



Real Estate Council of British Columbia

2006 Annual Report

MAINTAINING CONSUMER CONFIDENCE IN THE REAL ESTATE MARKET.



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MISSION

The Real Estate Council of British Columbia protects the public interest by assuring the competency of real estate licensees in B.C. and ensuring their compliance with the *Real Estate Services Act*. The Council is accountable to and advises government on industry issues and encourages public confidence by impartially setting and enforcing standards of conduct, education, competency and licensing for real estate licensees in the province.

VISION

The Real Estate Council of British Columbia will create a self-regulated industry that is recognized as a leader in industry integrity, innovation and viability in North America.

COUNCIL MANDATE

The Real Estate Council of British Columbia is a regulatory agency established by the provincial government. Its mandate is to protect the public interest by enforcing the licensing and licensee conduct requirements of the *Real Estate Services Act*. The Council is responsible for licensing real estate representatives, brokers and brokerages engaged in real estate sales, rental and strata property management. The Council also enforces entry qualifications, investigates complaints against licensees and imposes disciplinary sanctions under the Act.

Within its terms of reference, the Council is responsible for ensuring that the interests of consumers who use the services of real estate licensees are adequately protected against wrongful actions by the licensees. A wrongful action may be deliberate or may be the consequence of inadequate exercise of reasonable judgment by a licensee in carrying out the normal duties and responsibilities as a licensee while acting for the parties involved in the transaction.

The Council is also responsible for determining what is appropriate education in real estate matters for individuals seeking to be licensed as real estate practitioners and arranging for licensing courses and examinations as part of the qualification requirement for licensing. Under the authority of the Council, licensing courses are conducted by the University of British Columbia's Sauder School of Business, Real Estate Division, Vancouver.

The first Council was appointed in 1958. The effectiveness of the Council and recognition of its mature discharging of its responsibilities is evidenced by the fact that for over 48 years, successive governments have not considered altering the Council's considerable powers but have, instead, broadened its role and delegated additional responsibilities to the Council.

On January 1, 2005, the *Real Estate Services Act* replaced the former *Real Estate Act*. The *Real Estate Services Act* significantly expands the regulatory authority and disciplinary powers of the Real Estate Council. On January 1, 2006, the licensing requirement for strata managers took effect in the province and requires anyone who provides strata management services to a strata corporation to be licensed under the *Real Estate Services Act*.

MESSAGE FROM THE CHAIR

THIS PAST YEAR HAS SEEN
SIGNIFICANT CHANGE FOR THE
REAL ESTATE INDUSTRY IN BRITISH COLUMBIA.



The Honourable Carole Taylor
Minister of Finance
Parliament Buildings
Victoria, BC

Dear Minister

On behalf of the Real Estate Council of British Columbia, I am pleased to enclose a copy of our second Annual Report for the year ending June 30, 2006.

Like last year, this has been a year of significant change for the real estate industry in British Columbia. On January 1, 2006, the Council began to license the previously unregulated strata management sector in the province. This was a major undertaking and marks the final phase in the implementation of the *Real Estate Services Act*.

The Council continues to protect the public interest by ensuring that real estate licensees are provided with ongoing practice standards updates by way of the Report from Council newsletter and the Licensee Practice Manual, which was extensively revised in 2006.

The Council thanks the staff at the Financial and Corporate Sector Policy Branch for their continued assistance with the implementation of the *Real Estate Services Act*. Their ongoing contributions proved invaluable with the implementation of the *Real Estate Services Act* and the licensing of strata managers.

A handwritten signature in blue ink that reads "D. Shewan". The signature is fluid and cursive.

Dougall Shewan
CHAIR

EXECUTIVE OFFICER'S REPORT

MAINTAINING CONSUMER
CONFIDENCE IN THE REAL ESTATE MARKET.

This past year will no doubt be remembered as another milestone in the history of real estate regulation in British Columbia with the requirement that strata managers be licensed under the *Real Estate Services Act* (RESA) effective January 1, 2006. The implementation of this requirement went extremely well as a result of the extensive work done by Council members and staff, the valuable assistance of the Financial and Corporate Sector Policy Branch staff in Victoria, and the valued input of the Council's Strata Management Advisory Group comprised of Garth Cambrey, Rick Dickson, Stephen Ellis, Gerry Fanaken, Tony Gioventu, David Moore, Adrienne Murray, Lita Powell, and Jane Thorne.

In the weeks preceding January 1, 2006, the Council office was inundated with inquiries and application forms with respect to this new requirement, which was the Council's top operational priority. Over 800 individuals and 250 brokerages were either licensed for the very first time or had their existing licences amended to provide strata management services. In order to assist with the regulation of this new licensing category, the Council created a strata/rental information officer position to deal with the increased call volume and compliance related issues, as well as hired an additional auditor and a licensing technician.

During the year, all licensees in the province received a copy of the new 6th Edition Licensee Practice Manual (LPM). The new LPM is broken down into four main categories: 1) General: information that applies to all real estate licensees, regardless of their area of specialty;

2) Trading Services: information that is specific to residential and commercial real estate sales; 3) Rental Property Management: information that is specific to this area of practice; and 4) Strata Management: provides practice standards for this new licensing category. In addition to these four main categories, the LPM also contains the *Real Estate Services Act*, Real Estate Services Regulation, the Council Rules and Council Bylaws, as well as the Real Estate Development Marketing Act. The Council believes that the new organization of the LPM will make it easier for licensees to find critical information related to their area of specialty and to provide consumers with the highest level of service.

