Financial Statements of

ALBERTA REAL ESTATE FOUNDATION

Year ended October 31, 2012

DANIEL C. MACGREGOR / CHARTERED ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

To the Governors of the Alberta Real Estate Foundation

I have audited the accompanying financial statements of the Alberta Real Estate Foundation, which comprise the statement of financial position as at October 31, 2012 and the statements of operations, changes in net assets and cash flows for the year then ended, and 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 generally accepted accounting principles, 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.

Auditor's responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 the auditor's 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, the auditor considers 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Alberta Real Estate Foundation as at October 31, 2012 and the results of its operations and the changes in its net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Daniel C. MacGregor, CA

Calgary, Canada
February 13, 2013

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ALBERTA REAL ESTATE FOUNDATION

Statement of Financial Position

October 31, 2012, with comparative figures for 2011

	2012	2011
Assets		
Current assets:		
Cash	$ 138,541	$ 159,706
Short-term investments	659,607	1,002,259
Accounts receivable	–	596
Interest receivable brokers' trust accounts	57,289	61,628
Prepaid expenses and deposits	6,145	6,748
	861,582	1,230,937
Long-term investments (note 2) (Cost – 2012 - $8,307,316; 2011 - $7,494,118)	9,734,943	8,891,212
Loan, Social Enterprise Fund (note 6)	500,000	500,000
Capital assets (note 3)	1,501	548
	$ 11,098,026	$ 10,622,697
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 77,505	$ 23,618
	77,505	23,618
Net Assets		
Distributable income – committed (note 5)	637,023	819,149
Distributable income – uncommitted	8,955,871	8,382,836
Investment appreciation, not realized	1,427,627	1,397,094
	11,020,521	10,599,079
	$ 11,098,026	$ 10,622,697

Commitments (note 7)
Contingency (note 8)

See accompanying notes to the financial statements.

On behalf of the Board:

______________ Governor

______________ Governor

ALBERTA REAL ESTATE FOUNDATION

Statement of Operations
Year ended October 31, 2012, with comparative figures for 2011

	2012	2011
Revenue:		
Interest earned on brokers' pooled trust accounts	$ 719,258	$ 613,842
Less associated bank charges	(97,091)	(92,156)
	622,167	521,686
Investment income	826,067	270,750
Less associated investment management fees	(39,470)	(30,140)
Investment appreciation/(depreciation), not realized (note 2)	30,533	136,577
	1,439,297	898,873
Operating expenditures		
Amortization	943	13,258
Communications	22,596	20,381
Office	41,408	42,677
Professional fees	6,018	12,795
Rent	30,891	31,759
Salaries and benefits	173,616	132,259
Travel	26,687	30,567
	302,159	283,696
Excess of revenues over expenditures	$ 1,137,138	$ 615,177

See accompanying notes to the financial statements.

ALBERTA REAL ESTATE FOUNDATION

Statement of Changes in Net Assets

Year ended October 31, 2012, with comparative figures for 2011

	Unrealized Fair Market Appreciation	Distributable Income - Committed (note 5)	Distributable Income - Uncommitted	2012 Total	2011 Total
Balance, beginning of year	$1,397,094	$ 819,149	$ 8,382,836	$10,599,079	$10,822,361
Excess (deficiency) of revenue over expenses	–	–	1,137,138	1,137,138	615,177
Fair market appreciation	30,533	–	(30,533)	–	–
Contingency returned			–	–	24,358
Transfer to committed	–	566,225	(566,225)	–	–
Grants expended	–	(715,696)	–	(715,696)	(862,817)
Prior year grants returned	–	(32,654)	32,654	–	–
Balance, end of year	$1,427,627	$ 637,024	$ 8,955,870	$11,020,521	$10,599,079

See accompanying notes to the financial statements.

