows:

[i] Operating Fund

The Operating Fund accounts for BCREA's program delivery and administrative activities. This fund reports transactions and balances related to unrestricted and internally restricted activities.

[ii] Applied Practice Course

This fund reports only those resources that are to be used to deliver and administer the Applied Practice Course.

Various costs are allocated between the Operating Fund and the Applied Practice Course based on management's judgment of the extent to which each fund benefits from the expenses incurred [note 12].

Internally restricted funds represent operating funds that have been appropriated by BCREA's Board of Directors for specific purposes [note 9].

Externally restricted reserves represent Applied Practice Course funds that have been appropriated by BCREA's Board of Directors to maintain the required contingency reserve mandated under the Agreement [note 10].

British Columbia Real Estate Association

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Cash

Cash and cash equivalents consist of cash on deposit and short-term investments with a short term to maturity of approximately three months or less from the date of purchase unless they are held for investment rather than liquidity purposes, in which case they are classified as investments.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is charged based on the estimated useful life of the asset as follows:

Leasehold improvements	– straight-line basis over term of lease
Furniture	– straight-line basis over 5 years
Computers and office equipment	– straight-line basis over 3 years

Intangible assets

Intangible assets are recorded at cost less accumulated amortization and are amortized on a straight-line basis over their useful lives. Amortization is charged based on estimated useful life of the asset as follows:

Wavelength CRM System	– straight-line basis over 3 years
Software and licenses	– straight-line basis over 3 years

Interests in Joint Arrangements

BCREA has adopted Accounting Standards for Private Enterprises Section 3056, "Interests in Joint Arrangements".

REvia: Real Estate Knowledge Network ["REvia"]

BCREA accounted for its 56% interest in REvia as a jointly controlled enterprise using the cost method of accounting. Under this method, the cost of the investment is initially recorded and earnings are recognized only to the extent received or receivable. The jointly controlled enterprise was wound up in 2016 and the carrying value of the investment was written off.

Banff Western Connection ["BWC"]

BCREA accounts for its 25% interest in BWC as a jointly controlled operation and includes the assets it controls and liabilities it incurs in relation to the joint arrangement within its statement of financial position. BCREA's share of revenue and expenses relating to BWC are included within the statement of operations.

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Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. If it is determined that the net recoverable amount of a long-lived asset is less than its carrying value, the long-lived asset is written down to its fair value. Net recoverable amount represents the undiscounted estimated future cash flow expected to be earned from the long-lived asset.

Deferred capital contributions

Deferred capital contributions for the purchase of capital assets that will be amortized are deferred and recognized as revenue on the same basis as the amortization expense relating to the acquired capital asset or intangible asset.

Leases

Leases are classified as either capital or operating leases. Those leases that transfer substantially all the benefits and risks of ownership of the property to BCREA are accounted for as capital leases. Capital lease obligations reflect the present value of future lease payments discounted at appropriate interest rates. All other leases are accounted for as operating leases, wherein rental payments are charged to operations as incurred.

Revenue recognition

- Members' assessments collected from the 11 member Real Estate Boards and Associations in British Columbia are recognized as revenue on an accrual basis.
- Initiation fees are recorded when received.
- Applied Practice Course administration fees and course fees are recognized when courses are presented.
- Investment income includes fair value adjustments and is recorded net of investment management and custodial fees. Investment income, which also includes interest, dividend, income distributions from pooled funds and capital gains, is recognized in the statement of operations when earned.
- All grant revenue is recognized in the year expenses are incurred on approved projects.
- All other revenues are recorded on an accrual basis.
- Revenue received in advance of services being rendered are recorded in deferred revenue and recognized once these services have been rendered.

Course development

Course development costs are expensed in the year incurred.

Allocation of expenses

BCREA incurs certain costs to deliver and administer the Applied Practice Course. The costs of this program include salaries and wages, rent and other general expenses that are directly related to providing program services. BCREA incurs a number of general and administrative support expenses that are common to the administration of BCREA and the Applied Practice Course.

