Financial Statements of

ALBERTA REAL ESTATE FOUNDATION

Years ended October 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Governors of the Alberta Real Estate Foundation

We have audited the accompanying financial statements of the Alberta Real Estate Foundation, which comprise the statements of financial position as at October 31, 2013, October 31, 2012 and November 1, 2011, the statements of operations, changes in net assets and cash flows for the years ended October 31, 2013 and October 31, 2012, 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 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.

KPMG

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, 2013, October 31, 2012 and November 1, 2011, and its results of operations and its cash flows for the years ended October 31, 2013 and October 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Accountants

January 23, 2014
Calgary, Canada

ALBERTA REAL ESTATE FOUNDATION

Statements of Financial Position

October 31, 2013, October 31, 2012 and November 1, 2011

	October 31, 2013	October 31, 2012	November 1, 2011
Assets			
Current assets:			
Cash and cash equivalents	$ 109,133	$ 138,541	$ 159,706
Short term investments	889,870	659,607	1,002,259
Accounts receivable	–	–	596
Interest receivable broker's trust accounts	90,157	57,289	61,628
Prepaid expenses and deposits	9,997	6,145	6,748
	1,099,157	861,582	1,230,937
Long term investments (note 2)	11,478,692	9,734,943	8,891,212
Investment, Social Enterprise Fund (note 3)	–	500,000	500,000
Property and equipment (note 4)	3,501	1,501	548
	$ 12,581,350	$ 11,098,026	$ 10,622,697
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities (note 5)	$ 35,326	$ 77,505	$ 23,618
Net assets			
Distributable income – committed (note 6)	595,526	637,023	819,149
Distributable income – uncommitted	11,950,498	10,383,498	9,779,930
	12,546,024	11,020,521	10,599,079
Commitments (note 9)			
	$ 12,581,350	$ 11,098,026	$ 10,622,697

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

ALBERTA REAL ESTATE FOUNDATION

Statements of Operations

Years ended October 31, 2013 and 2012

	2013	2012
Revenues:		
Interest earned on brokers' pooled trust accounts	$ 876,453	$ 719,258
Less: Associated bank charges	(115,130)	(97,091)
	761,323	622,167
Investment income (note 7)	236,015	826,067
Less: Associated investment management fees	(37,907)	(39,470)
	198,108	786,597
	959,431	1,408,764
Expenses:		
Salaries and benefits	156,893	173,616
Office	48,453	41,408
Rent	31,380	30,891
Travel	36,306	26,687
Communications	15,645	22,596
Professional fees	16,655	6,018
Depreciation	2,333	943
	307,665	302,159
Excess of revenues over expenses before grant allocations and changes in unrealized gain on investments	651,766	1,106,605
Deduct:		
Grants expended (note 6)	(650,473)	(715,696)
Excess of revenues over expenses before change in unrealized gain on investments	1,293	390,909
Change in unrealized gain on investments	1,524,210	30,533
Excess of revenues over expenses	$ 1,525,503	$ 421,442

See accompanying notes to financial statements.

ALBERTA REAL ESTATE FOUNDATION

Statement of Changes in Net Assets

Years ended October 31, 2013 and 2012

	Distributable Income - committed	Distributable Income - uncommitted	Total
Net assets, November 1, 2011	$ 819,149	$ 9,779,930	$10,599,079
Excess of revenues over expenses	(715,696)	1,137,138	421,442
Transfer to committed (note 6)	566,225	(566,225)	–
Prior year grants returned (note 6)	(32,654)	32,654	–
Net assets, October 31, 2012	637,024	10,383,497	11,020,521
Excess of revenues over expenses	(650,473)	2,175,976	1,525,503
Transfer to committed (note 6)	622,300	(622,300)	–
Prior year grants returned (note 6)	(13,325)	13,325	–
Net assets, October 31, 2013	$ 595,526	$11,950,498	$12,546,024

See accompanying notes to financial statements.

ALBERTA REAL ESTATE FOUNDATION

Statement of Cash Flows

Years ended October 31, 2013 and 2012

	2013	2012
Cash provided by (used in):		
Operations:		
Excess of revenues over expenses	$ 1,525,503	$ 421,442
Add item not affecting cash:		
Change in unrealized gain on investment	(1,524,210)	(30,533)
Depreciation	2,333	943
	3,626	391,852
Changes in non-cash working capital:		
Accounts receivable	–	596
Interest receivable broker's trust accounts	(32,868)	4,339
Prepaid expenses and deposits	(3,852)	603
Accounts payable and accrued liabilities	(42,179)	53,887
	(75,273)	451,277
Investments:		
Purchase of short term investments	(505,263)	(7,348)
Proceeds from sale of short term investments	275,000	350,000
Proceeds from sale of investment, Social Enterprise Fund	500,000	–
Purchase of long term investments	(219,539)	(407,218)
Proceeds from sale of long term investments	–	(405,980)
Purchase of property and equipment	(4,333)	(1,896)
	45,865	(472,442)
Decrease in cash and cash equivalents	(29,408)	(21,165)
Cash and cash equivalents, beginning of year	138,541	159,706
Cash and cash equivalents, end of year	$ 109,133	$ 138,541

See accompanying notes to financial statements.

