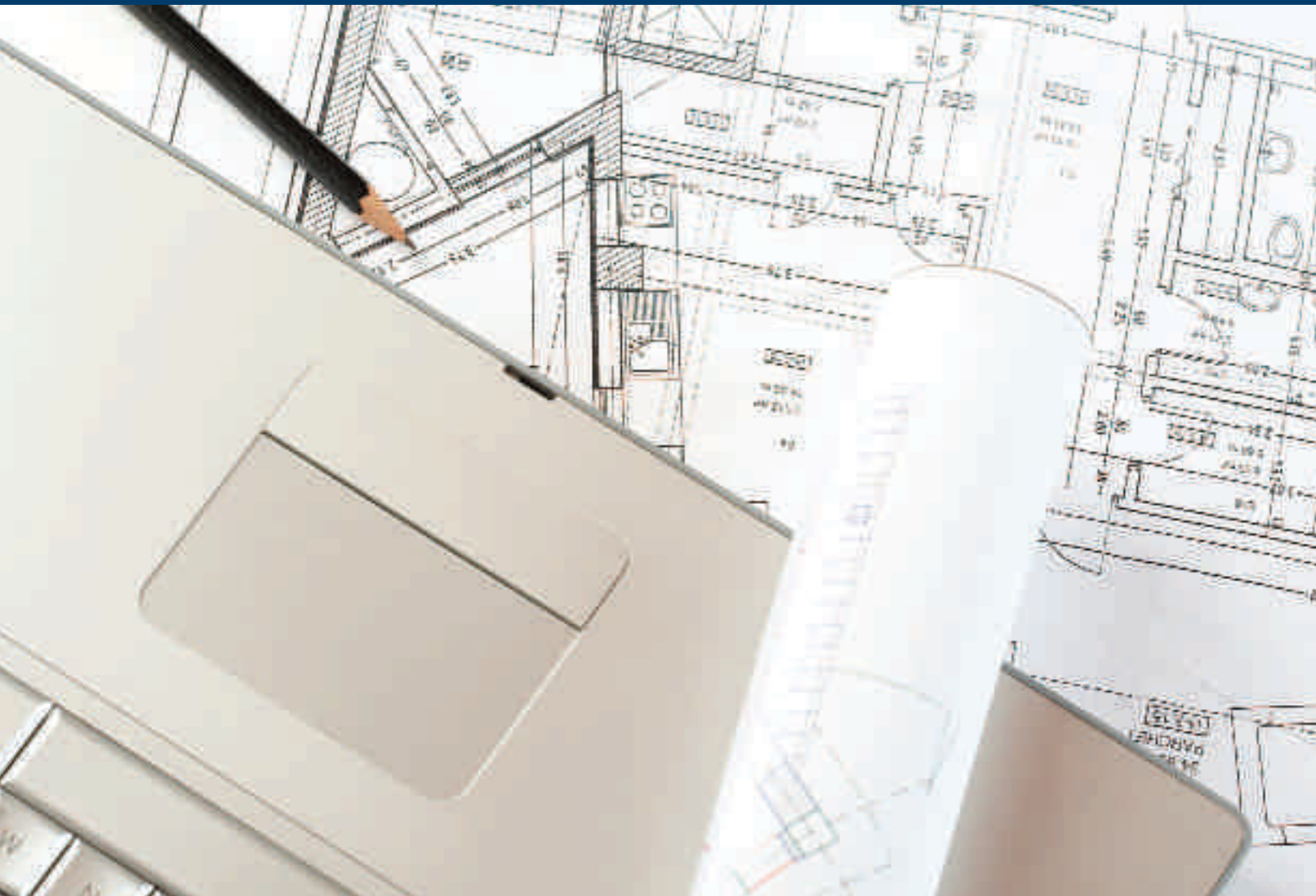




Real Estate Council of British Columbia

2007 Annual Report

ADVANCING THE KNOWLEDGE, SKILL AND COMPETENCY OF LICENSEES



WWW.RECBC.CA

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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 49 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*. On January 1, 2007, the Council introduced a Relicensing Education Program (REP) that requires licensees to complete education courses during the licensees' two-year licence period as a condition of continued licensing.

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.

MESSAGE FROM THE CHAIR

CONTINUED CHANGE WITHIN THE REAL ESTATE INDUSTRY



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 third Annual Report for the year ending June 30, 2007.