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BCREA allocates certain general support expenses to the Applied Practice Course as follows:

Salaries and wages	– proportionately on the basis of time spent by each employee on the program
All other indirect costs such as rent and insurance	– based on management’s judgment of the extent to which each fund benefits from the expenses
Department allocations: Administration, Finance and Governance	– based on estimated time and salaries incurred on Applied Practice Course initiatives as a percentage of all BCREA operations applied against 80% of budgeted costs of the identified departments
Information Technology	– based on estimated use of IT infrastructure applied against 80% of the proportionate share of budgeted costs of the department

Functional classification of expenses

Expenses in the statement of operations have been classified based on functional lines of service provided by BCREA. Certain administrative expenses [for example, salaries] that relate directly to a functional service area have been directly attributed to that functional line of service. BCREA has provided Schedule 1 disclosing total expenses based on the nature of the expense, as opposed to the functional service area.

Financial instruments

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, investments including equities traded in an active market as well as bonds and guaranteed investment certificates are reported at fair value, with any unrealized gains and losses reported in operations. All other financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items remeasured at fair value at each financial statement date and capitalized to the financial instrument for those measured at amortized cost.

Foreign currency translation

Foreign currency transactions occurring during the year are translated to Canadian dollars at the exchange rate prevailing on the transaction date. All monetary assets and liabilities denominated in foreign currencies at year-end are translated at the exchange rate prevailing at year-end, and the resulting gain or loss is included in income.

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Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the estimated useful lives of capital and intangible assets and deferred capital contributions. Actual results could differ from management's best estimates as additional information becomes available in the future.

3. Cash

BCREA's cash accounts are held at one chartered bank and a brokerage account. Cash with a value of \$3,159,216 [2016 – \$2,132,113] is held in a high interest savings account with an interest rate as at December 31, 2017 of 1.00% [2016 – 0.89%]. The balance of cash earns interest at the prevailing rates for chequing and brokerage accounts.

4. Investments

Investments as at December 31, 2017 comprise the following:

	2017 Market value	2016 Market value
	\$	\$
Canadian bond fund	1,612,142	1,309,886
Canadian equities	677,778	668,843
Foreign equities	960,080	648,611
Operating fund investments	3,250,000	2,627,340
Applied Practice Course GIC investment	251,153	248,194
	3,501,153	2,875,534

The Canadian bond fund consists of mainly corporate and government bonds.

The current Applied Practice Course investment of \$251,153 as at December 31, 2017 [2016 – \$248,194] comprises a cashable GIC earning interest at a rate of 0.62% per annum maturing in August 2018 [2016 – August 2017].

BCREA's investment policy limits investments in equities to 50% of all funds available for investment, requires BCREA to use a professional fund manager to manage these investments, and provides for an annual comprehensive portfolio review including certification of compliance.

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Investment income, net of investment management fees, includes the following:

	2017	2016
	\$	\$
Interest and dividend income	102,763	76,792
Realized gains	91,936	78,555
Unrealized losses	(18,116)	(25,337)
Investment management fees	(13,652)	(9,566)
	162,931	120,444

5. Capital assets

	2017		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Operating Fund			
Leasehold improvements	444,432	429,647	14,785
Furniture	89,103	84,018	5,085
Computers and office equipment	278,705	219,112	59,593
	812,240	732,777	79,463

Applied Practice Course
Computers and office equipment

4,922	4,922	—
817,162	737,699	79,463

	2016		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Operating Fund			
Leasehold improvements	444,432	386,504	57,928
Furniture	89,103	73,731	15,372
Computers and office equipment	248,627	191,732	56,895
	782,162	651,967	130,195

