

Financial Statements of

**ALBERTA REAL ESTATE
FOUNDATION**

Year ended October 31, 2016



KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB
T2P 4B9
Canada
Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Governors of the Alberta Real Estate Foundation

We have audited the accompanying financial statements of Alberta Real Estate Foundation, which comprise the statement of financial position as at October 31, 2016, the statements of operations, changes in net assets and cash flows for the year then ended, and 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 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 Alberta Real Estate Foundation as at October 31, 2016 and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants

January 10, 2017
Calgary, Canada

ALBERTA REAL ESTATE FOUNDATION

Statement of Financial Position

October 31, 2016, with comparative information for 2015

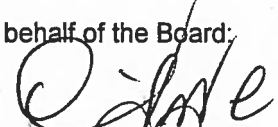
	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 327,071	\$ 192,632
Short term investments	250,000	401,531
Interest receivable on broker's trust accounts	28,622	56,985
Prepaid expenses and deposits	11,041	10,670
	<u>616,734</u>	<u>661,818</u>
Long term investments (note 2)	14,510,233	14,618,572
Property and equipment (note 3)	802	1,745
	<u>\$ 15,127,769</u>	<u>\$ 15,282,135</u>

Liabilities and Net Assets

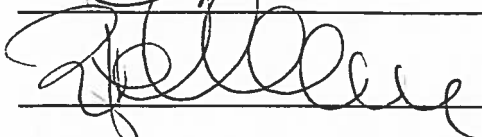
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	\$ 87,039	\$ 53,189
Net assets		
Distributable income – committed	730,801	982,551
Distributable income – uncommitted	14,309,929	14,246,395
	<u>15,040,730</u>	<u>15,228,946</u>
Commitments (note 8)		
	<u>\$ 15,127,769</u>	<u>\$ 15,282,135</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

ALBERTA REAL ESTATE FOUNDATION

Statement of Operations

Year ended October 31, 2016, with comparative information for 2015

	2016	2015
Revenues:		
Interest earned on brokers' pooled trust accounts	\$ 567,789	\$ 749,101
Less: Associated bank charges	(88,924)	(90,642)
	<u>478,865</u>	<u>658,459</u>
Investment income (note 6)	2,124,455	527,222
Less: Associated investment management fees	(45,602)	(46,190)
	<u>2,078,853</u>	<u>481,032</u>
	<u>2,557,718</u>	<u>1,139,491</u>
Expenses:		
Salaries and benefits	213,792	198,935
Office	52,084	59,936
Rent	33,424	32,592
Travel	46,786	46,355
Communications	42,052	35,132
Professional fees	16,286	14,522
Depreciation	943	1,967
	<u>405,367</u>	<u>389,439</u>
Excess of revenues over expenses before grant allocations and changes in unrealized gain on investments	2,152,361	750,052
Deduct:		
Grants expended (note 5)	(1,115,750)	(725,525)
Excess of revenues over expenses before change in unrealized gain on investments	1,036,601	24,527
Change in unrealized gain on investments	(1,224,817)	993,892
Excess (deficiency) of revenues over expenses	<u>\$ (188,216)</u>	<u>\$ 1,018,419</u>

See accompanying notes to financial statements.

ALBERTA REAL ESTATE FOUNDATION

Statement of Changes in Net Assets

Year ended October 31, 2016, with comparative information for 2015

	Distributable Income - committed	Distributable Income - uncommitted	Total
Net assets, October 31, 2014	784,576	\$13,425,951	14,210,527
Excess of revenues over expenses	(725,525)	1,743,944	1,018,419
Transfer to committed (note 5)	923,500	(923,500)	—
Net assets, October 31, 2015	982,551	14,246,395	15,228,946
Excess (deficiency) of revenues over expenses	(1,115,750)	927,534	(188,216)
Transfer to committed (note 5)	919,500	(919,500)	—
Prior year grants returned (note 5)	(55,500)	55,500	—
Net assets, October 31, 2016	\$ 730,801	\$14,309,929	\$ 15,040,730

See accompanying notes to financial statements.