Finally, I would like to thank Chair Dougal Shewan, Vice-Chair Philip Jones, and the other members of Council for both their hard work and their support over the past year. With the preparation for the introduction of RESA, its introduction, and the licensing of strata managers, the last three years have been incredibly busy for both Council members and staff. Looking back, I am extremely proud of what the Council and staff have accomplished and thank them for all of their efforts in ensuring the smooth transition in the licensing strata managers while, at the same time, continuing to regulate BC's real estate industry in an efficient and effective manner.

A handwritten signature in blue ink that reads "R. O. Fawcett". The signature is stylized and cursive.

Robert O. Fawcett

EXECUTIVE OFFICER

ORGANIZATION OF COUNCIL

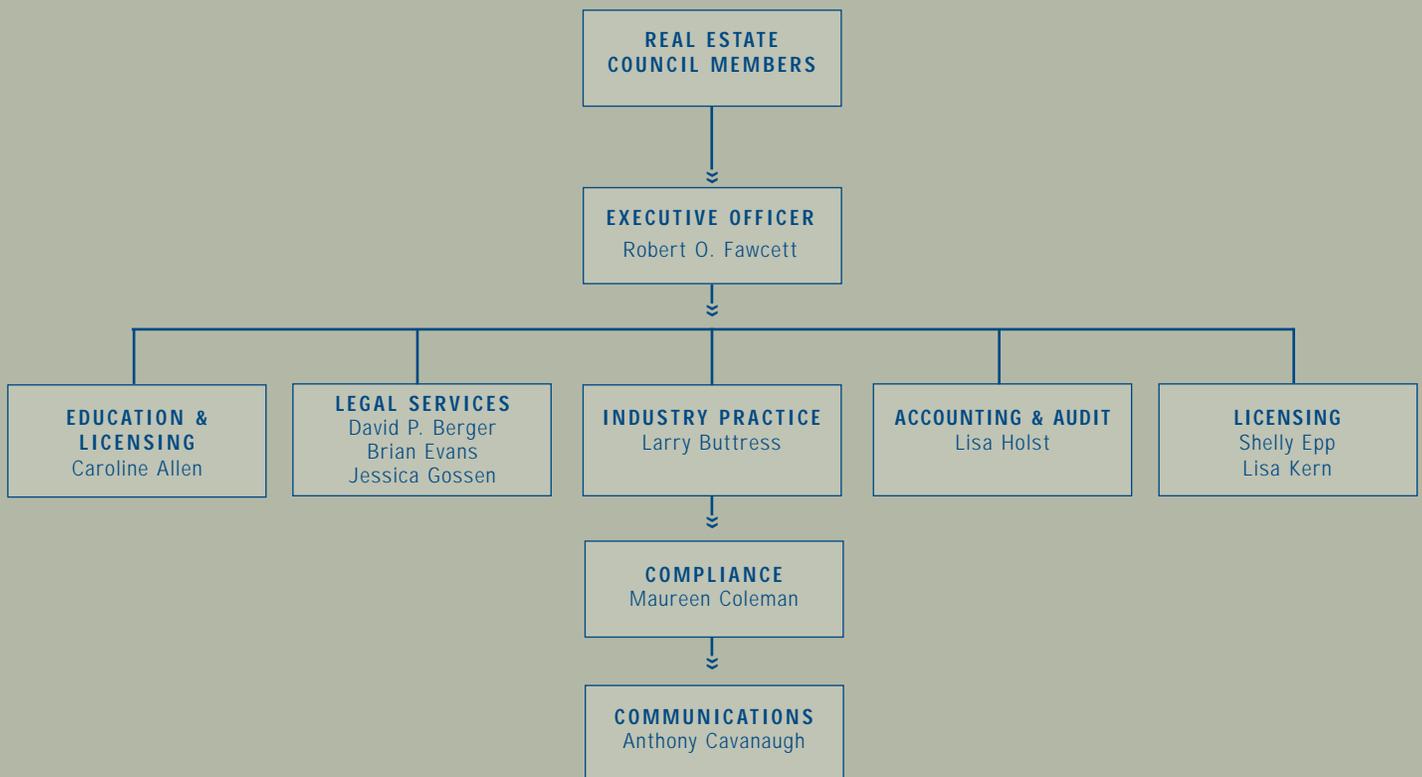
THE REAL ESTATE COUNCIL IS COMPRISED OF APPOINTED AND ELECTED REPRESENTATIVES.

COUNCIL MEMBERS

There are currently 21 members of the Real Estate Council. Three are public members appointed by the provincial government. One member is appointed by the Council as a rental property/strata management representative. The remaining 17 members are chosen through an election process open to all real estate licensees in the province. Those elected have traditionally been individuals of broad experience who enjoy the professional respect of their fellow licensees. Members are elected for two-year terms, with half of the Council elected each year, thus ensuring continuity. A Chair and Vice-Chair are elected each year by the members of the Council.

STAFF

Supporting the work of the members of the Council is an experienced professional staff. Based out of its offices in Vancouver, the Council employs 31 full and part-time staff members. Apart from administrative, licensing and education matters, their function includes investigations required in connection with disciplinary or complaint matters, as well as frequent checks on such aspects of real estate practice as the proper maintenance of trust accounts.