ALBERTA REAL ESTATE FOUNDATION

Statement of Cash Flows

Year ended October 31, 2012, with comparative figures for 2011

	2012	2011
Cash provided by (used in):		
Operations:		
Excess of revenues over expenditures	$ 1,137,138	$ 615,167
Items not involving cash:		
Appreciation of investments, not realized (note 2)	(30,533)	(136,577)
Return of contingency to surplus	–	24,358
Depreciation	943	13,268
Cash flow from operations	1,107,548	516,216
Changes in non-cash operating working capital		
Decrease/(increase) in accounts receivable	596	(597)
Decrease/(increase) in interest receivable	4,339	(15,933)
Decrease/(increase) in prepaid expenses	603	(481)
Increase/(decrease) in accounts payable and accruals	53,887	(27,976)
	59,425	(44,987)
Cash received from/(used in) investing activities		
Purchase of short-term investments	(7,348)	(1,002,259)
Proceeds from sale of short-term investments	350,000	–
Purchase of long-term investments	(407,218)	(257,173)
Purchase of/Proceeds from capital assets	(1,896)	988
	(66,462)	(1,258,444)
Gains on dispositions of investments	(405,980)	–
Grants expended during the year	(715,696)	(862,816)
	(1,121,676)	(862,816)
Increase/(decrease) in cash and cash equivalents	(21,165)	(1,650,031)
Cash and cash equivalents, beginning of year	159,706	1,809,737
Cash and cash equivalents, end of year	$ 138,541	$ 159,706

See accompanying notes to consolidated financial statements.

1. Purpose of the Foundation:

The Alberta Real Estate Foundation ("the Foundation") was created on October 19, 1991 under what is now known as 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 Organization 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.

2. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian Accounting Standards for not-for-profit organizations Part V of the CICA Handbook.

(a) Cash and cash equivalents:
Cash and cash equivalents are classified as held-for-trading and include cash balances with banks and highly liquid temporary money market instruments, cashable without penalty after 30 days.

(b) Revenue recognition:
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. During the 2012 and 2011 fiscal years, the Foundation did not receive any externally restricted revenues.
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. The Foundation's recognition of interest earned on real estate and mortgage brokers' pooled trust accounts is subject to uncertainties as the Foundation cannot verify the completeness of the amounts receivable from the financial institutions.

(c) Investments:
Section 3855 of the CICA Handbook, titled "Financial Instruments – Recognition and Measurement," became effective with fiscal years beginning after October 1, 2006. This new section states that fair value is the most relevant measure for financial instruments. A financial instrument is a contract that creates a financial asset for one party and a financial liability or equity instrument for the other party. The Alberta Real Estate Foundation financial instruments include its investments in equities and guaranteed investment certificates and term-deposits, and loans.
Under the provisions of Section 3855, short-term investments and loans are defined as "Held-to-maturity investments." The Foundation has both the intention and the ability to hold these investments until maturity. These investments are presented at the lower of cost and market value, plus accrued interest.

Long-term investments are defined as being held for trading. Under Section 3855, financial instruments held for trading are measured at fair value with any changes in fair value from one reporting period to another presented separately in the statement of operations.

The Foundation's investments and corresponding fair market gains and losses have been presented on a retro-active basis to provide for financial statements that allow for comparison.

(d) Capital assets:

Capital assets are stated at cost less accumulated amortization. Amortization is recorded using rates and methods designed to amortize the cost of the capital assets over their estimated useful lives, as follows:

	Depreciation Method
Computing equipment	50% straight-line
Office furnishings	20% straight-line
GIFTS Software	20% straight-line
Leasehold improvements	20% straight-line

(e) Financial instruments:

The Foundation's financial instruments consist of cash, short-term and long-term investments, accounts receivable, interest receivable on brokers' trust accounts, accounts payable and accrued liabilities and due to Alberta Real Estate Association. Under the terms of CICA Handbook Section 3855, the carrying amounts of these instruments are measured at fair value with unrealized gains and losses recognized in net income and separately on the statement of net assets.

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 is exposed to credit risk from borrowers. The maximum credit exposure of the Foundation is represented by the fair value of accounts receivable and loans receivable.

b) Fair value: The Foundation's carrying value of cash, short-term investments, accounts receivable and accounts payable and accrued liabilities approximates its fair value due to the immediate or short-term maturity of these instruments. The fair value of the marketable securities corresponds to their quoted market values.

c) 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.

d) Currency risk: 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. The Foundation does not use derivative instruments to reduce its exposure to foreign currency risk. The functional currency of the foundation is the Canadian dollar. The Foundation infrequently transacts in US dollars and European

Community Euros due to certain long-term investments dominated by US dollars and EC Euros. As at October 31, 2012, the Foundation had $2,809,951 (2011, $827,012) of investments exposed to foreign currency risk, at market value at October 31, 2012.

e) 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 (other than those arising from currency risk or interest rate risk).

f) 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.

