



Real Estate Council of British Columbia

2005 Annual Report

HELPING CONSUMERS AND LICENSEES MAKE THE RIGHT MOVE.



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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 47 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.

MISSION

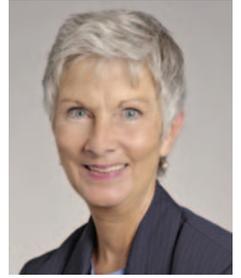
The Real Estate Council of British Columbia protects the public interest by assuring the competency of real estate licensees in B.C. and ensuring their compliance with the *Real Estate Services Act*. The Council is accountable to and advises government on industry issues and encourages public confidence 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

THIS PAST YEAR HAS BEEN ONE OF THE MOST SIGNIFICANT TIMES IN THE 47 YEAR HISTORY OF THE REAL ESTATE COUNCIL.



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

Dear Minister

On January 1, 2005, the *Real Estate Services Act* (RESA) took effect and replaced the *Real Estate Act*. As a result, this past year has been one of the most significant times in the 47 year history of the Real Estate Council.

The introduction of RESA brought with it a great deal of positive change for the real estate industry. The Council became a self-regulating organization with full authority to administer and enforce RESA. The Council was also given rule-making ability that will enable it to respond quickly to changes within the industry, which will serve to further enhance public protection.

The transition to the new legislation went well considering the short period for implementation. This was due, in large part, to the significant assistance that the Council received from members of your staff at the Financial and Corporate Sector Policy Branch. In addition, a number of industry associations and, in particular, the British Columbia Real Estate Association provided valuable assistance in transitioning from the *Real Estate Act* to the new requirements of RESA.

The licensing of strata managers on January 1, 2006 represents the final phase in the implementation of the new legislation. This initiative has required considerable consultation with the industry and work by the Council. In that regard, I would like to thank the members of Council for their hard work and diligence in enabling the effective introduction of RESA.

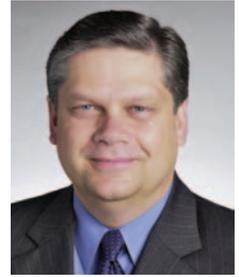
I would also like to acknowledge and thank the Council staff for their continued commitment to serve both consumers and real estate licensees in an efficient and effective manner.

Finally, as part of the Council's new self-regulating responsibilities, I am pleased to enclose the Council's first annual report in accordance with section 89 of RESA.

A handwritten signature in blue ink that reads "Rosemary Barnes". The signature is fluid and cursive, with the first name being more prominent.

Rosemary Barnes
CHAIR

EXECUTIVE OFFICER'S REPORT

HELPING CONSUMERS AND
LICENSEES MAKE THE RIGHT MOVE.

Early in our 2004/2005 fiscal year, Council staff adopted the tag line – **HELPING YOU MAKE THE RIGHT MOVE.**

It captures the key aspects of the Council's core business, from providing information about real estate as a professional career to licensee registration, transfers and compliance. It also embodies the Council's commitment to consumers who have real estate services provided to them, or on their behalf, by licensees.

By far the biggest event this past year was the introduction of the *Real Estate Services Act* (RESA) in January. This legislation expanded the role of the Council and provided it with rule-making ability. It also provided for the introduction of the Real Estate Compensation Fund (which replaced inadequate bonding levels) and, as of January 1, 2006, the licensing of strata managers.

Preparing for the introduction of RESA and detailing its many changes were huge undertakings for the Council and its staff. Producing four **Special Reports to Licensees**, the regular Reports from Council, amending every form and publication and revising the Council website were both time-consuming and productive but resulted in a relatively smooth transition from the old *Real Estate Act* to RESA.

While all of this was progressing, the Council transitioned from its existing data base at the Financial Institutions Commission to a new and improved licensing system. This placed additional strain on the Council staff but they handled it without any interruption in service to licensees. In that regard, I wish to thank Council staff for their continued efforts with respect to the introduction of RESA and the licensing of strata managers in 2006. Their enthusiasm and dedication ensures the timely achievement of the Council's goals while at the same time ensuring prompt and courteous service to both consumers and licensees.

Finally, I would like to thank Chair Rosemary Barnes for her extraordinary efforts over the past year. Rosemary never turned down an opportunity to meet with licensees no matter how busy she was. She answered many, many questions from licensees about aspects of RESA and the Council Rules with ease and skill. She handled some fairly aggressive individuals with dignity and grace. Most important was her commitment to Council and her respect for Council staff, which are very much appreciated.