Since the introduction of the *Real Estate Services Act* in January 2005, the last three years have seen a great deal of change, both with the real estate industry and at the Council. The creation of the Special Compensation Fund, the licensing of strata managers and, in January of this year, the commencement of the Council's Relicensing Education Program have kept Council members and staff busy from both a policy and operational point of view.

The Relicensing Education Program further strives to protect the public interest by ensuring that real estate licensees complete two courses during the 24-month licensing cycle. Licensees will complete a mandatory course on agency principles and an elective course from an approved list of courses. It is anticipated that this new requirement will increase the ongoing competency of licensees with respect to agency matters, as well as encourage licensees to take additional education.

My term as Council's Chair ended on June 30, as did my role as the managing broker member for the County of Kootenay. The opportunity to serve on Council over the past six years will certainly serve as one of the highlights of my career.

Finally, on behalf of Council members and staff, I would like to thank you and the staff at the Financial and Corporate Sector Policy Branch for all of the courtesy you have shown me during my term on Council.

A handwritten signature in blue ink, consisting of a large, stylized 'P' followed by a series of loops and a long horizontal stroke.

Philip Jones

CHAIR

EXECUTIVE OFFICER'S REPORT

ADVANCING THE KNOWLEDGE,
SKILL AND COMPETENCY OF LICENSEES

January 1, 2007 saw the Council undertake its top operational priority for the 2006/07 fiscal year – the introduction of the Council's Relicensing Education Program (REP). After many years of discussion, the Council's program will require all licensees in the first REP cycle to take two courses (one mandatory and one elective) during their 24-month licensing cycle.

The mandatory REP course ("What Brokerages and Licensees Need to Know About Agency") was chosen as a result of research that indicated a lack of understanding of the principles of agency within the industry. The elective course can be chosen from a list of REP approved courses, which can be found on the Council's website at www.recbc.ca. The Council believes that REP is consistent with its objects under the *Real Estate Services Act* (RESA), those being: to maintain and advance the knowledge, skill and competency of its licensees and to uphold and protect the public interest in relation to the conduct and integrity of its licensees.

The Council also hopes that the introduction of REP will spark licensees' desire to become life-long learners, not only about the industry in which they work, but other facets of our increasingly complex and busy lives.

A sincere thank you to Chair Philip Jones, Vice-Chair Satnam Sidhu, and the other members of Council for their commitment to the Council. In particular, the contribution of our three public members, Danny Leung of Richmond, William Lim of Vancouver, and

Ramesh Rikhi of Summerland, have been particularly important, given the many new initiatives undertaken by the Council. As you are aware, the last three years have been extremely hectic with the introduction of RESA, the licensing of strata managers and the introduction of REP. Council members' common sense approach to all of these matters have made the Council staff's job much easier.

You will note from this report that the number of real estate licensees continues to grow and now sits at just under 20,000 in the province. This growth reflects a number of factors, including the continued active real estate market throughout the province, the licensing of strata managers and less turnover in the business. It also means more inquiries from licensing students, the public and a continued increase in the number of disciplinary actions as detailed later in this report. With this growth, the Council staff has had to expand. The combination of new and existing staff has worked well in order that the Council can continue to regulate the industry as efficiently and effectively as possible, for which I thank each and every one of them.