Applied Practice Course
Computers and office equipment

4,922	4,102	820
787,084	656,069	131,015

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6. Intangible assets

	2017		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Operating Fund			
Wavelength CRM System	1,056,278	617,115	439,163
Software and licenses	104,131	96,187	7,944
	1,160,409	713,302	447,107
	2016		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Operating Fund			
Wavelength CRM System	733,362	337,683	395,679
Software and licenses	153,215	112,199	41,016
	886,577	449,882	436,695

7. Investments in joint arrangements

[a] REvia: Real Estate Knowledge Network

In 2013, BCREA entered into a joint venture agreement with the Alberta Real Estate Association, Association of Saskatchewan REALTORS®, and Manitoba Real Estate Association for the future delivery of online education to members of organized real estate organizations in Canada and potentially other markets as part of a proof of concept. In 2014, the original agreement was amended to include New Brunswick Real Estate Association, Newfoundland and Labrador Association of REALTORS® and Prince Edward Island Real Estate Association. Under the amended agreement, each joint venturer's participating interest is determined based upon their total contributions divided by the total contributions of all joint venturers.

After extensive analysis, the REvia Governing Committee decided that REvia could not meet its stated goals to sustain itself financially or increase learner participation. In September 2016 all joint venturers approved the dissolution of REvia effective December 31, 2016. As a result, the investment in REvia of \$577,596 was written off in 2016. The write-off was reduced by a recovery of BCREA's allocated share of joint venture assets of \$93,577.

During 2016, BCREA contributed \$195,796 to the joint venture and generated revenue of \$88,454 from the sale of courses through the REvia platform of which \$29,799 was shared with member boards in accordance with the Education Memorandum of Understanding. As at December 31, 2016, BCREA's participating interest in REvia was 56%.

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[b] Banff Western Connection

In 2014, BCREA entered into a joint arrangement agreement with Alberta Real Estate Association, Association of Saskatchewan REALTORS®, and Manitoba Real Estate Association for the planning and hosting of the biannual Banff Western Connection to be held in Banff, Alberta. Prior to 2014, no official agreement was in place.

Under the agreement, BCREA is to act as agent on behalf of the joint arrangement and is accountable to the conference participants for the funds received and disbursed in respect of the BWC. Funds received net of amounts paid out in relation to the BWC are recorded at cost and presented as restricted cash. Interest in any outstanding reserves [upon the termination of the agreement] or losses incurred in relation to the joint arrangement shall be split evenly between the four participating parties.

As at December 31, BCREA's share of the BWC arrangement included in the statement of financial position is as follows:

	2017	2016
	\$	\$
Cash	56,208	16,503
Accounts receivable	7,599	62,876
Prepaid expenses	1,250	23,357
Accounts payable and accrued liabilities	1,250	12,607
Deferred revenue	—	113,249
Unrestricted net assets	(14,884)	(3,956)

Included in assets and liabilities is restricted cash and restricted conference funds payable equal to \$168,623 [2016 – \$49,508], respectively, which represents the other venturers' share of the cash controlled by BCREA and \$11,113 [2016 – \$(46,889)] due from (to) BWC to BCREA.

As at December 31, 2017, included in BCREA's statement of operations is \$185,022 [2016 – \$2,394] in gross revenue and \$130,036 [2016 – \$13,322] in expenses, which represents BCREA's share of BWC's operations and is disclosed as a net (recovery) expense in the statement of operations of \$(54,986) [2016 – \$10,928].

The next conference is scheduled to be held in January 2019.

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8. Deferred capital contributions

The Real Estate Council of British Columbia approved deferred capital contributions from the Applied Practice Course to the Operating Fund to support the development of the Wavelength CRM System. As BCREA does not maintain a restricted fund for this type of contribution, the amount has been accounted for using the deferral method. Under the deferral method, the contribution will be recognized as revenue at a rate consistent with the amortization period of the underlying asset.

	2017	2016
	\$	\$
Deferred capital contributions, beginning of year	99,858	90,042
Amounts received during the year	285,000	55,000
Amounts recognized as other income during the year	(101,850)	(45,184)
Deferred capital contributions, end of year	283,008	99,858

9. Internally restricted net assets – Operating Fund

Internally restricted net assets are not available for unrestricted purposes without approval of the Board of Directors.