MEMBERS OF COUNCIL 2005/2006

Back row: Keith Bevington, Allan Corbett, Jim McNeal, Wayne Strandlund, Michael Ziegler, Marshall Cowe, Danny Leung, Robert Clarke, John Finlayson, Ramesh Rikhi, William Lim, William Brown, Robert O. Fawcett (Executive Officer).

Front Row: Abdul Ghouri, Rosemary Barnes, Arlene Butler, Philip Jones (Vice-Chair), Dougal Shewan (Chair), Cynthia Chen, Ann Petrone, Judi Whyte.

Missing from photo: Satnam Sidhu



Lieutenant Governor-in-Council Appointments

NAME	TERM EXPIRES	LOCATION
Danny Leung	June 30, 2007	Richmond
William Lim	June 30, 2008	Vancouver
Ramesh Rikhi	June 30, 2008	Summerland

Elected Members

NAME	TERM EXPIRES	LOCATION
Abdul Ghouri	June 30, 2007	County of Vancouver Representative Member
Arlene Butler	June 30, 2006	County of Vancouver Broker Member
Cynthia Chen	June 30, 2007	County of Vancouver Broker Member
Allan Corbett	June 30, 2008	County of Vancouver Broker Member
Satnam Sidhu	June 30, 2008	County of Vancouver Broker Member
Judi Whyte	June 30, 2007	County of Vancouver Broker Member
Wayne Strandlund	June 30, 2007	County of Victoria Broker Member
Michael Ziegler	June 30, 2006	County of Victoria Broker Member
Robert Clarke	June 30, 2006	Combined Counties of Victoria and Nanaimo Representative Member
John Finlayson	June 30, 2008	County of Nanaimo Broker Member
Ann Petrone	June 30, 2008	Combined Counties of Westminister, Kootenay, Yale, Cariboo and Prince Rupert Representative Member
Rosemary Barnes	June 30, 2008	County of Westminister Broker Member
Marshall Cowe	June 30, 2007	County of Westminister Broker Member
Dougal Shewan	June 30, 2006	County of Westminister Broker Member
Philip Jones	June 30, 2007	County of Kootenay Broker Member
Keith Bevington	June 30, 2007	County of Yale Broker Member
Jim McNeal	June 30, 2007	Combined Counties of Cariboo and Prince Rupert Broker Member
William Brown	June 30, 2007	Strata/Rental Management Member

CORE BUSINESS AREAS

THE REAL ESTATE COUNCIL IS RESPONSIBLE FOR PROTECTING THE INTERESTS OF CONSUMERS WHO USE THE SERVICES OF REAL ESTATE LICENSEES.

EDUCATION

Licensing

Under the authority of the *Real Estate Services Act*, the Council is responsible for determining what is appropriate education for individuals seeking to be licensed as real estate practitioners, including real estate representatives, associate brokers and managing brokers engaged in real estate sales, rental and strata property management. The administration of licensing courses has been delegated to the University of British Columbia's Sauder School of Business, Real Estate Division, Vancouver.

In addition to establishing licensing guidelines and reviewing licensing courses, on a daily basis the Council considers a multitude of education and experience exemption requests from both licensees and members of the public.

Further Education

The Council regularly provides licensees with industry updates and related information in order that licensees may effectively carry out their duties. The Council accomplishes this through its Licensee Practice Manual, Office Practice Manual, Newsletters (Report from Council) and Practice Points Bulletins. This information is currently provided to licensees both in hard copy and on the Council's licensee website where it is also archived for future reference.

The Council has taken on a substantial role in public education through the publication of various brochures, its public website, and its day-to-day handling of telephone, e-mail, and written inquiries from the public.

LICENSING

The Council is responsible for all licensing procedures associated with both individuals and brokerages under the *Real Estate Services Act*. The Council administers a number of processes in connection with the issuance of licences, including the following:

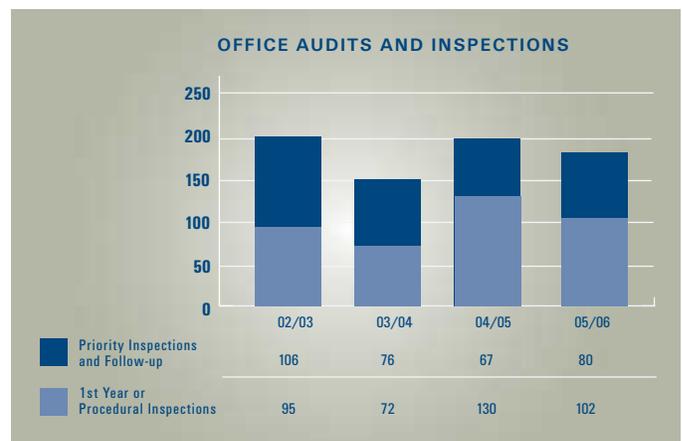
- determining suitability for all licence applicants, including
 - conducting criminal record checks;
 - conducting credit history checks;
 - ensuring that each brokerage has a managing broker in place;
 - ensuring that brokerages maintain a proper place of business.

The Council issues licences in the following categories: Trading Services, Rental Property Management Services and, effective January 1, 2006, Strata Management Services

COMPLIANCE PROCESSES

Office and Records Inspection Program

The Council has been performing office and records inspections since 1967. The mandate of the Council is to ensure that all licensed brokerages in the province have proper controls in place to protect trust monies at all times. The objective of an office and records inspection is to provide constructive feedback to the brokerage by identifying any deficiencies in the office and records as required by the *Real Estate Services Act*. The legislative authority which allows the Council to perform an office and records inspection is found in the *Real Estate Services Act*. The Act is very broad and allows auditors access to **any** documents which may relate to the brokerage's dealings as a licensee.