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

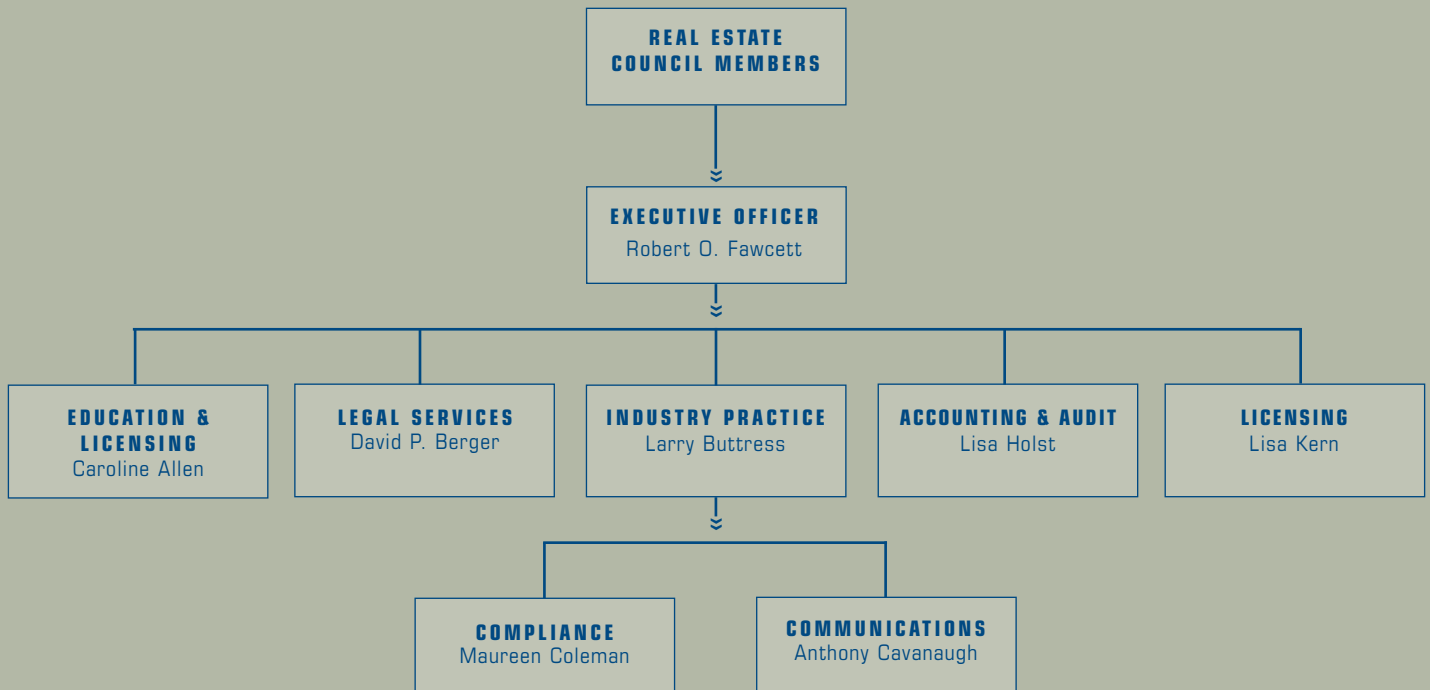
THE REAL ESTATE COUNCIL IS COMPRISED OF APPOINTED AND ELECTED REPRESENTATIVES.

COUNCIL MEMBERS

There are 16 members of the Real Estate Council, including three members appointed by the provincial government. Thirteen members are chosen through an election process open to all real estate licensees in the province. The elected members are comprised of three representatives and nine brokers representing the various provincial counties. One individual is elected as the strata/rental property management member. 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.

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 35 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 2006/2007

Back row: Danny Leung, Jim McNeal, William Brown, Keith Bevington, Robert Fawcett (Executive Officer), Gerry Martin, William Lim, John Finlayson, Wayne Strandlund, Abdul Ghouri.

Front Row: Liz Tutt, Cynthia Chen, Satnam Sidhu (Vice-Chair), Philip Jones (Chair), Rosemary Barnes, Judi Whyte, Ann Petrone.

Missing from photo: Allan Corbett, Marshall Cowe, Ramesh Rikhi.



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 |
| 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 |
| John Finlayson | June 30, 2008 | County of Nanaimo Broker Member |
| Ann Petrone | June 30, 2008 | Combined Counties of Victoria, Nanaimo, Yale, Kootenay, Cariboo and Prince Rupert Representative Member |
| Liz Tutt | June 30, 2007 | Combined Counties of Westminister, Yale, Kootenay, Cariboo and Prince Rupert Representative Member |
| Rosemary Barnes | June 30, 2008 | County of Westminister (North) Broker Member |
| Gerry Martin | June 30, 2008 | County of Westminister (South) Broker Member |
| Marshall Cowe | June 30, 2007 | 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 Property Management Member (All Counties) |

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.

Relicensing Education Program

The Relicensing Education Program (REP) took effect on January 1, 2007 and requires licensees to complete education courses during the licensees' two-year licence period as a condition of continued licensing.

