

British Columbia Real Estate Association

Financial statements
December 31, 2018



Independent auditor's report

To the Members of
British Columbia Real Estate Association

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **British Columbia Real Estate Association**, which comprise the statement of financial position as at December 31, 2018, and the statement of changes in net assets, statement of operations and statement of 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 **British Columbia Real Estate Association** as at December 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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 **British Columbia Real Estate Association** in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our 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.

Other information

Management is responsible for the other information. The other information comprises the information included in the Management Discussions and Analysis and the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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 **British Columbia Real Estate Association'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 **British Columbia Real Estate Association** or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing **British Columbia Real Estate Association'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 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 **British Columbia Real Estate Association'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 **British Columbia Real Estate Association'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 **British Columbia Real Estate Association** 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.

Report on other legal and regulatory requirements

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

Vancouver, Canada
March 1, 2019

Ernst + Young LLP

Chartered Professional Accountants



British Columbia Real Estate Association

Statement of financial position

As at December 31

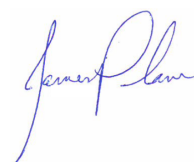
	Operating Fund \$	Council Fund \$	Total 2018 \$	Total 2017 \$
Assets				
Current				
Cash [note 3]	3,801,903	353,719	4,155,622	4,020,370
Investments [note 4]	3,238,481	252,137	3,490,618	3,501,153
Restricted cash [note 7]	168,623	—	168,623	168,623
Accounts receivable	399,768	39,547	439,315	199,008
Due from Banff Western Connection [note 7]	63,816	—	63,816	11,113
Due from (to) other funds	(164,310)	164,310	—	—
Grants receivable [note 11]	—	—	—	60,000
Prepaid expenses	143,477	—	143,477	178,250
Total current assets	7,651,758	809,713	8,461,471	8,138,517
Capital assets, net [note 5]	546,820	—	546,820	79,463
Intangible assets, net [note 6]	502,019	—	502,019	447,107
	8,700,597	809,713	9,510,310	8,665,087
Liabilities and net assets				
Current				
Accounts payable and accrued liabilities	1,182,143	30,789	1,212,932	1,179,095
Restricted conference funds payable [note 7]	168,623	—	168,623	168,623
Deferred revenue	119,561	340,975	460,536	195,125
Total current liabilities	1,470,327	371,764	1,842,091	1,542,843
Deferred capital contributions [note 8]	376,667	—	376,667	283,008
Total liabilities	1,846,994	371,764	2,218,758	1,825,851
Commitments [note 15]				
Net assets				
Unrestricted	3,333,407	—	3,333,407	3,306,644
Invested in capital and intangible assets	1,048,841	—	1,048,841	526,573
Internally restricted [note 9]	2,471,355	—	2,471,355	2,431,355
Externally restricted reserves [note 10]	—	437,949	437,949	574,664
Total net assets	6,853,603	437,949	7,291,552	6,839,236
	8,700,597	809,713	9,510,310	8,665,087

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

	Operating Fund			Council Fund	Total
	Unrestricted	Invested in capital and intangible assets	Internally restricted	Externally restricted reserves	
	\$	\$	\$	\$	\$
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
Excess (deficiency) of revenue over expenses	960,988	(371,957)	—	(136,715)	452,316
Purchase of capital and intangible assets	(894,225)	894,225	—	—	—
Change in internally restricted net assets <i>[note 9]</i>	(40,000)	—	40,000	—	—
Balance, December 31, 2018	3,333,407	1,048,841	2,471,355	437,949	7,291,552

