REAL ESTATE COMPENSATION FUND CORPORATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2012 AND 2011

MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Directors of:
Real Estate Compensation Fund Corporation

We have audited the accompanying financial statements of Real Estate Compensation Fund Corporation which comprise the statements of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011 and the statements of revenue and expenditures, changes in net assets and cash flows for the years then ended, and the related notes comprising 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 audits. We conducted our audits 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 our 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, we 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Real Estate Compensation Fund Corporation as at December 31, 2012, December 31, 2011 and January 1, 2011, and the results of its operations and its cash flows for the years then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Manning Elliott LLP

Chartered Accountants

Vancouver, British Columbia

April 9, 2013

REAL ESTATE COMPENSATION FUND CORPORATION

STATEMENTS OF FINANCIAL POSITION

AS AT DECEMBER 31, 2012, 2011 AND JANUARY 1, 2011

	December 31 2012	December 31 2011	January 1 2011
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 358,860	$ 125,697	$ 228,259
Accrued interest receivable	211,752	177,788	131,393
	570,612	303,485	359,652
INVESTMENTS (Note 4)	9,917,552	9,106,002	7,870,466
	$ 10,488,164	$ 9,409,487	$ 8,230,118
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities (Note 5)	$ 39,373	$ 30,186	$ 93,383
RESERVE FOR CLAIMS LIABILITIES (Note 6)	973,700	1,346,100	3,037,300
	1,013,073	1,376,286	3,130,683
NET ASSETS			
INTERNALLY RESTRICTED (Note 7)	500,000	500,000	500,000
UNRESTRICTED	8,975,091	7,533,201	4,599,435
	9,475,091	8,033,201	5,099,435
	$ 10,488,164	$ 9,409,487	$ 8,230,118

Approved by the Board:

_______________________________ Director

_______________________________ Director

REAL ESTATE COMPENSATION FUND CORPORATION

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Internally Restricted	Unrestricted	**2012**	**2011**
BALANCE, BEGINNING OF YEAR	$ 500,000	$ 7,533,201	$ 8,033,201	$ 5,099,435
Excess of revenue over expenditures for the year	-	1,441,890	1,441,890	2,933,766
BALANCE, END OF YEAR	$ 500,000	$ 8,975,091	$ 9,475,091	$ 8,033,201

STATEMENTS OF REVENUE AND EXPENDITURES

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
REVENUE		
Assessments	$ 1,295,227	$ 1,332,244
DIRECT EXPENDITURES		
Payment of claims	300,000	-
Recovery of outstanding claims	(372,400)	(1,691,200)
	(72,400)	(1,691,200)
NET ASSESSMENT REVENUE	1,367,627	3,023,444
OPERATING EXPENDITURES		
Administrative and professional expenses (Schedule I)	217,581	223,750
Collection fees and hearing costs (Note 5)	77,290	68,276
	294,871	292,026
EXCESS OF REVENUE OVER OPERATING EXPENDITURES	1,072,756	2,731,418
OTHER INCOME (EXPENDITURES)		
Interest and other investment income, net of expenses	319,392	300,076
Write-up (down) of investments to fair value	57,208	(95,582)
Loss on disposal of investments	(7,466)	(2,146)
EXCESS OF REVENUE OVER EXPENDITURES FOR THE YEAR	$ 1,441,890	$ 2,933,766

REAL ESTATE COMPENSATION FUND CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FROM (USED IN):		
OPERATING ACTIVITIES		
Excess of revenue over expenditures for the year	$ 1,441,890	$ 2,933,766
Items not involving cash:		
Decrease in reserve for claims liabilities	(372,400)	(1,691,200)
Loss on disposal of investments	7,466	2,146
(Write-up) down of investments to fair value	(57,208)	95,582
	1,019,748	1,340,294
Change in non-cash working capital items:		
Increase in accrued interest receivable	(33,964)	(46,395)
Increase (decrease) in accounts payable and accrued liabilities	9,187	(63,197)
	994,971	1,230,702
INVESTING ACTIVITIES		
Purchase of investments, net	(761,808)	(1,333,264)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS DURING THE YEAR	233,163	(102,562)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	125,697	228,259
CASH AND EQUIVALENTS, END OF YEAR	$ 358,860	$ 125,697

NATURE OF OPERATIONS

The Real Estate Compensation Fund Corporation ("the Corporation") was introduced as part of the new Real Estate Services Act to replace the trust account bonding requirements under the former Real Estate Act. The Corporation commenced operations on December 31, 2004.

The Corporation provides protection for members of the public who have entrusted real estate licensees (or unlicensed individuals related to the brokerage) with money that was either misappropriated or wrongfully converted; intentionally not paid over or accounted for; or obtained by the fraud of a licensee or individual.

Pursuant to section 149(1)(l) of the Income Tax Act (Canada), the Corporation qualifies as a not-for-profit organization, and as such, is exempt from tax.

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations (“ASNPO”) under Part III of the CICA Handbook - Accounting. Financial statements prepared in accordance with ASNPO are also in accordance with Canadian generally accepted accounting principles (GAAP). See Note 2 for information regarding the Corporation's adoption of ASNPO.

These financial statements have, in management's opinion, been prepared within reasonable limits of materiality using the significant accounting policies noted below:

a) Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances held with banks and brokerage institutions and highly liquid investments which are readily convertible into cash with maturities of three months or less when purchased.

b) Financial instruments

Measurement

The Corporation’s financial instruments consist of cash and cash equivalents, investments and accounts payable.

The Corporation initially measures all of its financial assets and liabilities at fair value, except for certain non-arm's length transactions. The Corporation subsequently measures all of its financial assets and liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value, and investments in debt instruments that are quoted in an active market, which the Corporation has elected to measure at fair value. Changes in fair value of financial instruments carried at fair value are recognized in the statement of revenue and expenditures.

Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. The amount of any write-down that is determined is recognized in the statement of revenue and expenditures. A previously recognized impairment loss may be reversed to the extent of any improvement, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in the statement of revenue and expenditures in the period in which it is determined.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Financial instruments (continued)

Transaction costs

The Corporation recognizes its transaction costs in the statement of revenue and expenditures in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

c) Revenue recognition

The Corporation follows the deferral method of recognizing contributions. The Corporation collects assessment fees for a two-year period in advance. These fees are recognized as income in the period received as the Corporation has no continuing obligations with respect to these fees and does not issue refunds.

d) Reserve for claims liabilities

The actuarial evaluation of the reserve for claims liabilities is an estimate of the present value of future claims based on an analysis of the historic patterns in which claims are reported, interim payments are made, reserves are set and adjusted, final settlements are reached, and claims are finally closed. Implicit in this methodology is the assumption that the emergence of loss costs and claim settlement patterns in the future will be similar to those in the past. Other key assumptions used in the actuarial evaluation include inflation based on the current Consumer Price Index and investment income from assets based on current long-term bond rates.

e) Use of estimates

The preparation of the financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions about future events that affect the reported amounts of assets, liabilities, revenues and expenses as at the end of or during the reporting period. Management believes that the estimates used are reasonable and prudent, however, actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of investments, the amounts recorded as accrued liabilities and the reserve for claims liabilities.

2. ADOPTION OF CANADIAN ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

The Corporation adopted Canadian accounting standards for not-for-profit organizations ("ASNPO") on January 1, 2012 for its year ended December 31, 2012. As these are the Corporation's first set of ASNPO financial statements, they have been prepared retrospectively as at the opening statement of financial position date of January 1, 2011. Retrospective preparation upon first-time adoption of ASNPO also allows for the use of certain exemptions and elections. The Corporation has not made use of any exemptions or elections.

The adoption of ASNPO resulted in a change in accounting policy with respect to the Corporation's financial instruments. Under ASNPO, the Corporation accounts for its financial instruments following the policies described in Note 1(b). The Corporation previously followed the accounting policies for financial instruments set out in Sections 3855 and 3861 of Part V of the CICA Handbook – Accounting. Although there has been a change in accounting policy, there has been no effect on the carrying amounts of the Corporation's financial instruments.

The adoption of ASNPO did not result in any other changes in accounting policy or changes in the carrying amounts of the Corporation's assets and liabilities.

Accordingly, the adoption of ASNPO had no effect on the Corporation's opening statement of financial position as at January 1, 2011, the comparative statement of financial position as at December 31, 2011 or its excess of revenue over expenditures or cash flows for the year ended December 31, 2011.

3. FINANCIAL INSTRUMENTS RISKS

The Corporation’s financial instruments are described in Note 1(b). In management’s opinion, the Corporation is not exposed to significant currency, credit, liquidity, interest rate or other market risks except as explained below. In addition, the Corporation is not exposed to any material concentrations of risk and there has been no change in the risk exposures described below from the prior year.

Interest rate risk, currency exchange rate risk and credit risk

The Corporation’s investments include guaranteed investment certificates ("GICs"), high-quality government and corporate debt instruments ("Bonds") and equity securities. Accordingly, through certain of these investments, the Corporation is exposed to interest rate risk, currency exchange rate risk and credit risk. The Corporation's investment policy mitigates these risks by maintaining a minimum balance of its investments in GICs and Bonds. As at December 31, 2012, the minimum balance to be held in GICs and Bonds is $4 million.

4. INVESTMENTS

	2012	**2011**
GICs and bonds	$ 8,876,563	$ 8,154,512
Equity securities	1,040,989	951,490
	$ 9,917,552	$ 9,106,002

5. RELATED PARTY BALANCES AND TRANSACTIONS

The Real Estate Council of British Columbia (the "Council") appoints three out of the five members of the Corporation's Board of Directors. The Council is responsible for collecting assessment fees on behalf of the Corporation and provides advice on the payment of assessment claims. The Council also charges the Corporation an administrative fee which is based on the number of licences issued during the year.

As at December 31, 2012, $9,785 (2011 - $9,456) owing to the Council is included in accounts payable and accrued liabilities. A total of $77,290 (2011 - $68,276) was paid or accrued to the Council during the year for collection fees, hearing costs and other legal expenses.

Related party transactions are measured at their exchange amount, which is the amount of consideration established and agreed to by the related parties.

6. RESERVE FOR CLAIMS LIABILITIES

	2012	2011
Provision for future claims	$ 973,700	$ 1,346,100

The reserve represents an actuarial evaluation of the anticipated future claims, as at the statement of financial position date.

7. INTERNALLY RESTRICTED NET ASSETS

	2012	2011
Compensation Fund	$ 500,000	$ 500,000

In compliance with Section 135 under the Real Estate Services Act, the Real Estate Council of British Columbia contributed $500,000 as initial funding for the Corporation in 2004. These funds are restricted as part of the Compensation Fund.

REAL ESTATE COMPENSATION FUND CORPORATION **SCHEDULE I**

SCHEDULE OF ADMINISTRATIVE AND PROFESSIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	**2011**
ADMINISTRATIVE AND PROFESSIONAL EXPENSES:		
Administration fee	$ 88,936	$ 87,822
Board members' per diems	24,000	27,025
Brokerage and bank charges	44,925	38,024
Insurance	5,800	5,800
Meeting costs	3,238	6,116
Office and miscellaneous	7,288	4,678
Professional fees	31,602	46,721
Travel and accommodations	11,792	7,564
	$ 217,581	$ 223,750