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:

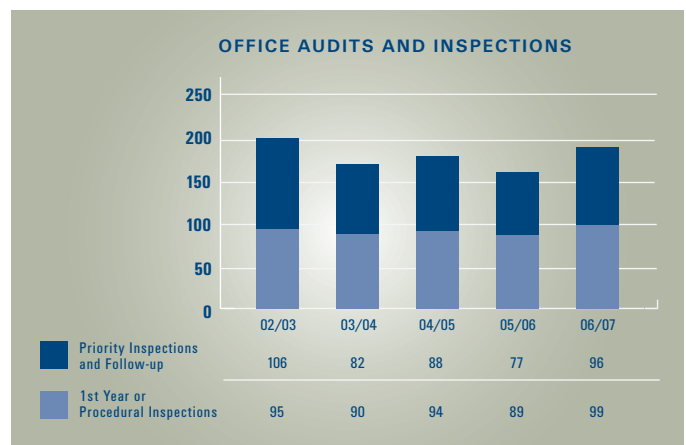
- determining suitability for all licence applicants, including
 - conducting criminal record checks;
 - conducting credit history checks;
 - ensuring that each brokerage has a managing broker in place;
 - ensuring that brokerages maintain a proper place of business.

The Council issues licences in the following categories: Trading Services, Rental Property Management Services and 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:
 - cease or carry out any specified activity related to the licensee's real estate business;

- 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 website, www.recbc.ca; 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, 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. |

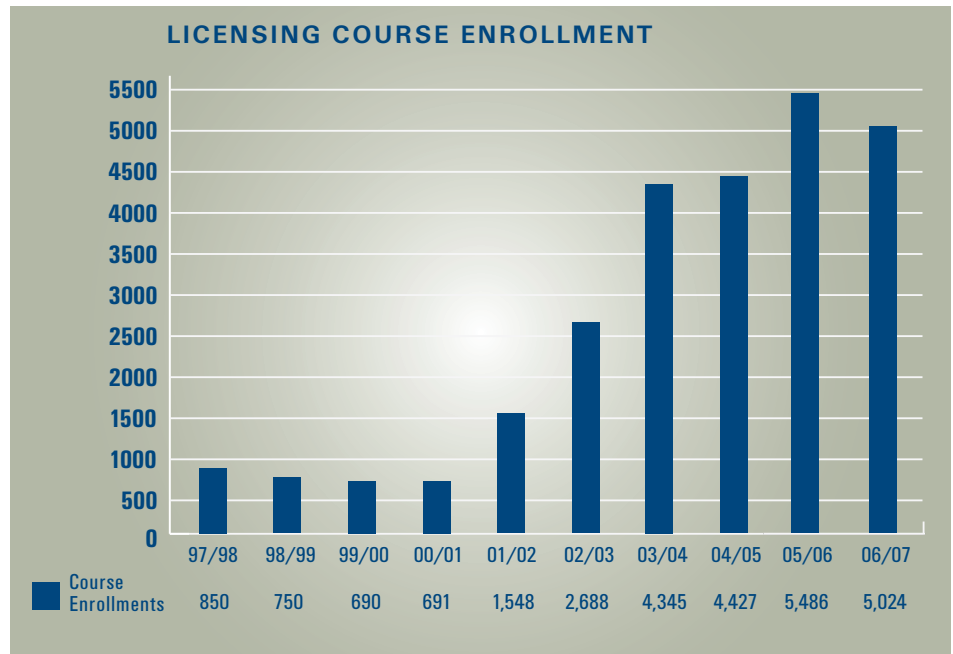
| Committee Name | Authority | Responsibilities |
|--|---|---|
| GOVERNANCE AND MANAGEMENT COMMITTEE | The purpose of the Committee is to identify education and training for Council and Committee members that will enhance leadership development within the organization, to attract qualified candidates 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>, to 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. | <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 Rental Property Management and Strata Management Licensing Courses and the Rental 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"> • to review any legislation for comment at the request of the Financial and Corporate Sector Policy Branch; • when appropriate, to 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"> • to oversee and effect the implementation of the Relicensing Education Program (REP); • to liaise with the British Columbia Real Estate Association and its member boards/associations during the roll-out of REP. |