Office and records inspections are conducted on the following priority basis:

- a) as a result of complaints from consumers, licensees or the Superintendent of Real Estate;
- b) as a result of exceptions on Accountant's Reports;
- c) as a result of previous spot audit reports showing deficiencies;
- d) new brokerages involved in rental property management or strata management followed by those engaged in trading services; and
- e) new branch offices that handle trust funds.

DISCIPLINARY AND HEARING PROCESSES

Investigations of matters which involve possible contraventions of the *Real Estate Services Act*, Regulations or Rules, are also a responsibility of the Council.

There are several ways in which the Council's disciplinary procedures provided in the *Real Estate Services Act* may be initiated:

- a) a complaint may be submitted by a consumer, licensee or the Superintendent of Real Estate.
- b) the Council may also initiate an inquiry even where there is no complaint from a consumer. This could happen, for example, where the Council becomes aware of a court decision or news report which could indicate wrongdoing on the part of a licensee.

While the Council has the authority to issue licences, it also has the authority to:

- reprimand a licensee;
- suspend the licensee's licence for a period of time and/or until specified conditions are met;
- cancel the licensee's licence;
- impose restrictions or conditions on the licensee's licence, or vary any applicable restrictions or conditions;
- require the licensee to:
 - enroll in and complete a course of study or training;
 - pay for enforcement expenses incurred by the Council;
 - pay a disciplinary penalty in an amount of not more than \$20,000 in the case of a brokerage or former brokerage, or not more than \$10,000 in any other case.

The Council may also recover enforcement expenses in accordance with section 44 of the *Real Estate Services Act*.

ORDERS IN URGENT CIRCUMSTANCES

If it is determined that a licensee may have acted in a way that could result in a disciplinary order, that the length of time it would take to make such an order would be detrimental to the public interest, and that it is in the public interest to make an order, a discipline committee may suspend a licensee's licence, impose restrictions or conditions on the licensee's licence, or require the licensee to cease or to carry out specified activities related to the licensee's real estate business. The *Real Estate Services Act* also provides the Council with the authority to freeze property if it considers such action to be in the public interest, e.g. where there is evidence that trust funds have been misappropriated. It is important to note that the Council does not have the jurisdiction to adjudicate monetary or contract matters which come under the control of the civil courts. Anyone who seeks to deal with monetary or contract matters must pursue a civil remedy through legal proceedings.

COUNCIL MEETINGS AND DECISION PROCESSES

Council members serve on a number of standing committees and several task forces. Various issues that arise at Council meetings as well as matters brought forward by staff are discussed at the committee/task force meetings. Staff provides research assistance as well as makes recommendations where appropriate. Once a particular issue has been researched and a solution agreed upon, the matter is then brought forth to the Council as a whole. The Council will then discuss the issue and either ratify the recommendation, send it back to the committee/task force for further investigation or reject it. The Council generally meets eight times per year.

COMMITTEES

Committee Name	Authority	Responsibilities
COMMUNICATIONS COMMITTEE	The purpose of the Committee is to effect the implementation of the Council's Communication Plan in order that the Council can communicate efficiently and effectively with stakeholders.	<ul style="list-style-type: none"> to effect the implementation of the Council's Communication Plan; to effect the updating of the Council's printed materials; to effect the updating of the Council's public and REALTOR Link websites; to research and report on any miscellaneous topics referred by the Council.
COMPLAINTS COMMITTEE	The purpose of the Committee is to review complaint files referred to it by the Council staff. The Committee will decide whether the complaint file should be referred to a hearing, a letter of warning issued, or dismissed.	<ul style="list-style-type: none"> may determine the number of times it must meet during the Council year and will report the disposition of complaint files to the Council; to review all complaint files referred to it; to ensure that complaints against licensees that may involve criminal conduct are forwarded to the Office of the Superintendent; to order hearings where a licensee commits professional misconduct or conduct unbecoming a licensee pursuant to section 35 of the <i>Real Estate Services Act</i>; or may not be suitable for licensing pursuant to section 10 of the <i>Real Estate Services Act</i>. to issue letters of warning for minor or technical contraventions of the <i>Real Estate Services Act</i> in which there has been no harm to consumers; to dismiss complaints where there is no evidence of a contravention of the <i>Real Estate Services Act</i> and to provide sufficient reasons to the complainant; when requested by staff, members are to review charges on their assigned files for which hearings have been ordered; to research and report on any miscellaneous topics referred by the Council.
CONSENT ORDER REVIEW COMMITTEE	The purpose of the Committee is to review proposed Consent Orders submitted on behalf of licensees.	<ul style="list-style-type: none"> to review proposed Consent Orders and either accept, vary or reject penalty recommendations; to ensure that Consent Orders result in fair and appropriate decisions.
EDUCATION AND LICENSING COMMITTEE	The purpose of the Committee is to consider and report on education exemptions and licensing requests.	<ul style="list-style-type: none"> to consider and report on education and licensing requests referred from staff; to liaise with the Education Advisory Group to ensure that the Council is well informed with respect to pre and post licensing educational issues; to research and report on any amendments to legislation affecting education and licensing; to research and report on any miscellaneous topics referred by the Council.

