Financial Statement of

ALBERTA REAL ESTATE FOUNDATION

And Independent Auditors’ Report thereon

Year ended October 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Governors of the Alberta Real Estate Foundation

Opinion

We have audited the financial statements of the Alberta Real Estate Foundation (the "Entity"), which comprise:

- the statement of financial position as at October 31, 2019
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Entity as at October 31, 2019, 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.

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 "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity 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.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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 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.

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' 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 the 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
January 27, 2020

ALBERTA REAL ESTATE FOUNDATION

Statement of Financial Position

October 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 404,200	$ 252,147
Interest receivable on broker's trust accounts	160,947	135,481
Prepaid expenses and deposits	9,819	13,277
	574,966	400,905
Long term investments (note 2)	16,541,115	14,871,802
Property and equipment (note 3)	19,079	20,890
	17,135,160	$ 15,293,597
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	$ 93,448	$ 70,201
Net assets		
Distributable income – committed	1,184,751	861,501
Distributable income – uncommitted	15,856,961	14,361,895
	17,041,712	15,223,396
Commitments (notes 2 and 8)		
	$ 17,135,160	$ 15,293,597

See accompanying notes to financial statements.

On behalf of the Board:

_______________ Director

_______________ Director

ALBERTA REAL ESTATE FOUNDATION

Statement of Operations

Year ended October 31, 2019, with comparative information for 2018

	2019	2018
Revenues:		
Interest earned on brokers' pooled trust accounts	$ 1,682,900	$ 1,209,794
Less: Associated bank charges	(47,922)	(48,028)
	1,634,978	1,161,766
Investment income (note 6)	1,111,481	996,775
Less: Associated investment management fees	(48,302)	(45,059)
	1,063,179	951,716
	2,698,157	2,113,482
Expenses:		
Salaries and benefits	261,964	251,739
Communications	96,139	77,442
Office	59,915	57,607
Travel	53,957	45,824
Rent	30,909	29,711
Professional fees	19,203	11,981
Depreciation	9,703	7,700
	531,790	482,004
Excess of revenues over expenses before grant allocations and changes in unrealized gain on investments	2,166,367	1,631,478
Deduct:		
Grants expended (note 5)	(1,186,750)	(1,230,850)
Excess of revenues over expenses before change in unrealized gain on investments	979,617	400,628
Change in unrealized gain on investments	838,699	(787,798)
Excess (deficiency) of revenues over expenses	$ 1,818,316	$ (387,170)

See accompanying notes to financial statements.

ALBERTA REAL ESTATE FOUNDATION

Statement of Changes in Net Assets

Year ended October 31, 2019, with comparative information for 2018

	Distributable Income - committed	Distributable Income - uncommitted	Total
Net assets, October 31, 2017	673,351	14,937,215	15,610,566
Excess (deficiency) of revenues over expenses	(1,230,850)	843,680	(387,170)
Transfer to committed (note 5)	1,426,000	(1,426,000)	–
Prior year grants returned (note 5)	(7,000)	7,000	–
Net assets, October 31, 2018	861,501	14,361,895	15,223,396
Excess (deficiency) of revenues over expenses	(1,186,750)	3,005,066	1,818,316
Transfer to committed (note 5)	1,510,000	(1,510,000)	–
Net assets, October 31, 2019	$ 1,184,751	$15,856,961	$ 17,041,712

See accompanying notes to financial statements.

ALBERTA REAL ESTATE FOUNDATION

Statement of Cash Flows

Year ended October 31, 2019, with comparative information for 2018

	2019	2018
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenues over expenses	$ 1,818,316	$ (387,170)
Items not affecting cash:		
Realized gain on sale of investments (note 6)	(17,153)	(4,439)
Change in unrealized gain on investment	(838,699)	787,798
Depreciation	9,703	7,700
	972,167	403,889
Changes in non-cash working capital:		
Interest receivable on brokers' pooled trust accounts	(25,466)	(40,223)
Prepaid expenses and deposits	3,458	2,784
Accounts payable and accrued liabilities	23,247	(28,344)
	973,406	338,106
Investing:		
Proceeds from sale of short term investments	–	102,985
Purchase of long term investments	(1,213,461)	(995,506)
Proceeds from sale of long term investments	400,000	500,000
Purchase of property, plant and equipment	(7,892)	(13,895)
	(821,353)	(406,416)
Increase (decrease) in cash and cash equivalents	152,053	(68,310)
Cash and cash equivalents, beginning of year	252,147	320,457
Cash and cash equivalents, end of year	$ 404,200	$ 252,147

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.