STATISTICS

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

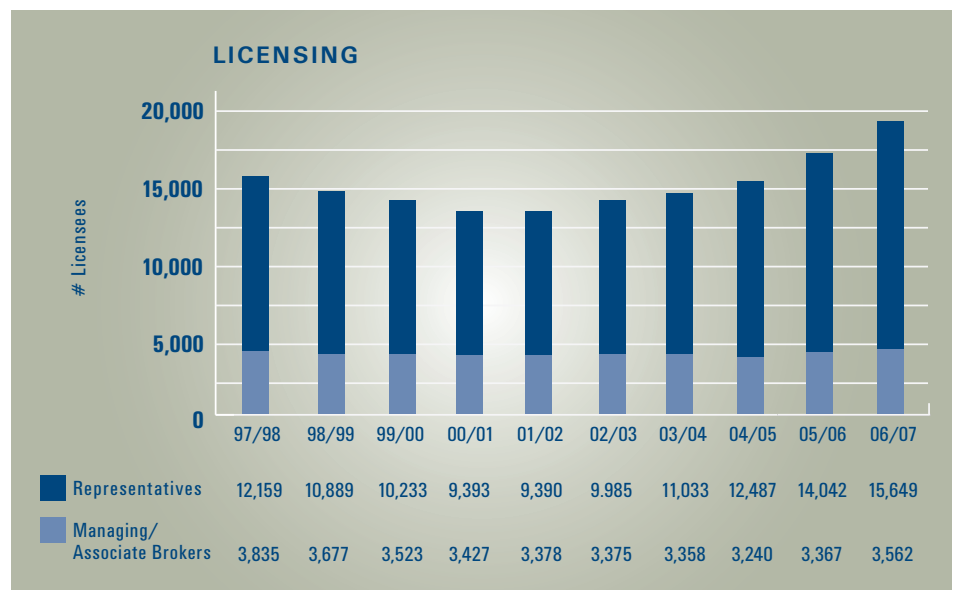
EDUCATION

For the first time in six years, enrollments in the licensing courses (Trading Services, Rental Property Management and Strata Management) decreased slightly from the year prior. While the number is slightly lower, it still represents a significant number of individuals when compared with 1999-2001 as shown on this chart.



LICENSING

The figures in this chart indicate a sizeable growth in the number of licensees in the province compared with last year. This is the fifth straight year that this has occurred and is close to the all time high number of licensees in the province seen in 1994 (20,100).