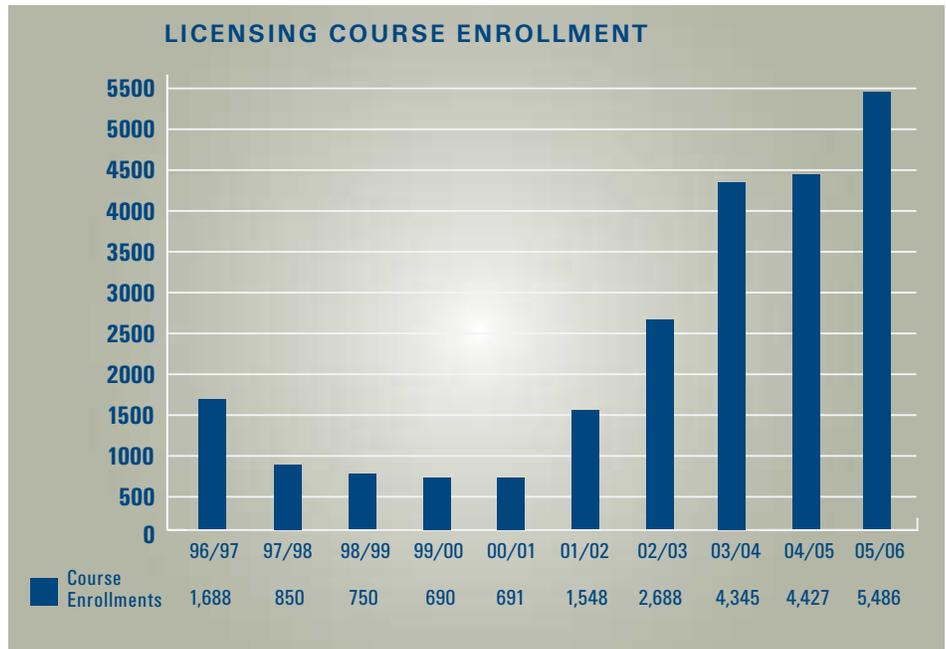
Committee Name	Authority	Responsibilities
GOVERNANCE AND MANAGEMENT COMMITTEE	The purpose of the Committee is to identify education and training for Council and Committee members that will enhance leadership development within the organization, to attract qualified candidates to run for the elected positions on the Council and to assist the Council in meeting its fiduciary responsibilities.	<ul style="list-style-type: none"> to identify and recommend education and training for Council and Committee members that enhance leadership development within the Council; to attract qualified candidates to run for elected positions on the Council; to review monthly financial statements; to recommend the appointment of Council's external auditors; to review the audited financial statements with the Executive Officer and the auditors at the conclusion of the audit; to review the auditor's Management Letter and ensure that any recommendations are dealt with in an expeditious manner; to recommend to the Council the acceptance of the auditor's report and the financial statements; to review any matters which fall outside the terms of reference/charges to other committees.
HEARING COMMITTEES	The purpose of the Committee is to hear matters referred to it by the Complaints Committee or Council staff.	<ul style="list-style-type: none"> pursuant to section 83 of the <i>Real Estate Services Act</i>, the Committee will conduct: <ul style="list-style-type: none"> disciplinary hearings under Division 2 [Disciplinary Proceedings] of Part 4; compensation hearings under Part 5 [Payments from Special Compensation Fund]; any other hearings required or authorized to be conducted; to render fair and appropriate decisions in a timely manner.
INDUSTRY REVIEW COMMITTEE	The purpose of the Committee is to research and report on miscellaneous topics and legislation affecting real estate.	<ul style="list-style-type: none"> to research and report on any amendments to legislation affecting real estate; to research and report on any miscellaneous topics referred by the Council.
PROPERTY MANAGEMENT COMMITTEE	The purpose of the Committee is to liaise, research, and report on topics involving property management and the licensing of strata managers.	<ul style="list-style-type: none"> to liaise with the Rental Property Management and Strata Management Advisory Group to ensure the Council is well informed with respect to property management issues; to make recommendations with respect to the Property Management and Strata Management Licensing Courses and the Property Management and Strata Management Supplemental Courses; to research and report on any amendments to legislation affecting rental property and strata management; to research and report on any miscellaneous topics referred by the Council.
REAL ESTATE SERVICES ACT COMMITTEE	The Purpose of the Committee is to review any legislation, including rules, bylaws, and regulations.	<ul style="list-style-type: none"> review any legislation for comment at the request of the Financial and Corporate Sector Policy Branch; when appropriate, make recommendations for consideration by Council on any legislation.
RELICENSING EDUCATION PROGRAM COMMITTEE	The purpose of the Committee is to liaise, research and report on the implementation of a Relicensing Education Program for licensees.	<ul style="list-style-type: none"> liaise with the British Columbia Real Estate Association, its member boards/associations and other stakeholders with respect to the introduction of a Relicensing Education Program; review any business plan received from the British Columbia Real Estate Association with respect to a Relicensing Education Program; report and recommend to the Council a course of action with respect to the introduction of a Relicensing Education Program.

STATISTICS

THE NUMBER OF LICENSEES CONTINUES TO INCREASE AND IS THE HIGHEST IN MORE THAN A DECADE.

EDUCATION

For the sixth year in a row, enrollments in the Trading Services and Rental Property Management Licensing Courses have increased. This, no doubt, is a result of the continued market activity throughout various parts of the province. In addition, a Strata Management Licensing course was created this year with enrollments totalling several hundred students to date.