See accompanying notes

British Columbia Real Estate Association

Statement of operations

Year ended December 31

	Operating Fund \$	Council Fund \$	Total 2018 \$	Total 2017 \$
Revenue				
Members' assessments	3,860,702	—	3,860,702	5,198,138
Members' initiation fees	1,058,311	—	1,058,311	1,274,595
Course fees	569,485	4,551,850	5,121,335	3,227,140
Other income	463,398	840	464,238	105,933
Event revenue	22,033	—	22,033	—
Investment income, net <i>[note 4]</i>	45,552	984	46,536	162,931
Grant income	—	—	—	60,000
	6,019,481	4,553,674	10,573,155	10,028,737
Expenses <i>[schedule 1]</i>				
Education				
Course development and production	46,343	296,528	342,871	308,121
Salaries, benefits and training	299,124	698,683	997,807	760,665
Cost of sales course materials	35,560	47,570	83,130	177,478
Consulting fees	90,651	279,065	369,716	334,333
Travel and meetings	86,897	172,639	259,536	216,672
Revenue-sharing	24,831	12,258	37,089	89,327
Instructor fees and training	1,696	701,854	703,550	415,788
Council administration fees	—	263,000	263,000	52,850
Collaboration platforms	91,500	825,913	917,413	802,596
General department	89,371	976,576	1,065,947	311,075
Communications	471,553	—	471,553	438,633
Government relations	765,374	—	765,374	556,149
Economics	387,382	—	387,382	360,816
Operations	—	—	—	553,007
Standard forms	106,912	—	106,912	—
Governance	412,575	—	412,575	578,655
Strategic plan <i>[note 13]</i>	—	—	—	145,587
Banff Western Connection, net <i>[note 7]</i>	24,921	—	24,921	(54,986)
Administration and overhead costs				
Amortization of capital assets	100,392	—	100,392	138,594
Amortization of intangible assets	267,601	—	267,601	263,420
Audit and accounting	30,615	—	30,615	19,115
Salaries, benefits and training	744,079	—	744,079	1,720,200
Rent	172,858	47,523	220,381	237,139
Legal	75,105	—	75,105	60,600
Travel and meetings	73,521	—	73,521	171,655
Other overhead costs	255,158	13,509	268,667	326,848
	4,654,019	4,335,118	8,989,137	8,984,337
Council overhead allocation <i>[note 12]</i>	355,271	(355,271)	—	—
Excess (deficiency) of revenue over expenses				
before restructuring costs	1,720,733	(136,715)	1,584,018	1,044,400
Restructuring costs <i>[note 14]</i>	(1,131,702)	—	(1,131,702)	—
Excess (deficiency) of revenue over expenses for the year	589,031	(136,715)	452,316	1,044,400

See accompanying notes

British Columbia Real Estate Association

Statement of cash flows

Year ended December 31

	2018	2017
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	452,316	1,044,400
Add (deduct) items not affecting cash		
Amortization of capital assets	100,392	138,594
Amortization of intangible assets	267,601	263,420
Recognition of deferred capital contributions	(176,341)	(101,850)
Unrealized losses on investments	113,429	18,116
Loss on disposal of capital assets	3,963	3,140
	<u>761,360</u>	<u>1,365,820</u>
Changes in non-cash working capital balances related to operations		
Accounts receivable	(240,307)	129,402
Grants receivable	60,000	35,000
Prepaid expenses	34,773	(73,845)
Accounts payable and accrued liabilities	33,837	355,536
Deferred revenue	265,411	(214,750)
Cash provided by operating activities	<u>915,074</u>	<u>1,597,163</u>
Investing activities		
Purchase of investments	(102,894)	(643,736)
Due from Banff Western Connection	(52,703)	(58,002)
Capital asset purchases	(571,712)	(41,099)
Intangible assets capitalized	(322,513)	(322,916)
Deferred capital contributions	270,000	285,000
Cash used in investing activities	<u>(779,822)</u>	<u>(780,753)</u>
Net increase in cash during the year	135,252	816,410
Cash, beginning of year	<u>4,020,370</u>	<u>3,203,960</u>
Cash, end of year	<u>4,155,622</u>	<u>4,020,370</u>
Represented by		
Operating Fund – cash	3,742,315	3,623,668
Operating Fund – investment cash	59,588	42,935
Council Fund – cash	353,719	353,767
	<u>4,155,622</u>	<u>4,020,370</u>

See accompanying notes

British Columbia Real Estate Association

Notes to financial statements

December 31, 2018

1. Purpose of organization

British Columbia Real Estate Association ["BCREA"], incorporated under the *Societies Act* (British Columbia), 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).