ALBERTA REAL ESTATE FOUNDATION

Statement of Cash Flows

Year ended October 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operations:		
Excess of revenues over expenses	\$ (188,216)	\$ 1,018,419
Items not affecting cash:		
Realized gain on sale of investments	(1,352,441)	–
Change in unrealized gain on investment	1,224,817	(993,892)
Depreciation	943	1,967
	(314,897)	26,494
Changes in non-cash working capital:		
Interest receivable broker's trust accounts	28,363	39,706
Prepaid expenses and deposits	(371)	(4,746)
Accounts payable and accrued liabilities	33,850	13,294
	(253,055)	74,748
Investing:		
Purchase of short term investments	(2,011,019)	(4,428)
Proceeds from sale of short term investments	2,162,550	425,000
Purchase of long term investments	(2,864,037)	(516,028)
Proceeds from sale of long term investments	3,100,000	–
	387,494	(95,456)
Increase (decrease) in cash and cash equivalents	134,439	(20,708)
Cash and cash equivalents, beginning of year	192,632	213,340
Cash and cash equivalents, end of year	\$ 327,071	\$ 192,632

See accompanying notes to financial statements.

ALBERTA REAL ESTATE FOUNDATION

Notes to Financial Statements

Year ended October 31, 2016, with comparative information for 2015

General:

The Alberta Real Estate Foundation (the "Foundation") was created on October 19, 1991 under the Real Estate Act ("the Act"). The Foundation supports real estate initiatives which benefit the industry and the people of Alberta. As required by the Act, the interest earned on the pooled trust accounts of licensed real estate and mortgage brokers in Alberta is to be remitted, at least on a quarterly basis, to the Foundation by financial institutions where the pooled trust accounts are held.

The Foundation is a not-for-profit organization under the Income Tax Act and accordingly is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the CPA Handbook.

(a) Revenues:

The Foundation follows the deferral method of accounting for revenue. Any externally restricted revenues are recorded as revenue in the year in which the related expenses are incurred. Investment income is recognized as revenue when earned.

Interest earned on real estate and mortgage brokers' pooled trust accounts is recognized as revenue when received or receivable if the amount to be received can reasonably be estimated and collection is reasonably assured.

(b) Cash and cash equivalents:

The Foundation considers deposits in banks and certificates of deposit with original maturities of three months or less as cash and cash equivalents.

(c) Investments:

The Foundation invests in equities, guaranteed investment certificates, term deposits and loans. Short term investments comprise of amounts held in Guaranteed Investment Certificates with original maturities greater than three months but less than one year. Investments are presented at fair value, plus accrued interest.

ALBERTA REAL ESTATE FOUNDATION

Notes to Financial Statements

Years ended October 31, 2016, with comparative information for 2015

1. Significant accounting policies (continued):

(d) Property and equipment:

Property and equipment are stated at cost less accumulated amortization. Amortization is provided on the straight-line basis designed to amortize the cost of the property and equipment over their estimated useful lives, as follows:

Assets	Rate
Computer equipment	50%
Furniture and fixtures	20%
Leasehold improvements	20%

(e) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. Other than investments, the Foundation has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the effective interest rate method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Foundation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

ALBERTA REAL ESTATE FOUNDATION

Notes to Financial Statements

Years ended October 31, 2016, with comparative information for 2015

1. Significant accounting policies (continued):

(f) Unclaimed balances:

Licensed brokers are required by statute to remit unclaimed trust funds to the Foundation when those funds have been held in trust for more than two years.

Individual unclaimed balances in excess of \$10,000 are deferred and included in current liabilities and only recognized as revenue six years from the real estate transaction date.

Individual unclaimed balances less than \$10,000 are recognized as part of interest earned on real estate brokers' pooled trust accounts in the year received.

(g) 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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2. Long term investments:

Long term investments includes the Foundation's investments in marketable securities with a fair value of \$14,510,233 (2015 - \$14,618,572) and a cost of \$10,522,958 (2015 - \$9,406,480).

3. Property and equipment:

			2016	2015
	Cost	Accumulated depreciation	Net book value	Net book value
Computer equipment	\$ 60,135	\$ 60,135	\$ —	\$ 506
Furniture and fixtures	41,905	41,103	802	1,239
Leasehold improvements	29,957	29,957	—	—
	\$ 131,997	\$ 131,195	\$ 802	\$ 1,745

ALBERTA REAL ESTATE FOUNDATION

Notes to Financial Statements

Years ended October 31, 2016, with comparative information for 2015

4. Accounts payable and accrued liabilities:

Included in account payables and accrued liabilities are government remittances payable of \$nil (2015 - \$ nil).