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.

On November 1, 2012, the Foundation adopted Canadian accounting standards for not-for-profit organizations in Part III of the CPA Handbook. These are the first financial statements prepared in accordance with not-for-profit standards.

In accordance with the transitional provisions in not-for-profit standards, the Foundation has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is November 1, 2011 and all comparative information provided has been presented by applying not-for-profit standards.

There were no transitional adjustments to net assets as at November 1, 2011 or excess of revenues over expenses for the year ended October 31, 2012 as a result of the transition to not-for-profit standards.

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.

1. Significant accounting policies (continued):

(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 money market funds. Investments are presented at fair value, plus accrued interest.

(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%
GIFTS Software	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, with the exception of investments as further described in note 1(c).

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.

1. Significant accounting policies (continued):

(e) Financial instruments (continued):

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.

(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 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 $11,478,692 (2012 - $9,734,943; 2011 – $8,891,212) and a cost of $8,526,855 (2012 - $8,307,316; 2011 - $7,494,118).

3. Investment, Social Enterprise Fund:

The Foundation had placed a $500,000 investment with the Edmonton Social Enterprise Fund (the “SEF”) for a three year period ending June 30, 2013. The Foundation had the option to renew the investment at their discretion, with the term to be determined at time of renewal. The Foundation chose not to renew at that time, therefore the full amount of the SEF investment was returned to the Foundation on September 30, 2013. This amount was reinvested in short-term investments. During 2013, the SEF paid $7,991 in interest (2012 - $5,000).

4. Property and equipment:

October 31, 2013	Cost	Accumulated depreciation	Net book value
Computer equipment	$ 57,706	$ 56,319	$ 1,387
Furniture and fixtures	41,905	39,791	2,114
Leasehold improvements	29,957	29,957	–
GIFTS software	10,126	10,126	–
	$ 139,694	$ 136,193	$ 3,501

October 31, 2012	Cost	Accumulated depreciation	Net book value
Computer equipment	$ 55,559	$ 54,058	$ 1,501
Furniture and fixtures	39,719	39,719	–
Leasehold improvements	29,957	29,957	–
GIFTS software	10,126	10,126	–
	$ 135,361	$ 133,860	$ 1,501

November 1, 2011	Cost	Accumulated depreciation	Net book value
Computer equipment	$ 53,663	$ 53,477	$ 186
Furniture and fixtures	39,719	39,357	362
Leasehold improvements	29,957	29,957	–
GIFTS software	10,126	10,126	–
	$ 133,465	$ 132,917	$ 548

5. Accounts payable and accrued liabilities:

Included in account payables and accrued liabilities are government remittances payable of $3,560 (2012 - $30; 2011 - $nil), which include amounts payable for payroll related taxes.

6. Net assets – Distributable income, committed:

During the year, the Foundation committed net assets for grants in the amount of $622,300 (2012 - $566,225) and returned $13,325 (2012 - $32,654) 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:

	2013	2012
Land stewardship and environment	$ 190,000	$ 238,000
Education and research	277,300	213,225
Industry leadership	130,000	65,000
Housing affordability	25,000	50,000
	$ 622,300	$ 566,225

During the year the Foundation paid out grants of $650,473 (2012 - $715,696).

7. Investment income:

Investment income originates from interest earned 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:

	2013	2012
Gains realized within the fund	$ 224,802	$ 166,671
Interest and dividend income	11,213	253,416
Gain on sale of investments	–	405,980
	$ 236,015	$ 826,067

8. Unclaimed balances:

During 2013, there were three (2012 – one) unclaimed balance in excess of $10,000. Individual unclaimed balances less than $10,000 recognized as interest on brokers' pooled trust accounts in the year was $76,945 (2012 - $63,032).

9. Commitments:

On February 2, 2012, the Foundation entered into a lease for office premises for a term of three years. The base rent set by the terms of the lease is $16 per square foot per annum plus goods and services tax (“GST”) for a monthly rent of $1,334. Current operating costs are $12.22 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 lease term is for a period of three years commencing July 1, 2012 and ending June 30, 2015 and is subject to the tenant’s right to terminate the lease agreement after the first anniversary date, with six months written notice.

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

2014	37,476
2015	26,666
2016	3,500
2017	3,500
2018	3,208
	$ 74,350

10. 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.

10. 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, 2013, the Foundation had $3,662,814 (2012 - $2,809,951) 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.