



**REAL ESTATE COMPENSATION FUND
CORPORATION**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

MARCH 31, 2020

INDEPENDENT AUDITORS' REPORT

To the Directors of:
Real Estate Compensation Fund Corporation

Opinion

We have audited the financial statements of Real Estate Compensation Fund Corporation (the "Corporation") which comprise the statement of financial position as at March 31, 2020, and the statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and the related notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

INDEPENDENT AUDITORS' REPORT

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation 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.

INDEPENDENT AUDITORS' REPORT

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.

Manning Elliott LLP

Chartered Professional Accountants


Vancouver, British Columbia

May 1, 2020

REAL ESTATE COMPENSATION FUND CORPORATION
 STATEMENT OF FINANCIAL POSITION
 AS AT MARCH 31, 2020

	2020	2019
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 871,864	\$ 531,068
Investments (Note 3)	17,472,826	17,724,459
Accrued interest receivable	250,310	191,511
	<u>\$18,595,000</u>	<u>\$18,447,038</u>
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities (Note 4)	\$ 30,811	\$ 37,033
Reserve for claims liabilities (Note 5)	968,900	685,500
	<u>999,711</u>	<u>722,533</u>
NET FINANCIAL ASSETS	<u>17,595,289</u>	<u>17,724,505</u>
NON-FINANCIAL ASSETS		
Prepaid expenses	3,000	3,000
ACCUMULATED SURPLUS	<u>\$17,598,289</u>	<u>\$17,727,505</u>

Approved by the Board:



Director



Director

REAL ESTATE COMPENSATION FUND CORPORATION
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
FOR THE YEAR ENDED MARCH 31, 2020

	2020	Budget	2019
REVENUE			
Assessments	\$ 628,398	\$ -	\$ 759,052
DIRECT EXPENDITURES			
Payment of claims	-	-	195,000
Provision (recovery) of outstanding claims (Note 5)	283,400	-	(312,700)
Compensation payouts recovered	(12,685)	-	(53,885)
	270,715	-	(171,585)
NET ASSESSMENT REVENUE	357,683	-	930,637
OPERATING EXPENDITURES			
Administrative and professional expenses - Schedule I	209,143	-	209,472
Collection fees and hearing costs (Note 4)	975	-	38,244
	210,118	-	247,716
ANNUAL SURPLUS FOR THE YEAR FROM OPERATIONS	147,565	-	682,921
OTHER INCOME (EXPENDITURES)			
Interest and other investment income	453,453	-	412,170
Gain on disposal of investments	130,576	-	96,371
Write-up (write-down) of investments to fair value	(860,810)	-	104,872
	(276,781)	-	613,413
ANNUAL (DEFICIT) SURPLUS FOR THE YEAR	(129,216)	-	1,296,334
ACCUMULATED SURPLUS, BEGINNING OF YEAR	17,727,505	-	16,431,171
ACCUMULATED SURPLUS, END OF YEAR	\$17,598,289	\$ -	\$17,727,505

REAL ESTATE COMPENSATION FUND CORPORATION
STATEMENT OF CHANGES IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED MARCH 31, 2020

	2020	2019
ANNUAL (DEFICIT) SURPLUS FOR THE YEAR	\$ (129,216)	\$ 1,296,334
OTHER NON-FINANCIAL ASSETS		
Acquisition of prepaid expenses	(4,000)	(4,000)
Use of prepaid expenses	4,000	4,000
CHANGES IN NET FINANCIAL ASSETS	(129,216)	1,296,334
NET FINANCIAL ASSETS, BEGINNING OF YEAR	17,724,505	16,428,171
NET FINANCIAL ASSETS, END OF YEAR	\$17,595,289	\$17,724,505

REAL ESTATE COMPENSATION FUND CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2020

	2020	2019
CASH FROM (USED IN):		
OPERATING ACTIVITIES		
Annual (deficit) surplus for the year	\$ (129,216)	\$ 1,296,334
Items not involving cash:		
Provision (recovery) of outstanding claims	283,400	(312,700)
Gain on disposal of investments	(130,576)	(96,371)
Write-down (write up) of investments to fair value	860,810	(104,872)
	884,418	782,391
Change in non-cash working capital items:		
Increase in accrued interest receivable	(58,799)	(60,573)
Increase (decrease) in accounts payable and accrued liabilities	(6,222)	7,370
	819,397	729,188
CAPITAL AND INVESTING TRANSACTIONS		
Purchase of investments, net	(478,601)	(899,235)
INCREASE (DECREASE)		
IN CASH AND EQUIVALENTS DURING THE YEAR	340,796	(170,047)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	531,068	701,115
CASH AND EQUIVALENTS, END OF YEAR	\$ 871,864	\$ 531,068

REAL ESTATE COMPENSATION FUND CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2020

NATURE OF OPERATIONS

The Real Estate Compensation Fund Corporation ("the Corporation") commenced operations on December 31, 2004 to replace the trust account bonding requirements under the former *Real Estate Act*. The Corporation is funded by assessments of real estate licensees in accordance with the *Real Estate Services Act* SBC 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.

On September 30, 2016, the Province of British Columbia made legislative amendments to the Real Estate Services Act and the Real Estate Services Regulation which empowered the Province of British Columbia to appoint all of the members of the Real Estate Council of British Columbia ("the Council"). As the Council controls the Corporation through ability to appoint the majority of its board members, the Corporation was required to transition to Canadian public sector accounting standards ("PSAS").