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. Under this method of accounting, two separate funds have been established as follows:

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

Council Fund

This fund reports only those resources that are to be used to deliver and administer courses on behalf of the Real Estate Council of British Columbia [the "Council"], the Applied Practice Course and the Relicensing Education Program. Externally restricted reserves represent Council funds that have been appropriated by BCREA's Board of Directors to maintain the required contingency reserve mandated under the Agreement [note 10].

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

Cash

Cash consists of cash on deposit with banks 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.

British Columbia Real Estate Association

Notes to financial statements

December 31, 2018

Capital assets

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

Leasehold improvements	Term of lease
Furniture	5 years
Computers and office equipment	3 to 4 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	3 to 4 years
Software and licenses	3 to 4 years

Interest in joint arrangements

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

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 is included within the statement of operations.

Impairment of long-lived assets

When a capital asset or an intangible asset no longer has any long-term service potential to BCREA, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations of the Operating Fund. Write-downs are not reversed.

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.

British Columbia Real Estate Association

Notes to financial statements

December 31, 2018

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 and Relicensing Education Program 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, dividends, 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 is 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 and Relicensing Education Program. Costs include salaries and wages, rent and other general expenses that are directly related to providing program services. BCREA incurs several general and administrative support expenses that are common to the administration of BCREA and Council Fund activities.

BCREA allocates certain general support expenses to the Council Fund as follows:

Salaries and wages	– proportionately based on 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, Governance and Information Technology	– based on estimated time and salaries incurred on Council Fund initiatives as a percentage of all BCREA operations applied against 80% of budgeted costs of the identified departments

British Columbia Real Estate Association

Notes to financial statements

December 31, 2018

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 subsequently measured at amortized cost 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.

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.

3. Cash

BCREA's cash accounts are held at one chartered bank and a brokerage account. Cash with a value of \$2,999,577 [2017 – \$3,159,216] is held in a high-interest savings account with an interest rate as at December 31, 2018 of 1.55% [2017 – 1.00% per annum]. The balance of cash earns interest at the prevailing rates for chequing and brokerage accounts.

British Columbia Real Estate Association

Notes to financial statements

December 31, 2018

4. Investments

Operating Fund investments as at December 31, 2018 comprise the following:

	2018 Market value \$	2017 Market value \$
Canadian bond fund	2,011,137	1,612,142
Canadian equities	452,600	677,778
Foreign equities	774,744	960,080
Operating fund investments	3,238,481	3,250,000
Council Fund GIC investment	252,137	251,153
	3,490,618	3,501,153

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

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.

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

	2018 \$	2017 \$
Interest and dividends	120,309	102,763
Realized gains	54,232	91,936
Unrealized losses	(113,429)	(18,116)
Investment management fees	(14,576)	(13,652)
	46,536	162,931

The Council Fund investment of \$252,137 as at December 31, 2018 [2017 – \$251,153] comprises a cashable GIC earning interest at a rate of 2.54% [2017 – 0.62%] per annum maturing in December 2019 [2017 – August 2018].