Details of the separate reserves are as follows:

- [i] Legal Defense Reserve – a reserve to provide assistance to members by supporting litigation of Provincial significance.
- [ii] BCREA Litigation Reserve – a reserve to cover the legal costs of litigation arising out of BCREA services provided on behalf of the member boards.
- [iii] Election 2017 Reserve – a reserve to finance BCREA's non-partisan election activities in 2017. Reserve wound up in 2017.
- [iv] Election 2021 Reserve – a reserve to finance BCREA's non-partisan election activities in 2021.
- [v] Contingency Reserve – a reserve to provide for extraordinary expenses that exceed or fall outside of BCREA's operating budget or to fund BCREA's obligations in extreme circumstances.

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Changes in the reserve balances during the year are as follows:

	Balance, beginning of year \$	Current year change \$	Balance, end of year \$
Legal Defense Reserve	35,000	—	35,000
BCREA Litigation Reserve	100,000	—	100,000
Election 2017 Reserve	100,000	(100,000)	—
Election 2021 Reserve	—	25,000	25,000
Contingency Reserve	2,271,355	—	2,271,355
	2,506,355	(75,000)	2,431,355

10. Externally restricted reserves – Applied Practice Course

The Applied Practice Course must be completed by all new real estate licensees within six months of being licensed, or as otherwise established by the Real Estate Council of British Columbia [the “Council”]. Pursuant to an Agreement dated January 17, 2003 between the Council and BCREA, BCREA administers the courses and is responsible for the content of the courses, including the development of new course content.

BCREA and the Council negotiated a renewed contract effective January 1, 2015 outlining the responsibilities of each party for the next five years. The essence of the contract maintains the same roles and responsibilities of the original contract with BCREA acting as principal in the provision of the Applied Practice Course.

BCREA’s Board of Directors is required to maintain a contingency reserve to offset expenses that exceed revenue beyond the annually determined tuition in any one year. The reserve shall be held in a separate, appropriately designated trust account, and the reserve may not be transferred in whole or in part to BCREA’s operating revenues without the written consent of the Council, which consent shall not be unreasonably withheld. The reserve shall not exceed \$350,000.

When the reserve exceeds the noted amounts, BCREA will seek direction from the Council with respect to the disposition of excess funds. In 2017, Council requested a transfer of nil [2016 – \$500,000] in excess funds from the reserve to Council. BCREA obtained approval from the Council to spend \$185,000 [2016 – \$280,000] on special projects in 2018.

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11. Grants

BCREA receives funding from the Real Estate Foundation of British Columbia [the "Foundation"].

Grant requests must be submitted to the Foundation by application and may be fully or partially funded, or declined, depending on the strength of the proposed project compared to other real estate industry applications being considered. Grant funds provided are only to be used for the approved project, and any money not used must be returned to the Foundation. BCREA received funding of nil [2016 – \$150,000] from the Foundation. Grant funds were provided after the costs had been incurred.

Also included in grants receivable are grants from the Real Estate Errors and Omissions Insurance Corporation ["E & O"], which funds projects only after costs have been incurred.

Grants receivable include the following:

	2017	2016
	\$	\$
Foundation – ORE Structure Project	—	45,000
E & O – Legal update course development	60,000	50,000
	60,000	95,000

12. Allocation of expenses

The following general support expenses have been allocated from the Operating Fund to the Applied Practice Course:

	2017	2016
	\$	\$
Finance	98,620	95,679
Information Technology	60,729	54,293
Administration	70,299	84,668
Governance	69,823	73,211
	299,471	307,851

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13. Strategic plan

BCREA's 2015-2019 strategic plan included investigating alternative structures for organized real estate in British Columbia ["Structure Project"]. Until June 30, 2016, costs for the Structure Project came out of the allocated BCREA funds for the strategic plan execution. After this date, member boards who wished to be part of the Structure Project provided additional funding necessary for the December 6th, 2016 vote. The following member boards contributed funds: BC Northern Real Estate Board, Fraser Valley Real Estate Board, Kamloops and District Real Estate Association, Okanagan Mainline Real Estate Board, Real Estate Board of Greater Vancouver, and South Okanagan Real Estate Board. These funds were recorded as a reduction of the Structure Project expenses.