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.

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.

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. Significant estimates includes expected useful life of property and equipment. Actual results could differ from those estimates.

2. Long term investments:

Long term investments include the Foundation's investments in marketable securities with a fair value of $16,400,820 (2018 – $14,857,982) and a cost of $15,464,879 (2018 – $14,760,740).

On March 31, 2017, the Foundation committed to invest in the NMF Rental Housing Fund with the aggregate commitment totaling $250,000. The NMF Rental Housing Fund issues capital calls to the Foundation as funding is required. As at October 31, 2019, the Foundation has invested $17,795 (2018 – $13,820), which has reduced the remaining commitment to $232,205 (2018 – $236,180). The investment of $17,795 (2018 – $13,820) is included within long term investments on the balance sheet.

On October 28, 2019, the Foundation committed to invest in the Area One Farms Limited Partnership Fund IV with the aggregate commitment totaling $1,000,000. The Area One Farms Limited Partnership Fund IV issues capital calls to the Foundation as funding is required. As at October 31, 2019, the Foundation has invested $122,500, which has reduced the remaining commitment to $877,500. The investment of $122,500 is included within long term investments on the balance sheet.

3. Property and equipment:

	Cost	Accumulated depreciation	2019 Net book value	2018 Net book value
Computer equipment	$ 14,979	$ 12,080	$ 2,899	$ 2,888
Furniture and fixtures	26,790	11,646	15,144	16,631
Leasehold improvements	1,679	643	1,036	1,371
	$ 43,448	$ 24,369	$ 19,079	$ 20,890

4. Accounts payable and accrued liabilities:

Included in account payables and accrued liabilities are government remittances payable of $nil (2018 – $ nil).

5. Net assets – Distributable income, committed:

During the year, the Foundation committed net assets for grants in the amount of $1,510,000 (2018 – $1,426,000) and returned $nil (2018 – $7,000) 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:

	2019	2018
Land stewardship and environment	$ 265,000	$ 285,000
Education and research	781,000	890,000
Housing	109,000	123,000
Community innovation	355,000	128,000
	$ 1,510,000	$ 1,426,000

During the year the Foundation paid out grants of $1,186,750 (2018 – $1,230,850).

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:

	2019	2018
Dividend income	$ 1,086,985	$ 984,186
Interest income	7,343	8,150
Gain on sale of investments	17,153	4,439
	$ 1,111,481	$ 996,775

7. Unclaimed balances:

During 2019, there were two (2018 – one) deposits totaling $20,500 (2018 – $13,018), of unclaimed balance in excess of $10,000 included within accounts payable and accrued liabilities. Individual unclaimed balances of $10,000 or less totaled $9,527 (2018 – $22,829) for the year and were included in interest earned on brokers' pooled trust accounts.

8. Commitments:

On August 2, 2017, the Foundation signed a lease renewal for office premises for a term of five years commencing on September 1, 2017 and ending on August 31, 2022. The base rent set by the terms of the lease is $13 per square foot per annum plus GST for the first two years of the term, for a monthly rent of $1,032 plus GST. This amount is increased to $14 per square foot per annum plus GST for the following three years of the term, for a monthly rent of $1,112 plus GST.

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.

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

2020	$ 36,469
2021	32,362
2022	24,343
2023	–
2024	–
	$ 93,174

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.

(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, 2019, the Foundation had $7,691,984 (2018 – $6,968,394) 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.

There are no changes to these risk exposures from the prior year.