COMPLAINTS RECEIVED

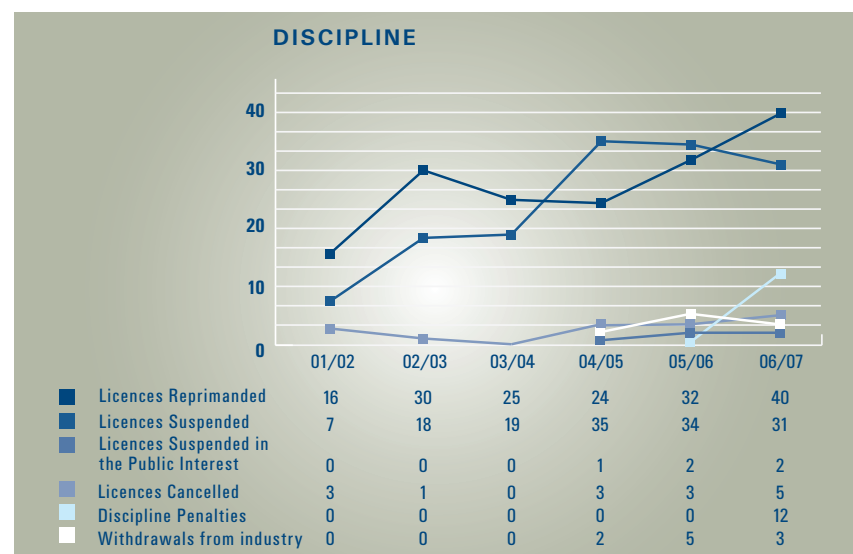
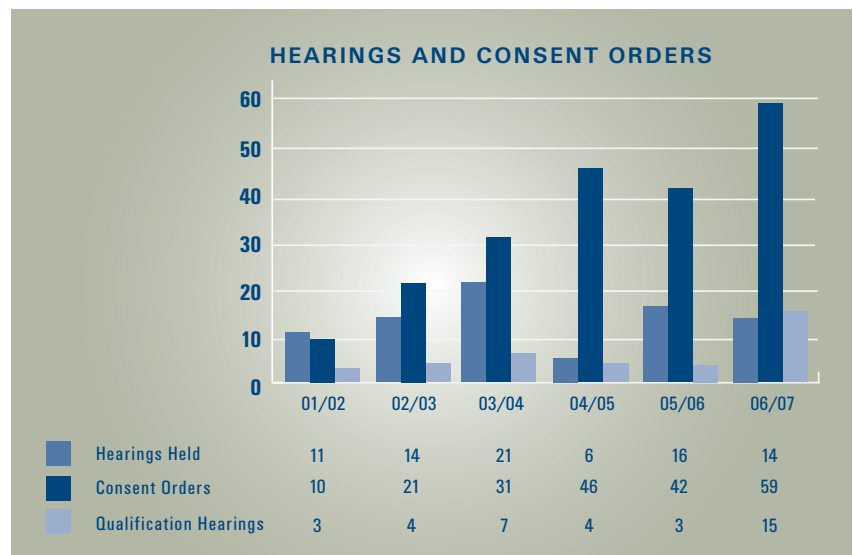
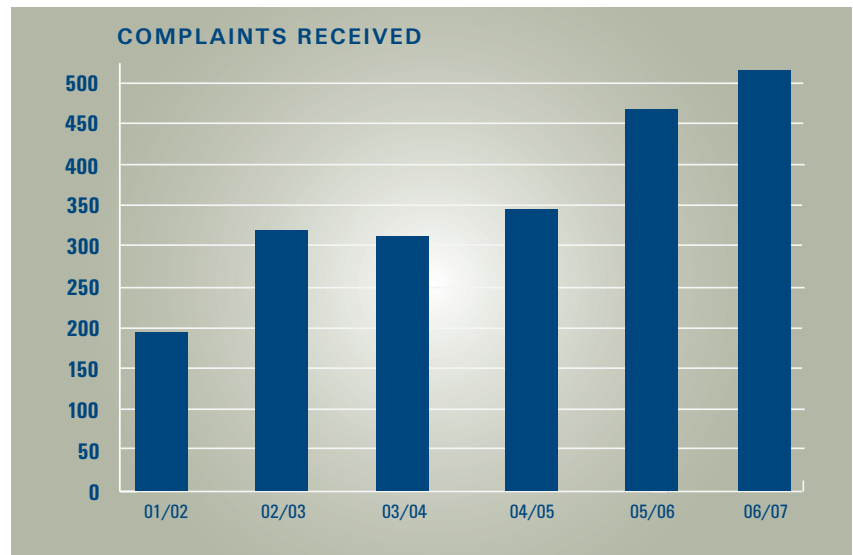
As shown in the chart, the number of complaints received at the Council increased to 543, another significant increase from the year prior. This increase is due in part to the active real estate market, but also the Council's increased regulatory responsibilities with respect to strata manager licensing.

HEARINGS AND CONSENT ORDERS

While the number of hearings decreased compared with last year, the number of Consent Orders increased dramatically. Also of interest is the dramatic rise in the number of qualification hearings. Qualification hearings are held to determine an applicant's suitability to become licensed under the *Real Estate Services Act*.

DISCIPLINE

This chart reflects the penalties agreed to by Consent Order Review Committees and Hearing Committees over the past seven years. The overall number of disciplinary penalties continues to increase as compared with previous years. In particular, the number of licence reprimands increased dramatically compared with last year while the number of licence suspensions, cancellations and suspensions in the public interest remained about the same. This chart now shows the number of withdrawals from the industry and discipline penalties. Withdrawals from the industry occur in situations where an individual requests that the Real Estate Council discontinue disciplinary proceedings against them as they have decided to permanently retire from real estate practice. Discipline penalties may be levied pursuant to the *Real Estate Services Act* in amounts up to \$20,000.