The following expenses were incurred over the duration of the Structure Project:

	\$
BCREA funds	
2014	160,158
2015	419,742
2016 – net of Member Board contributions	1,514,383
2017	145,587
Total	<u>2,239,870</u>
Member Board funds	
2016 Member Board contributions	678,558
Total Structure Project costs	<u>2,918,428</u>

14. Commitments

- [a] On February 13, 2007, BCREA executed a lease for office premises in downtown Vancouver for a term of ten years commencing on June 1, 2007. An amending agreement was entered into on May 25, 2010 to add additional square footage. This lease was renewed on April 6, 2016 and is in effect until November 30, 2018. Pursuant to the terms of the lease, BCREA will pay rent and its proportionate share of realty taxes and operating costs.

The minimum annual lease payment, excluding property taxes and operating costs, under the lease is as follows:

	\$
2018	<u>189,709</u>

- [b] The parties to the BWC agreement [note 7[b]] have signed an agreement for conference facilities, lodging and related food and beverage for the January 2019 conference. The total guaranteed revenue to the supplier is approximately \$830,000, consisting of a minimum number of room rentals and catering costs per person. This amount will vary with the number of participants and other factors. As any individual or organization

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attending the conference pays their own costs, BWC is responsible for catering costs of approximately \$300,000 and any differential in the guarantee. In recent years, there has been no differential. In the event that the agreement is cancelled prior to the event, the parties will be obligated to a cancellation fee of approximately \$207,500, of which BCREA's share is \$51,875.

15. Financial instruments and risk management

BCREA, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of those risks as at December 31, 2017.

[a] Credit risk

Credit risk is the risk that BCREA will incur a loss due to the failure by its debtors to meet their contractual obligations. Financial instruments that potentially subject BCREA to significant concentrations of credit risk consist primarily of cash and investments, accounts receivable and grants receivable. BCREA limits its exposure to credit risk by placing its cash and investments in high quality investments in accordance with investment policies adopted by the Board of Directors.

Given the nature of BCREA's revenue, there is no concentration of accounts receivable. Bad debts for the past five years have been minimal, and the allowance for doubtful accounts is nil as at December 31, 2016 and 2017. The maximum amount of credit risk exposure is limited to the carrying amount of the balances in the financial statements.

[b] Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. BCREA's investment policy requires investment maturity dates to be staggered to provide maximum returns with reduced risk to interest rate fluctuations while accommodating long-term projected cash requirements. The interest rates and terms of cash and investments are as disclosed in notes 3 and 4.

[c] Market risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. BCREA's investment policy limits investments in equities to 50% of funds available for investment, requires BCREA to use a professional fund manager to manage these investments, and provides for an annual comprehensive portfolio review.

[d] Liquidity risk

Liquidity risk is the risk that BCREA will not be able to meet its obligations as they fall due. BCREA maintains adequate levels of working capital to ensure all its obligations can be met when they fall due. The investment policy requires all investments to be such that they can be liquidated within three business days.

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[e] Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. These foreign exchange rate changes affect revenue and expenses denominated in foreign currencies and the translation of foreign currency monetary balances. BCREA does not hedge its exposure to currency risk; however, it considers its exposure to be limited to investments in foreign equities denominated in U.S. dollars, which had a balance as at December 31, 2017 of CDN\$960,080 [2016 – CDN\$648,611].