British Columbia Real Estate Association

Notes to financial statements

December 31, 2018

5. Capital assets

	2018		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Operating Fund			
Leasehold improvements	446,684	49,912	396,772
Furniture	144,002	46,096	97,906
Computers and office equipment	266,111	213,969	52,142
	856,797	309,977	546,820

	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

Council Fund			
Computers and office equipment	4,922	4,922	—
	817,162	737,699	79,463

6. Intangible assets

	2018		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Operating Fund			
Wavelength CRM System	1,378,790	880,282	498,508
Software and licenses	104,131	100,620	3,511
	1,482,921	980,902	502,019

British Columbia Real Estate Association

Notes to financial statements

December 31, 2018

	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
	<u>1,160,409</u>	<u>713,302</u>	<u>447,107</u>

7. Investment in joint arrangement – 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 biennial 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:

	2018	2017
	\$	\$
Cash	56,208	56,208
Accounts receivable	122,419	7,599
Prepaid expenses	3,125	1,250
Accounts payable and accrued liabilities	5,737	1,250
Deferred revenue	119,561	—
Unrestricted net assets	<u>15,182</u>	<u>40,103</u>

Included in assets and liabilities is restricted cash and restricted conference funds payable equal to \$168,623 [2017 – \$168,623], respectively, which represents the other venturers' share of the cash controlled by BCREA and \$63,816 [2017 – \$11,113] due from BWC to BCREA.

As at December 31, 2018, included in BCREA's statement of operations is \$3,409 [2017 – \$185,022] in gross revenue and \$28,330 [2017 – \$130,036] in expenses, which represents BCREA's share of BWC's operations and is disclosed as a net expense (recovery) in the statement of operations of \$24,921 [2017 – (\$54,986)].

The most recent conference was held in January 2019.

British Columbia Real Estate Association

Notes to financial statements

December 31, 2018

8. Deferred capital contributions

The Real Estate Council of British Columbia approved platform development funding for 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.

	2018	2017
	\$	\$
Deferred capital contributions, beginning of year	283,008	99,858
Amounts received during the year	270,000	285,000
Amounts recognized as other income during the year	(176,341)	(101,850)
Deferred capital contributions, end of year	376,667	283,008

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 2021 Reserve – a reserve to finance BCREA's non-partisan election activities in 2021.
- [iv] 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.
- [v] Members' Assessment Reserve – a reserve to hold annual Members' Assessments received in excess of the budgeted amount of Members' Assessments for the year. The reserve would be used to fund revenue shortfalls that result from a declining membership or reductions to membership dues. There is currently no balance in this reserve as Member Assessment and Initiation fees have been less than budgeted.

British Columbia Real Estate Association

Notes to financial statements

December 31, 2018

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	15,000	50,000
BCREA Litigation Reserve	100,000	—	100,000
Election 2021 Reserve	25,000	25,000	50,000
Contingency Reserve	2,271,355	—	2,271,355
	2,431,355	40,000	2,471,355

10. Externally restricted reserves – Council Fund

BCREA is required to maintain a contingency reserve to offset expenses that exceed revenue beyond the annually determined tuition in any one year for the Applied Practice Course and the Relicensing Education Program. The reserve is 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.

Applied Practice Course – background

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 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.

Relicensing Education Program – background

The Relicensing Education Program must be completed once every two years before real estate licensees are able to apply to renew their real estate license. Pursuant to an agreement dated December 14, 2015 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 agreed to an updated statement of course principles effective January 1, 2018. The essence of the agreement maintains the same roles and responsibilities of the original contract with BCREA acting as principal in the provision of the Relicensing Education Program.

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Transition of activity to the Council

In August of 2018, the Council notified BCREA that key elements of regulatory education, specifically the responsibility for the Applied Practice Courses and Relicensing Education Program, would be transitioned from BCREA to the Council by December 31, 2019.

BCREA has agreed with the Council that once all activities relating to the Applied Practice Course and Relicensing Education have been transferred to the Council and all payments, liabilities and obligations have been resolved relating to Council Fund activities, that any remaining reserve balance will be transferred to Council.

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 collected funding of \$60,000 [2017 – nil] from the Foundation. Grant funds were provided after the costs had been incurred.