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, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

ERNST & YOUNG

Vancouver, Canada,
August 23, 2007

Chartered Accountants

FINANCIAL REVIEW

BALANCE SHEET

As at June 30

| | 2007 | 2006 |
|---|------------------|------------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | 1,636,564 | 1,045,046 |
| Accounts and accrued interest receivable | 98,580 | 320,479 |
| Prepaid expenses | 77,921 | 50,846 |
| Total current assets | 1,813,065 | 1,416,371 |
| Long-term investments | 1,281,568 | 1,297,015 |
| Property and equipment <i>[note 4]</i> | 584,580 | 407,925 |
| | 3,679,213 | 3,121,311 |
| LIABILITIES AND RETAINED INCOME | | |
| Current | | |
| Accounts payable and accrued liabilities | 72,136 | 53,444 |
| Unexpended capital contribution <i>[note 5]</i> | 57,870 | 57,870 |
| Total current liabilities | 130,006 | 111,314 |
| Commitments <i>[note 8]</i> | | |
| Retained surplus | | |
| Unrestricted retained earnings | 3,086,707 | 2,575,747 |
| Internally restricted retained earnings <i>[note 6]</i> | 400,000 | 400,000 |
| Education fund <i>[note 6]</i> | 62,500 | 34,250 |
| Total retained income | 3,549,207 | 3,009,997 |
| | 3,679,213 | 3,121,311 |

See accompanying notes

On behalf of the Council:



Satnam Sidhu
2007/2008 CHAIR



Robert O. Fawcett
EXECUTIVE OFFICER

FINANCIAL REVIEW

STATEMENT OF REVENUE, EXPENDITURES
AND RETAINED EARNINGS

Year ended June 30

| | 2007 | 2006 |
|---|------------------|------------------|
| | \$ | \$ |
| REVENUE | | |
| Licensing | | |
| Gross licence fees collected | 1,339,600 | 1,322,850 |
| Less: payable to Superintendent of Real Estate | (669,800) | (661,425) |
| Net fees collected | 669,800 | 661,425 |
| Assessments | 3,758,325 | 3,553,675 |
| Course fees | 381,425 | 490,400 |
| Interest and other investment income, net of expenses | 19,482 | (632) |
| Total revenue | 4,829,032 | 4,704,868 |
| OPERATING EXPENSES | | |
| Administration <i>[schedule 1]</i> | 2,631,688 | 2,435,566 |
| Investigation <i>[schedule 2]</i> | 1,382,010 | 1,090,767 |
| Other <i>[schedule 3]</i> | 304,374 | 500,885 |
| Total operating expenditures | 4,318,072 | 4,027,218 |
| Excess of revenues over expenditures from operations | 510,960 | 677,650 |
| Other revenues (expenditures) | | |
| Real Estate Compensation Fund Corporation grant <i>[note 7]</i> | — | (500,000) |
| Excess of revenues over expenditures for the year | 510,960 | 177,650 |
| Retained earnings beginning of year | 2,975,747 | 2,798,097 |
| Retained earnings end of year | 3,486,707 | 2,975,747 |
| Retained earnings is comprised of: | | |
| Unrestricted | 3,086,707 | 2,575,747 |
| Internally restricted <i>[note 6]</i> | 400,000 | 400,000 |
| | 3,486,707 | 2,975,747 |

See accompanying notes

FINANCIAL REVIEW

STATEMENT OF CASH FLOWS

Year ended June 30

| | 2007 | 2006 |
|---|------------------|-------------|
| | \$ | \$ |
| OPERATING ACTIVITIES | | |
| Excess of revenue over expenditures for the year | 510,960 | 177,650 |
| Items not involving cash: | | |
| Amortization | 240,153 | 216,216 |
| Amortization of bond premium | 15,447 | 11,850 |
| | 766,560 | 405,716 |
| Changes in non-cash working capital: | | |
| Decrease (increase) in accounts and accrued interest receivable | 221,899 | (246,130) |
| Increase in prepaid expenses | (27,075) | (2,568) |
| Increase (decrease) in accounts payable and accrued liabilities | 18,692 | (130,207) |
| Cash provided by operating activities | 980,076 | 26,811 |
| INVESTING ACTIVITIES | | |
| Purchase of long-term investments | — | (1,008,865) |
| Purchase of equipment, net of contributions applied | (416,808) | (217,675) |
| Contribution to education fund | 28,250 | 34,250 |
| Cash used in investing activities | (388,558) | (1,192,290) |
| Net increase (decrease) in cash | 591,518 | (1,165,479) |
| Cash and cash equivalents, beginning of year | 1,045,046 | 2,210,525 |
| Cash and cash equivalents, end of year | 1,636,564 | 1,045,046 |

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 \$383,899 term deposit that is redeemable within 30 days of June 30, 2007 [2006 - \$469,205 Bankers' Acceptance]. Cash consists of cash on hand and balances with banks.