LICENSING

The figures shown to the right indicate that there was a 10.7 per cent increase in the number of licensees over the past year. This is the fourth straight year that this has occurred and reflects less individuals leaving the industry and more new entrants as indicated in the licensing course statistics.



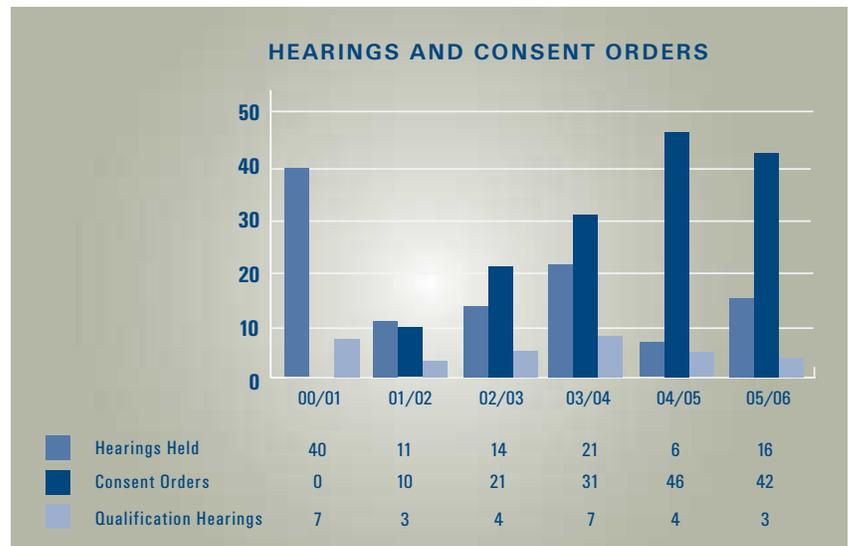
COMPLAINTS RECEIVED

As indicated in the following statistics, the number of complaints received at the Council increased to 461, a 33 per cent increase over the previous year. This increase is due largely to the continued active real estate market in the province.



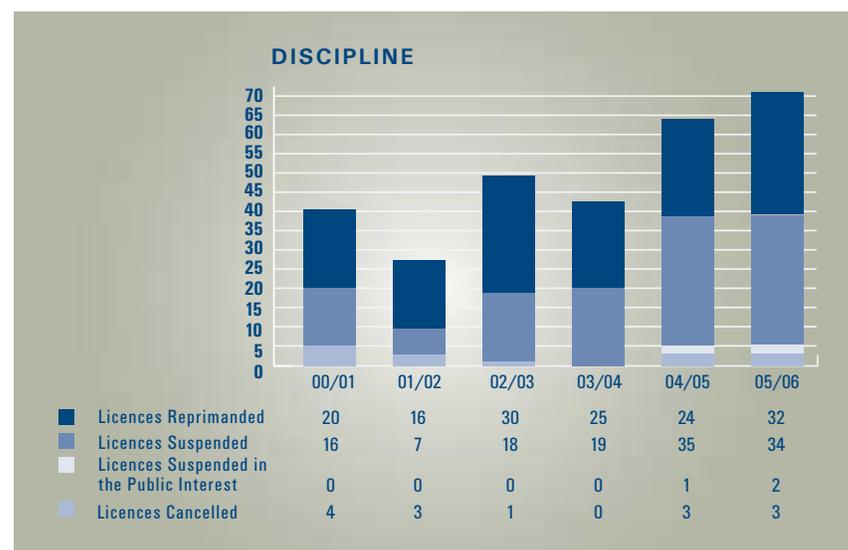
HEARINGS AND CONSENT ORDERS

The number of hearings and consent orders continues to be high in relation to previous years and is a reflection of the increased number of complaints received at the Council.



DISCIPLINE

The following figures reflect the penalties agreed to by the Consent Order Review Committee or Hearing Committees over the past six years. The overall number of disciplinary penalties continues to increase as compared with previous years. It is interesting to note that the number of licence suspensions continues to be over 30 for the second year in a row. This is a reflection of the seriousness of the contraventions of the *Real Estate Services Act* and Council Rules. As reported last year, under the *Real Estate Services Act*, the Council can now make an order for the immediate suspension of a licence if it is in the public interest to do so. Two of these orders were issued in the past year.



AUDITORS' REPORT

THE REAL ESTATE COUNCIL HAS INCLUDED
THE FOLLOWING AUDITED FINANCIAL STATEMENTS
IN ACCORDANCE WITH SECTION 89 OF RESA.