16. Subsequent events

[a] Members' assessment reduction

As of April 1, 2018, annual member assessments will be reduced from \$232 to \$144 per member. Management estimates that Members' Assessment revenue in 2018 will be \$1.33 million lower than 2017 and has planned BCREA's 2018 activities to accommodate this reduction in revenues.

[b] Relicensing Education Program

All licensees are required to complete the Council's Relicensing Education Program, which consists of the Real Estate E&O Insurance Legal Update course ["REP Courses"], before applying to renew their real estate licence. Pursuant to an agreement dated December 14, 2015, between the Council and BCREA, BCREA administers the REP Courses and is responsible for the content of the REP Courses, including the development of new course content.

As of January 1, 2018, the revenue and expenses associated with the development and hosting of the REP Courses, along with the Applied Practice Course, will be presented in a Council Fund. Under the new agreement, various costs shall be allocated between the Operating Fund and the Council Fund based on management's judgement of the extent to which each fund benefits from the expenses incurred.

Revenue and expenses associated with the REP Courses will no longer be recorded within the Operating Fund. In 2017 and 2016, the revenue and expenses included in the Operating Fund were as follows:

	2017	2016
	\$	\$
Course fees	661,891	538,067
Grant income	60,000	49,514
Total revenue	721,891	587,581
Course development	251,648	78,232
Collaboration platforms	155,950	127,400
Cost of sales course materials	78,341	67,885
Revenue sharing	72,207	52,033
Total expenses	558,146	325,550

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Under the new model, management is planning a balanced budget and estimates that revenue and expenses associated with the REP Courses will be \$3,300,000 in 2018 respectively.

Schedule of expenses by object

Year ended December 31

	Operating Fund	Applied Practice Course	Total 2017	Total 2016
	\$	\$	\$	\$
Amortization	401,195	819	402,014	405,674
Applied Practice Course administration fees	—	52,850	52,850	61,575
Arbitration expenses	—	—	—	2,202
Audit and accounting	19,115	—	19,115	21,230
Banff Western Connection, net <i>[note 7[b]]</i>	(54,986)	—	(54,986)	10,928
Bank and credit card charges	4,128	84,366	88,494	94,683
Board of Director honourariums	165,669	—	165,669	121,171
Classroom and supplies	125	84,558	84,683	77,069
Collaboration platforms	240,118	562,478	802,596	495,526
Communications	122,799	—	122,799	84,967
Consulting fees	521,698	17,942	539,640	341,084
Cost of sales course materials	177,478	—	177,478	159,388
Course development and production	284,001	26,361	310,362	147,153
Government relations	58,943	—	58,943	15,273
Instructor fees and training	3,289	412,500	415,789	408,238
Insurance	25,119	—	25,119	22,215
Legal	85,720	6,960	92,680	100,856
Maintenance and repairs	2,774	—	2,774	4,173
Operational projects	6,144	—	6,144	16,507
Postage and office supplies	50,361	9,319	59,680	110,235
Printing and publishing	26	19,692	19,718	15,776
Rent	390,545	21,260	411,805	382,291
Research and reference materials	15,077	—	15,077	6,788
Revenue-sharing	89,327	—	89,327	91,897
REvia: Real Estate Knowledge Network – write-off <i>[note 7[a]]</i>	—	—	—	484,019
Salaries, benefits and training	3,578,733	307,233	3,885,966	3,213,120
Sponsorships	19,300	—	19,300	24,250
Standard forms	563	—	563	7,875
Strategic plan <i>[note 13]</i>	145,587	—	145,587	1,514,383
Technology and software	158,835	26,953	185,788	195,351
Telephone	71,754	272	72,026	69,580
Travel and meetings	636,394	130,943	767,337	903,026
	7,219,831	1,764,506	8,984,337	9,608,503

The purpose of this schedule is to provide a breakdown of expenses on an alternative basis to the statement of operations. Expenses are disclosed above by the nature of the expense, as opposed to the functional line of service to which the expense relates.

See accompanying notes