1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are the representations of management, prepared in accordance with Canadian public sector accounting standards ("PSAS").

a) Basis of presentation

Sources of revenue and expenses are recorded on the accrual basis of accounting. The accrual basis of accounting recognizes revenue as it becomes available and measurable; expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay.

b) Net financial assets

The Corporation's financial statements are presented so as to highlight net financial assets as the measurement of financial position. The net financial assets of the Corporation is determined by its financial assets less its liabilities. Net financial assets combined with non-financial assets comprise a second indicator of financial position, accumulated surplus.

c) Asset classification

Assets are classified as either financial or non-financial. Financial assets are assets that could be used to discharge existing liabilities or finance future operations. Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities but are employed to deliver government services, may be consumed in normal operations and are not for resale in the normal course of operations. Non-financial assets include prepaid expenses.

d) Cash and cash equivalents

Cash and cash equivalents include 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.

REAL ESTATE COMPENSATION FUND CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Financial instruments

i) 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 operations.

ii) 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 operations. 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 operations in the period in which it is determined

iii) Transaction costs

The Corporation recognizes its transaction costs in the statement of operations 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.

f) 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.

g) 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.

REAL ESTATE COMPENSATION FUND CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2020

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses 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.

i) Adopted accounting policies

Effective April 1, 2018, the Corporation adopted the recommendations relating to the following sections as set out in the CPA Canada Public Sector Accounting Handbook:

PS 2200 Related Party Disclosures
PS 3420 Inter-entity Transactions
PS 3210 Assets
PS 3320 Contingent Assets
PS 3380 Contractual Rights

Pursuant to the recommendations, the changes were applied prospectively, and prior periods have not been restated. There was no material impact on the financial statements of adopting the new sections.

2. FINANCIAL INSTRUMENT RISKS

The Corporation's financial instruments are described in Note 1(e). 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.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation is not exposed to significant credit risk.

Liquidity risk

Liquidity risk is the risk that the the Corporation will encounter difficulty in meeting obligations associated with liabilities. The Corporation is not exposed to significant liquidity risk.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types if risk: currency risk, interest rate risk and other price 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.

REAL ESTATE COMPENSATION FUND CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2020

2. FINANCIAL INSTRUMENTS RISKS (Continued)

Currency risk

Currency risk is the risk to earnings that arise from fluctuation on foreign exchange rates and the degree of volatility of these rates. The Corporation is not exposed to significant currency risk as all its financial instruments are denominated in Canadian dollars.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. The Corporation is exposed to interest rate risk on its interest bearing fixed income investments. The majority of the Corporation's investments are comprised of guaranteed investment certificates with fixed rates of interest and staggered maturity dates, and Bonds. The fair value of the Corporation's investments is disclosed in Note 3. The Corporation's investment policy mitigates this risks by maintaining a minimum balance of its investments in GICs and Bonds. As at March 31, 2020, the minimum balance to be held in GICs and Bonds is \$4 million (2019 - \$4 million).

Other price risk

Other price risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Corporation has equity investments subject to this risk, however they represent a minority of total asset held, and invested in blue chip companies. As such, the Corporation is not exposed to significant other price risk.

3. INVESTMENTS

	2020	2019
GICs and bonds	\$14,558,360	\$13,356,335
Equity Securities	2,914,466	4,368,124
	<u>\$17,472,826</u>	<u>\$17,724,459</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 March 31, 2020, \$2,556 (2019 - \$10,000) owing to the Council is included in accounts payable and accrued liabilities. A gross amount of \$10,975 (2019 - \$38,244) was paid or accrued to the Council during the year for collection fees, hearing costs and other legal expenses. A total of \$13,156 (2019 - \$15,429) was paid to the Council during the year for credit card fees.

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

REAL ESTATE COMPENSATION FUND CORPORATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2020

5. RESERVE FOR CLAIMS LIABILITIES

	2020	2019
Reserve for claims liabilities	\$ 685,500	\$ 998,200
Provision (recovery) of outstanding claims	283,400	(312,700)
Balance at end of year	\$ 968,900	\$ 685,500

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

6. SUBSEQUENT EVENTS

Subsequent to year-end, there was a global outbreak of COVID-19, which has had a significant impact on businesses through the restrictions put in place by the Canadian and U.S. governments regarding travel, business operations and isolation/quarantine orders. At this time, the extent of the impact that the COVID-19 outbreak may have on the Corporation is unknown as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada, U.S. and other countries to fight the virus.

The Corporation continues to monitor its operations and assess the impact COVID-19 will have on its business activities. Management has asserted that the extent of the effect of the COVID-19 pandemic on the Corporation is uncertain, however, it does not foresee a significant impact on operations or significant decline in revenues. Furthermore, the Corporation has over \$18M of liquid assets which can be used to sustain operations.

REAL ESTATE COMPENSATION FUND CORPORATION
SCHEDULE OF ADMINISTRATIVE AND PROFESSIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2020

SCHEDULE I

	2020	2020 Budget	2019
ADMINISTRATIVE AND PROFESSIONAL EXPENSES			
Administration fee	\$ 89,250	\$ -	\$ 85,312
Board members' per diems	21,500	-	23,999
Bank charges (Note 4)	13,181	-	15,961
Insurance	4,000	-	4,000
Meeting costs	3,236	-	2,925
Office and miscellaneous	7,341	-	9,900
Professional fees	60,819	-	46,284
Travel and accommodations	9,816	-	21,091
	<hr/>		
	\$ 209,143	\$ -	\$ 209,472