To the Members of the
Real Estate Council of British Columbia

We have audited the balance sheet of the **Real Estate Council of British Columbia** as at June 30, 2006 and the statements of revenue, expenditures and retained income and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Council as at June 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada,
September 8, 2006

ERNST & YOUNG
Chartered Accountants

FINANCIAL REVIEW

BALANCE SHEET

As at June 30

	2006 \$	2005 \$
ASSETS		
Current		
Cash and cash equivalents	1,045,046	1,266,618
Short-term investments (market value 2006 - \$nil; 2005 - \$957,217)	—	943,907
Accounts and accrued interest receivable	320,479	74,349
Prepaid expenses	50,846	48,278
	1,416,371	2,333,152
Long-term investments	1,297,015	300,000
Property and equipment <i>[note 4]</i>	407,925	406,466
	3,121,311	3,039,618
LIABILITIES AND RETAINED INCOME		
Current		
Accounts payable and accrued liabilities	53,444	183,651
Unexpended capital contribution <i>[note 5]</i>	57,870	57,870
	111,314	241,521
Commitments <i>[note 8]</i>		
Retained income		
Unrestricted retained income	2,575,747	2,584,097
Internally restricted retained income <i>[note 6]</i>	434,250	214,000
	3,009,997	2,798,097
	3,121,311	3,039,618

See accompanying notes

On behalf of the Council:


Philip Jones
2006/2007 CHAIR

Robert O. Fawcett
EXECUTIVE OFFICER

FINANCIAL REVIEW

STATEMENT OF REVENUE, EXPENDITURES
AND RETAINED EARNINGS

Year ended June 30

	2006 \$	2005 \$
REVENUE		
Licensing		
Gross licence fees collected	1,322,850	1,120,900
Less: payable to Superintendent of Real Estate	(661,425)	(560,450)
Net fees collected	661,425	560,450
Assessments	3,553,675	3,071,600
Course fees	490,400	404,225
Interest and other investment income, net of expenses	(632)	9,522
Total revenue	4,704,868	4,045,797
OPERATING EXPENDITURES		
Administrative [schedule 1]	2,435,566	2,138,632
Investigation [schedule 2]	1,090,767	878,692
Other [schedule 3]	500,885	280,619
Total operating expenditures	4,027,218	3,297,943
Excess of revenues over expenditures from operations	677,650	747,854
Other revenue (expenditures)		
Real Estate Compensation Fund Corporation grant [note 8]	(500,000)	(500,000)
Education grant	—	(100,000)
Gain (loss) on sale of equipment	—	615
Excess of revenues over expenditures for the year	177,650	148,469
Retained income, beginning of year	2,798,097	2,649,628
Retained income, end of year	2,975,747	2,798,097
Retained income is comprised of:		
Unrestricted	2,575,747	2,584,097
Internally restricted [note 6]	400,000	214,000
	2,975,747	2,798,097

See accompanying notes

FINANCIAL REVIEW

STATEMENT OF CASH FLOWS

Year ended June 30

	2006 \$	2005 \$
OPERATING ACTIVITIES		
Excess of revenue over expenditures for the year	177,650	148,469
Items not involving cash:		
Amortization	216,216	175,762
Gain on sale of equipment	—	(615)
	393,866	323,616
Change in non-cash working capital:		
Increase in accounts and accrued interest receivable	(246,130)	(31)
Increase in prepaid expenses	(2,568)	(2,091)
(Decrease) Increase in accounts payable and accrued liabilities	(130,207)	95,626
Cash provided by operating activities	14,961	417,120
INVESTING ACTIVITIES		
Purchase of long-term investments	(950,000)	(300,000)
Purchase of equipment, net of contributions applied	(230,440)	(274,475)
Sale proceeds of equipment	—	615
Cash used in investing activities	(1,180,440)	(573,860)
Net decrease in cash	(1,165,479)	(156,740)
Cash, beginning of year	2,210,525	2,367,265
Cash, end of year	1,045,046	2,210,525
Cash is comprised of:		
Cash and cash equivalents	1,045,046	1,266,618
Short-term investments	—	943,907
	1,045,046	2,210,525

See accompanying notes

FINANCIAL REVIEW

NOTES TO THE
FINANCIAL STATEMENTS**1. NATURE OF OPERATIONS**

The Real Estate Council (the "Council") is a regulatory agency established by the provincial government. Its mandate is to protect the public interest by enforcing the licensing and licensee conduct requirements of the *Real Estate Services Act*.

The Council is responsible for licensing individuals and brokerages engaged in real estate sales, rental and strata property management. The Council also enforces entry qualifications, investigates complaints against licensees and imposes disciplinary sanctions under the Act.

Pursuant to section 149(1)(1) of the *Income Tax Act* (Canada), the Council qualifies as a non-profit organization and will, accordingly, be exempt from tax.

2. SIGNIFICANT ACCOUNTING POLICIES**Cash and cash equivalents**

Cash equivalents include a \$469,205 [2005 - \$nil] Bankers' Acceptance with an interest rate of 4.300% and a maturity date of September 28, 2006.

Short-term investments

Short-term investments are valued at the lower of cost and market value.

Long-term investments

Long-term investments consist of marketable securities held to maturity and are recorded at amortized cost, providing for the amortization of premiums on an effective yield basis. There have been no write-downs to the book value of long-term investments.

Property and equipment

Property and equipment is recorded at cost and is amortized on a straight-line basis over their expected useful lives as follows:

Computer equipment	• Three years
Office equipment	• Five years
Automotive equipment	• Six years
Leasehold improvements	• Term of the lease plus one renewal period, being ten years.