(e) 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. In 2011, an unclaimed balance in the amount of $36,858 was settled with $12,500 re-paid to a financial institution and the balance returned to the association's Uncommitted Distributions. During 2012, one unclaimed balance in excess of $10,000 was identified as a Contingency Reserve, (2011, $10,000).

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 (2012 - $63,032; 2011 - $75,206).

(f) Measurement uncertainty:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures recorded during the reporting period. Actual results could differ from those estimates and these differences could have a significant impact on the financial statements.

(g) Future accounting policies:

For fiscal years beginning on or after January 1, 2012, the Foundation will be required to follow either accounting standards for not-for-profit organizations under Part III of the CICA Handbook or International Financial Reporting Standards under Part I of the CICA Handbook. Given the limited nature of the assets and liabilities, revenues and expenses of the Foundation, significant changes in financial statement presentation are not anticipated.

3. Capital assets:

		Cost		Accumulated depreciation		2012 Net book value		2011 Net book value
GIFTS Software	$	10,126	$	10,126	$	–	$	–
Computing equipment		55,559		54,058		1,501		186
Leasehold improvements		29,957		29,957		–		–
Furniture and fixtures		39,719		39,719		–		362
	$	135,361	$	133,860	$	1,501	$	548

The GIFTS software is a specialized software program used to record and monitor the status of grants and grant commitments. The software has been completely amortized for financial statement purposes. There is no current commitment to replace the existing software.

4. Investment income:

Investment income originates from interest earned on 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:

		2012		2011
Interest and dividend income	$	253,416	$	255,021
Gains realized within the funds		166,671		15,729
Gains on dispositions of investments		405,980		-
		826,067		270,750
Less: Investment management fees		(39,470)		(30,140)
	$	786,597	$	240,610

5. Net assets – Distributable, committed:

During the year, the Foundation committed net assets for grants in the amount of $566,225 (2011 - $593,000) and returned $32,654 (2011 - $44,382) from net assets committed in prior periods back to uncommitted distributable net assets. The committed distributable net assets have been internally restricted for funding grants approved by the Board of Governors as follows:

		2012		2011
Education and research	$	213,225	$	83,100
Housing affordability		50,000		–
Land stewardship and environment		238,000		136,400
Industry leadership		65,000		373,500
	$	566,225	$	593,000

As of October 31, 2012, the cumulative total of grants approved by the Board of Governors, but not expended to date, is $637,024 (2011 - $819,149).

6. Investment – Social Enterprise Fund:

The Foundation placed a $500,000 investment with the Edmonton Social Enterprise Fund. The investment is for a three year period ending June 30, 2013. The Foundation has the option to renew the investment at the discretion of the Foundation; terms will be determined at the time of renewal. The investment is unsecured and is available for investment in the full range of loan vehicles that are facilitated through the Fund. Interest is payable to the Foundation on an annual basis at a rate reflective of one-half the interest earned by the Social Enterprise Fund for the year, originally estimated to be 5 to 6%, net 2.5 to 3% to the Foundation. Currently, the fair market value of the loan reflects the cost. During 2012, the SEF paid $5,000 in interest, (2011, $6,250).

7. Commitments:

On February 2, 2012, the Foundation entered into a lease for office premises for a term of five (3) years. The base rent set by the terms of the lease is $16 per square foot per annum plus goods and services tax 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 (1) 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 (30) days prior notice. Since this part 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 (1^{st}) anniversary date, with six (6) months written notice.

		2012
2012	$	4,706
2013		28,238
2014		28,238
2015		14,120
	$	75,302

8. Contingency:

The Foundation has an investment with the Edmonton Social Enterprise Fund. The term of the investment is for three years, the end of which is June 30, 2013. The investment may be renewed at that time at the option of the Board of Directors of the Foundation. At this time, the Foundation has neither decided to renew the investment or extend the term of the investment. The Foundation management is concerned that circumstances may not be adequate to provide for full return the investment as at June 30, 2013 should the Foundation decide not to renew the investment. The Foundation's management has not been able to estimate to the extent that the investment is recoverable, if at all. The investment is carried on the financial statements at book value equal to $500,000.