
REAL ESTATE COMPENSATION FUND CORPORATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2013





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 statement of financial position as at December 31, 2013, and the statements of revenue and expenditures, changes in net assets and cash flows for the year 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 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 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 audit 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, 2013, 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.

Manning Elliott LLP

Chartered Accountants
Vancouver, British Columbia
March 20, 2014

REAL ESTATE COMPENSATION FUND CORPORATION
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 144,799	\$ 358,860
Accrued interest receivable	244,680	211,752
	389,479	570,612
INVESTMENTS (Note 3)	11,621,936	9,917,552
	\$ 12,011,415	\$ 10,488,164
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 4)	\$ 37,091	\$ 39,373
RESERVE FOR CLAIMS LIABILITIES (Note 5)	1,469,600	973,700
	1,506,691	1,013,073
NET ASSETS		
INTERNALLY RESTRICTED (Note 6)	500,000	500,000
UNRESTRICTED	10,004,724	8,975,091
	10,504,724	9,475,091
	\$ 12,011,415	\$ 10,488,164

Approved by the Board:

_____ Director

_____ Director



REAL ESTATE COMPENSATION FUND CORPORATION
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013

		Internally Restricted	Unrestricted	2013	2012
BALANCE, BEGINNING OF YEAR	\$	500,000	\$ 8,975,091	\$ 9,475,091	\$ 8,033,201
Excess of revenue over expenditures for the year		-	1,029,633	1,029,633	1,441,890
BALANCE, END OF YEAR	\$	500,000	\$ 10,004,724	\$ 10,504,724	\$ 9,475,091



REAL ESTATE COMPENSATION FUND CORPORATION
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2013

	2013	2012
REVENUE		
Assessments	\$ 1,371,740	\$ 1,295,227
DIRECT EXPENDITURES		
Provision for (recovery of) outstanding claims (Note 5)	495,900	(372,400)
Payment of claims	-	300,000
	495,900	(72,400)
NET ASSESSMENT REVENUE	875,840	1,367,627
OPERATING EXPENDITURES		
Administrative and professional expenses (Schedule I)	283,962	217,581
Collection fees and hearing costs (Note 4)	57,320	77,290
	341,282	294,871
EXCESS OF REVENUE OVER OPERATING EXPENDITURES	534,558	1,072,756
OTHER INCOME (EXPENDITURES)		
Interest and other investment income, net of expenses	307,036	319,392
Write-up of investments to fair value	168,910	57,208
Gain (loss) on disposal of investments	19,129	(7,466)
EXCESS OF REVENUE OVER EXPENDITURES FOR THE YEAR	\$ 1,029,633	\$ 1,441,890



REAL ESTATE COMPENSATION FUND CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

	2013	2012
CASH FROM (USED IN):		
OPERATING ACTIVITIES		
Excess of revenue over expenditures for the year	\$ 1,029,633	\$ 1,441,890
Items not involving cash:		
Increase (decrease) in reserve for claims liabilities	495,900	(372,400)
(Gain) loss on investments	(19,129)	7,466
Write-up of investments to fair value	(168,910)	(57,208)
	1,337,494	1,019,748
Change in non-cash working capital items:		
Increase in accrued interest receivable	(32,928)	(33,964)
(Decrease) increase in accounts payable and accrued liabilities	(2,282)	9,187
	1,302,284	994,971
INVESTING ACTIVITIES		
Purchase of investments, net	(1,516,345)	(761,808)
(DECREASE) INCREASE IN CASH AND EQUIVALENTS DURING THE YEAR	(214,061)	233,163
CASH AND EQUIVALENTS, BEGINNING OF YEAR	358,860	125,697
CASH AND EQUIVALENTS, END OF YEAR	\$ 144,799	\$ 358,860



REAL ESTATE COMPENSATION FUND CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

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 CPA Canada Handbook - Accounting. Financial statements prepared in accordance with ASNPO are also in accordance with Canadian generally accepted accounting principles ("GAAP").

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.



REAL ESTATE COMPENSATION FUND CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

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.

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. 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, 2013, the minimum balance to be held in GICs and Bonds is \$4 million.



REAL ESTATE COMPENSATION FUND CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

3. INVESTMENTS

	2013	2012
GICs and bonds	\$ 10,348,083	\$ 8,876,563
Equity securities	1,273,853	1,040,989
	<u>\$ 11,621,936</u>	<u>\$ 9,917,552</u>

4. 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, 2013, \$9,058 (2012 - \$9,785) owing to the Council is included in accounts payable and accrued liabilities. A total of \$57,320 (2012 - \$77,290) 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.

5. RESERVE FOR CLAIMS LIABILITIES

	2013	2012
Balance at beginning of year	\$ 973,700	\$ 1,346,100
Provision for (recovery of) outstanding claims	495,900	(372,400)
	<u>\$ 1,469,600</u>	<u>\$ 973,700</u>

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

6. INTERNALLY RESTRICTED NET ASSETS

	2013	2012
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 OF ADMINISTRATIVE AND PROFESSIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

SCHEDULE I

	2013	2012
ADMINISTRATIVE AND PROFESSIONAL EXPENSES:		
Administration fee	\$ 88,006	\$ 88,936
Board members' per diems	21,500	24,000
Brokerage and bank charges	47,615	44,925
Insurance	5,800	5,800
Meeting costs	4,457	3,238
Office and miscellaneous	45,162	7,288
Professional fees	58,632	31,602
Travel and accommodations	12,790	11,792
	<hr/> \$ 283,962	<hr/> \$ 217,581