Revenue recognition

The Council collects license and assessment fees for a two-year period in advance. These fees are recognized as income in the period received because the Council has no continuing obligations with respect to and does not refund license and assessment fees.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

FINANCIAL REVIEW

NOTES TO THE
FINANCIAL STATEMENTS**3. FINANCIAL INSTRUMENTS**

The Council's financial instruments consist of cash and cash equivalents, short-term investments, accounts and accrued interest receivable, long-term investments and accounts payable and accrued liabilities. It is management's opinion that the Council is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

4. PROPERTY AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	Net Book Value \$
2006			
Computer equipment	574,684	330,540	244,144
Office equipment	263,124	159,329	103,795
Automotive equipment	47,844	16,612	31,232
Leasehold improvements	360,415	331,661	28,754
	1,246,067	838,142	407,925
2005			
Computer equipment	472,342	166,671	305,671
Office equipment	172,385	134,439	37,946
Automotive equipment	47,844	8,639	39,205
Leasehold improvements	335,820	312,176	23,644
	1,028,391	621,925	406,466

5. UNEXPENDED CAPITAL CONTRIBUTION

In 1997 the Council received \$250,000 from the Real Estate Errors and Omissions Insurance Corporation as a contribution towards replacing the Council's licensing database with a modern information management system of which \$192,130 had been expended to June 30, 2006, leaving an unexpended balance of \$57,870 [2005 - \$57,870]. The Council expects to utilize the remaining unexpended balance during fiscal 2007, to upgrade the licensing system to an on-line interface.

FINANCIAL REVIEW

NOTES TO THE
FINANCIAL STATEMENTS

6. INTERNALLY RESTRICTED RETAINED INCOME

	2006	2005
	\$	\$
Technology Fund	100,000	14,000
Legal Defence Fund	250,000	200,000
Special Compensation Fund	50,000	—
Education Fund	34,250	—
	434,250	214,000

- [a] The Technology Fund is to be used for modifications to new licensing systems software. The fund has been increased to \$100,000 during the year and is expected to be utilized during 2007.
- [b] In 2003 the Council established a Legal Defense Fund to be used to pay on behalf of the Council, its members or employees, all sums which the Council, its members or employees (the "Party") become liable to pay as compensating damages arising out of a claim made against the Party by a member of the public; a member of the Council, or an employee of the Council alleging a Wrongful Act or made against the Party because of the Party's status as a Council member or an employee thereof, provided that in either situation the Claim relates solely to the performance, by the Party, of services as a member or employee of the Council in their capacity with the Council. The maximum amount to be paid by the Fund is \$100,000 for each Claim regardless of the number of Parties. In 2005 there was a separate legal defense fund for \$50,000 set up for Real Estate Compensation Fund Corporation (RECFC) defense of claims.
- [c] In compliance with Section 43 under the *Real Estate Service Act*, an Education Fund was set up during the year from licensee payments of discipline penalties. When the discipline committee determines that a licensee has committed professional misconduct or conduct unbecoming a licensee, that licensee is required to pay a penalty in an amount of not more than \$20,000 in the case of a brokerage or former brokerage, or not more than \$10,000 in any other case. At June 30, 2006, the Education Fund contained \$34,250 [2005 - \$nil] in collections from penalty payments. Under Section 44 of the *Real Estate Service Act*, money received by the Council on account of a discipline penalty under Section 43 may be expended by the Council only for the purpose of educating the public, and licensees and other participants in the real estate industry in British Columbia about the operation and regulation of the industry, and issues related to real estate and real estate services.

7. REAL ESTATE COMPENSATION FUND CORPORATION GRANT

During the year the Council approved and disbursed a \$500,000 [2005 - \$500,000] grant to the Real Estate Compensation Fund Corporation.

FINANCIAL REVIEW

NOTES TO THE
FINANCIAL STATEMENTS**8. COMMITMENTS**

[a] In 2006, the Council renegotiated the lease for their office premises for a five-year period ending on September 30, 2014 with an option to renew for another five-year period. Base rent due within each of the next five years and thereafter is estimated as follows:

	\$
2007	127,913
2008	127,913
2009	127,913
2010	174,103
2011	189,500
Thereafter	615,875
	1,363,217

In addition to the base rent, the Council is responsible for paying their portion of operating costs.

[b] At the May 7, 2006 Council meeting approval was given for the expenditure of \$325,000 plus applicable taxes for office reconfigurations to be completed by September 2006.

9. COMPARATIVE FIGURES

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the current year financial statements.

FINANCIAL REVIEW

SCHEDULE OF
EXPENDITURES**Schedule 1: SCHEDULE OF ADMINISTRATIVE EXPENDITURES***Year ended June 30*

	2006 \$	2005 \$
Amortization	216,216	175,762
Council members' per-diems	90,000	80,153
Equipment maintenance	29,008	33,467
Insurance	10,297	10,563
Office rent and operating costs, net	335,005	322,144
Postage, mailing and delivery	127,295	107,000
Printing and stationery	67,344	54,800
Professional services	73,959	29,628
Salaries	1,213,217	1,086,808
Telephone	20,188	18,965
Travel and accommodation	253,037	219,342
	2,435,566	2,138,632

Schedule 2: SCHEDULE OF INVESTIGATION EXPENDITURES*Year ended June 30*

	2006 \$	2005 \$
Court reporter services	13,877	14,317
Criminal records searches	12,840	10,324
Forensic investigations	61,483	—
Professional services	194,678	163,695
Salaries	801,266	647,414
Spot audits	29,715	25,473
Travel and hearings	(23,092)	17,469
	1,090,767	878,692

Schedule 3: SCHEDULE OF OTHER EXPENDITURES*Year ended June 30*

	2006 \$	2005 \$
Conferences	74,081	67,181
Dues, subscriptions and publications	9,332	7,572
Electronic communication	106,771	52,774
Post licensing education	184,984	16,555
Printing	66,627	72,424
Public relations	59,090	64,113
	500,885	280,619



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