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

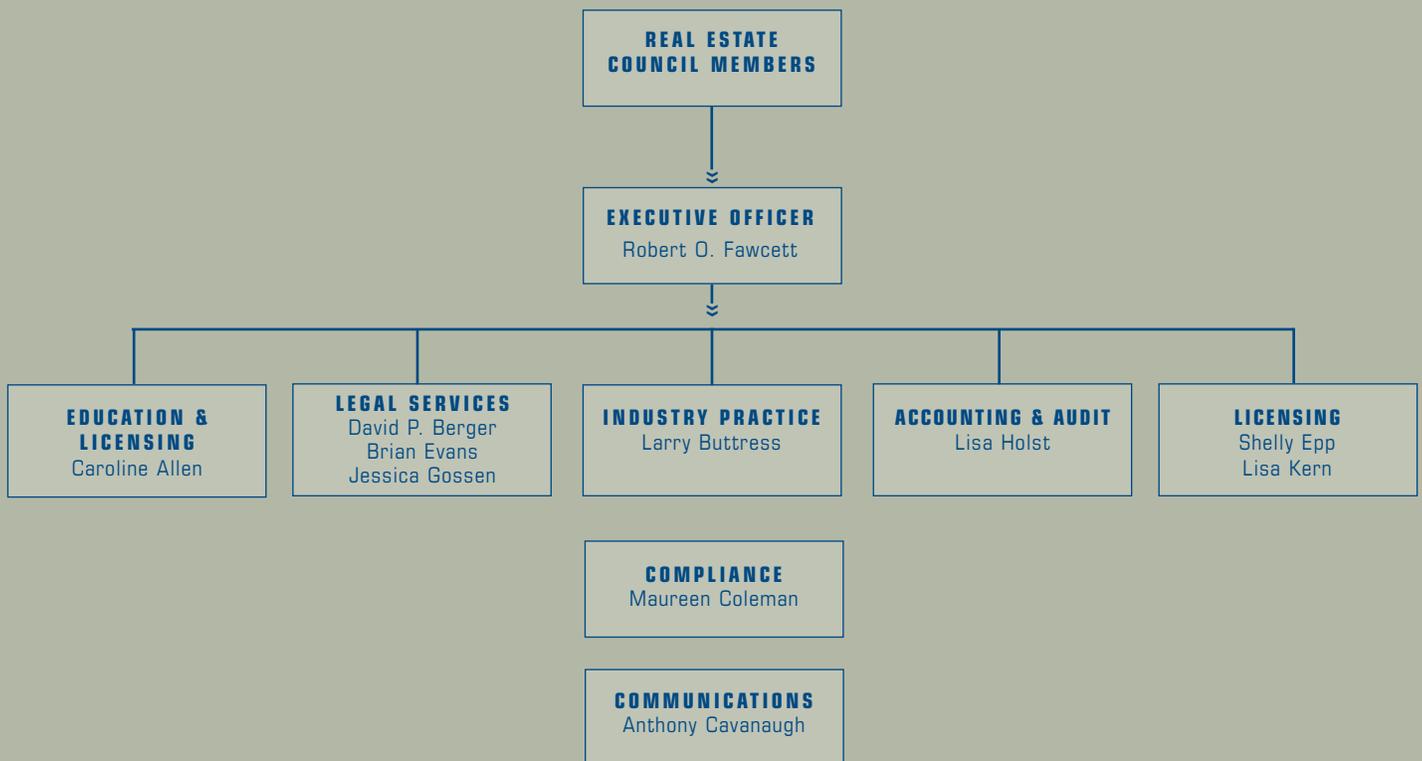
THE REAL ESTATE COUNCIL IS COMPRISED OF APPOINTED AND ELECTED REPRESENTATIVES.

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 30 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 2004/2005

Back row: Marvin Friesen, Philip Jones, Satnam Sidhu, Wayne Strandlund, Danny Leung, Marshall Cowe, Abdul Ghouri, Robert Clarke, John Finlayson, Allan Corbett, William Lim, Robert O. Fawcett (Executive Officer).

Front Row: Arlene Butler, Cynthia Chen, Dougal Shewan (Vice-Chair), Rosemary Barnes (Chair), David Mio, Judi Whyte, Michael Ziegler.