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 licence 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 licence 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. 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 \$ | 2007 Net Book Value \$ | 2006 Net Book Value \$ |
|------------------------|-------------------|---|--|---------------------------------|
| Computer equipment | 608,571 | 430,599 | 177,972 | 244,144 |
| Office equipment | 242,694 | 80,979 | 161,715 | 103,795 |
| Automotive equipment | 47,844 | 24,586 | 23,258 | 31,232 |
| Leasehold improvements | 356,023 | 134,388 | 221,635 | 28,754 |
| | 1,255,132 | 670,552 | 584,580 | 407,925 |

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, 2007, leaving an unexpended balance of \$57,870 [2006 - \$57,870]. The Council expects to utilize the remaining unexpended balance during fiscal 2008, to upgrade the licensing system to an on-line interface.

FINANCIAL REVIEW

NOTES TO THE
FINANCIAL STATEMENTS

6. INTERNALLY RESTRICTED RETAINED INCOME

| | 2007 | 2006 |
|--|----------------|---------|
| | \$ | \$ |
| Technology Fund | 100,000 | 100,000 |
| Legal Defense Fund - General | 250,000 | 250,000 |
| Legal Defense Fund - Special Compensation Fund | 50,000 | 50,000 |
| Total internally restricted retained income | 400,000 | 400,000 |
| Education Fund | 62,500 | 34,250 |
| | 462,500 | 434,250 |

- [a] The Technology Fund is to be used for modifications to new licensing systems software. The fund is expected to be utilized during 2008.
- [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. There is also a separate legal defense fund for \$50,000 for the potential defense of claims related to the Real Estate Compensation Fund Corporation.
- [c] In compliance with Section 43 under the *Real Estate Services Act*, an Education Fund was set up during 2006 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, 2007, the Education Fund contained \$62,500 [2006 - \$34,250] in collections from penalty payments. Under Section 44 of the *Real Estate Services 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 did not approve a grant to the Real Estate Compensation Fund Corporation [2006 - \$500,000].

FINANCIAL REVIEW

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

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:

| | \$ |
|------------|-----------|
| 2008 | 127,913 |
| 2009 | 127,913 |
| 2010 | 174,103 |
| 2011 | 189,500 |
| 2012 | 189,500 |
| Thereafter | 426,375 |
| | 1,235,304 |

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

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*

| | 2007 \$ | 2006 \$ |
|--------------------------------------|------------------|------------------|
| Amortization | 240,153 | 216,216 |
| Council members' per-diems | 123,000 | 90,000 |
| Equipment maintenance | 25,636 | 29,008 |
| Insurance | 10,747 | 10,297 |
| Office rent and operating costs, net | 324,774 | 335,005 |
| Postage, mailing and delivery | 155,202 | 127,295 |
| Printing and stationery | 65,159 | 67,344 |
| Professional services | 88,370 | 73,959 |
| Salaries | 1,327,963 | 1,213,217 |
| Telephone | 18,612 | 20,188 |
| Travel and accommodation | 252,072 | 253,037 |
| | 2,631,688 | 2,435,566 |

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

| | 2007 \$ | 2006 \$ |
|-------------------------------|------------------|------------------|
| Court reporter services | 19,088 | 13,877 |
| Criminal records searches | 12,768 | 12,840 |
| Forensic investigations | 49,103 | 61,483 |
| Professional services | 269,252 | 194,678 |
| Salaries | 978,550 | 801,266 |
| Spot audits | 49,822 | 29,715 |
| Travel and hearing (recovery) | 3,427 | (23,092) |
| | 1,382,010 | 1,090,767 |

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

| | 2007 \$ | 2006 \$ |
|--------------------------------------|----------------|----------------|
| Conferences | 85,512 | 74,081 |
| Dues, subscriptions and publications | 21,369 | 9,332 |
| Electronic communication | 112,928 | 106,771 |
| Post licensing education | 18,611 | 184,984 |
| Printing | 60,146 | 66,627 |
| Public relations | 5,808 | 59,090 |
| | 304,374 | 500,885 |



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