5. Net assets – Distributable income, committed:

During the year, the Foundation committed net assets for grants in the amount of \$919,500 (2015 - \$923,500) and returned \$55,500 (2015 - \$nil) from net assets committed in prior periods back to uncommitted distributable net assets. The annual committed distributable net assets have been internally restricted for funding grants approved by the Board of Governors as follows:

	2016	2015
Land stewardship and environment	\$ 160,000	\$ 185,000
Education and research	207,500	595,000
Industry leadership	100,000	60,000
Housing	120,000	83,500
Community innovation	332,000	–
	<u>\$ 919,500</u>	<u>\$ 923,500</u>

During the year the Foundation paid out grants of \$1,115,750 (2015 - \$725,525).

6. Investment income:

Investment income originates from interest earned from cash on deposit and dividends, capital gains, and foreign and other income earned by long term investments held by the Foundation. This income is comprised of the following:

	2016	2015
Dividend income	\$ 769,318	\$ 520,456
Interest income	2,696	6,766
Gain on sale of investments	1,352,441	–
	<u>\$ 2,124,455</u>	<u>\$ 527,222</u>

ALBERTA REAL ESTATE FOUNDATION

Notes to Financial Statements

Years ended October 31, 2016, with comparative information for 2015

7. Unclaimed balances:

During 2016, there was \$nil (2015 – \$nil) of unclaimed balances in excess of \$10,000. Individual unclaimed balances \$10,000 or less totaled \$65,657 (2015 - \$48,011) for the year and were included in interest earned on brokers' pooled trust accounts.

8. Commitments:

On September 2, 2014, the Foundation signed a lease renewal for office premises for a term of five years commencing on July 1, 2015 and ending on June 30, 2020 and is subject to the tenant's right to terminate the lease agreement after the first anniversary date, with six months written notice. The base rent set by the terms of the lease is \$17 per square foot per annum plus GST for the first two years of the term, for a monthly rent of \$1,418. This amount is increased to \$18 per square foot per annum plus GST for the following three years of the term, for a monthly rent of \$1,501.

Current operating costs are \$12 plus GST per square foot of rentable area. The lease provides for one parking stall at a cost of \$225 plus GST per month and is subject to current market rental increases upon the Landlord providing the tenant with a minimum of thirty days prior notice. Since the parking stall portion of the lease is month to month, it is not included in the commitments below.

The Foundation has the following commitments for office and other equipment leases as follows:

2017	\$	23,949
2018		24,225
2019		19,925
2020		12,964
2021		—
	\$	81,063

9. Financial instrument and related risks:

The Foundation is exposed to the following risks in respect of certain of the financial instruments held:

(a) Credit risk:

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Foundation does not have any significant exposure to credit risk. The Foundation has minimal credit risk as its accounts receivable consist of interest receivable from broker's trust accounts and cash balances are held with credit-worthy financial institutions.

The Foundation is exposed to credit risk associated with the ability of debt issuers to discharge their obligations. The Investment Manager limits the Foundation's exposure to credit loss through ongoing credit evaluations of the issuers of the bonds and short-term notes in which it invests.

ALBERTA REAL ESTATE FOUNDATION

Notes to Financial Statements

Years ended October 31, 2016, with comparative information for 2015

9. Financial instrument and related risks (continued):

(b) Market risk:

The Foundation is subject to market risk with its long term investments. The values of these financial instruments will fluctuate as a result of changes in market prices of factors affecting the net asset values of the underlying investments.

(i) Foreign currency risk:

Foreign currency risk is the risk to the Foundation's earnings that arises from fluctuations of foreign currency exchange rates and the degree of volatility of these rates. As at October 31, 2016, the Foundation had \$6,529,371 (2015 - \$5,712,225) of investments exposed to foreign currency risk through the equities held in various investment funds. The Foundation does not use derivative instruments to reduce its exposure to foreign currency risk.

(ii) Interest rate risk:

Interest rate risk refers to the risk that the fair value of the financial instruments of future cash flows associated with those instruments will fluctuate due to changes in market interest rates. The Foundation is exposed to interest rate risk on its cash balance, short term investments and pooled bond fund holdings.

(c) Liquidity risk:

Liquidity risk is the risk that the Foundation cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk is managed by maintaining sufficient cash position to meet current liabilities.