Grants receivable include the following:

	2018	2017
	\$	\$
E & O – Legal update course development	—	60,000

12. Allocation of expenses

The following general support expenses have been allocated from the Operating Fund to the Council Fund:

	2018	2017
	\$	\$
Finance	105,096	98,620
Information Technology	71,442	60,729
Administration	100,219	70,299
Governance	78,514	69,823
	355,271	299,471

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13. Structure Project

BCREA's 2015-2019 strategic plan included investigating alternative structures for organized real estate in British Columbia [the "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 6, 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
2018	—
Total	<u>2,239,870</u>
Member Board funds	
2016 Member Board contributions	<u>678,558</u>
Total Structure Project costs	<u>2,918,428</u>

14. Restructuring

During 2018, BCREA went through a restructuring process. The following expenses were incurred as part of the restructuring:

	\$
Salaries, severance and recruiting	952,452
Legal and consulting fees	117,720
Moving and other miscellaneous costs	61,530
	<u>1,131,702</u>

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15. Commitments

- [a] On March 23, 2018, BCREA executed a lease for office premises in downtown Vancouver for a term of five years commencing on December 1, 2018. Pursuant to the terms of the lease, BCREA will pay rent and its proportionate share of property taxes and operating costs.

The estimated annual lease payments under the lease are as follows:

	\$
2019	256,160
2020	256,790
2021	264,350
2022	271,280
2023	247,840

- [b] The parties to the BWC agreement [note 7] 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 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 \$830,000, of which BCREA's share is \$207,500.

A similar agreement has been entered for the 2021 BWC event. There is no commitment clause associated with the 2021 agreement.

16. Financial instruments

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, 2018.

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 certain investments and accounts receivable. BCREA limits its exposure to credit risk by placing its cash and certain investments in high-quality institutions in accordance with investment policies adopted by the Board of Directors.

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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, 2017 and 2018. The maximum amount of credit risk exposure is limited to the carrying amount of the balances in the financial statements.

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.

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.

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.

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, 2018 of USD\$567,965 [CDN\$774,744] [2017 – USD\$763,648 [CDN\$960,080]].

Schedule of expenses by object

Year ended December 31

	Operating Fund	Council Fund	Total 2018	Total 2017
	\$	\$	\$	\$
Amortization	367,993	—	367,993	402,014
Arbitration	2,819	—	2,819	—
Audit and accounting	30,615	—	30,615	19,115
Banff Western Connection, net <i>[note 7]</i>	24,921	—	24,921	(54,986)
Bank and credit card charges	5,749	140,195	145,944	88,493
Board of Director honourariums	104,552	—	104,552	165,669
Classroom and supplies	1,672	781,863	783,535	84,683
Collaboration platforms	91,500	825,913	917,413	802,596
Communications	75,566	—	75,566	122,799
Consulting fees	464,361	279,065	743,426	539,640
Cost of sales course materials	35,560	47,570	83,130	177,478
Council administration fees	—	263,000	263,000	52,850
Course development and production	46,567	296,528	343,095	310,363
Government relations	17,149	—	17,149	58,943
Instructor fees and training	1,696	701,855	703,551	415,788
Insurance	28,182	—	28,182	25,119
Legal	174,016	4,366	178,382	92,680
Maintenance and repairs	2,930	—	2,930	2,774
Operational projects	1,345	—	1,345	6,144
Postage and office supplies	65,947	13,999	79,946	59,680
Printing and publishing	1,703	18,932	20,635	19,719
Rent	358,207	47,523	405,730	411,805
Research and reference materials	18,955	—	18,955	15,077
Revenue-sharing	24,831	12,258	37,089	89,327
Salaries, benefits and training	2,102,265	698,683	2,800,948	3,885,965
Sponsorships	1,000	—	1,000	19,300
Strategic plan <i>[note 13]</i>	—	—	—	145,587
Technology and software	136,623	30,632	167,255	185,788
Telephone	46,185	97	46,282	72,026
Travel and meetings	421,110	172,639	593,749	767,901
	4,654,019	4,335,118	8,989,137	8,984,337
Restructuring costs <i>[note 14]</i>	1,131,702	—	1,131,702	—
	5,785,721	4,335,118	10,120,839	8,984,337

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