Lieutenant Governor-in-Council Appointments

NAME	TERM EXPIRES	LOCATION
Danny Leung	June 30, 2006	Richmond
William Lim	June 30, 2006	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, 2006	County of Vancouver Broker Member
Satnam Sidhu	June 30, 2006	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, 2006	County of Nanaimo Broker Member
Ann Petrone	June 30, 2007	Combined Counties of Westminister, Kootenay, Yale, Cariboo and Prince Rupert Representative Member
Rosemary Barnes	June 30, 2006	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:

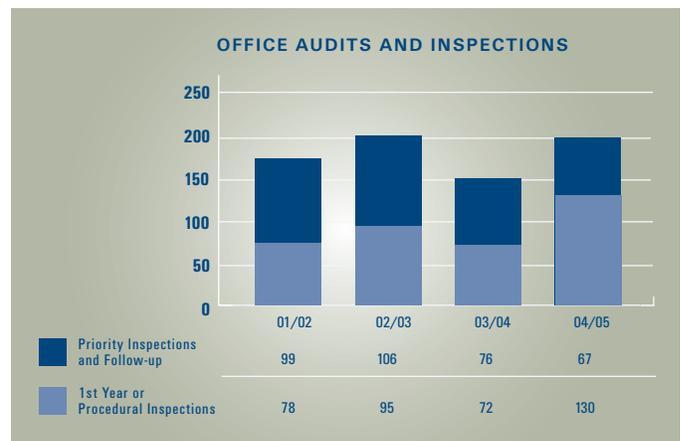
- determining suitability for all licence applicants, including
 - conducting criminal record checks;
 - conducting credit history checks;
 - ensuring that each brokerage has a managing broker in place;
 - ensuring that brokerages maintain a proper place of business.

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 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 provide research assistance as well as make 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 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 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 contravention 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.

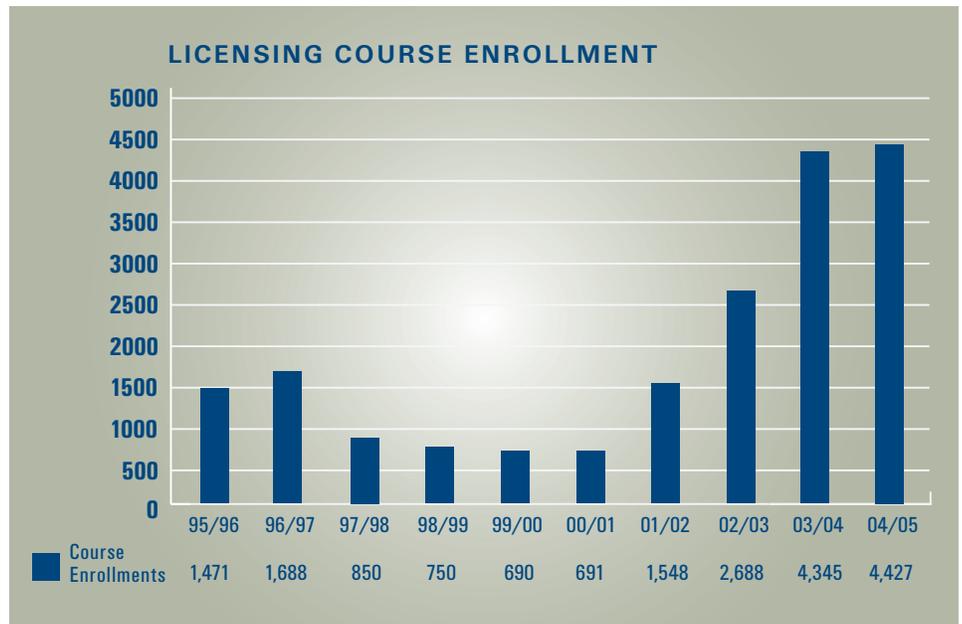
Committee Name	Authority	Responsibilities
GOVERNANCE AND MANAGEMENT COMMITTEE	The purpose of the Committee is to identify education and training for Council and Committee members that will enhance leadership development within the organization, to attract qualified candidates to run for the elected positions 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 Groups to ensure 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.

STATISTICS

THE UPWARD TREND IN LICENSING COURSE ENROLLMENTS AND THE NUMBER OF LICENSEES CONTINUED INTO 2005.

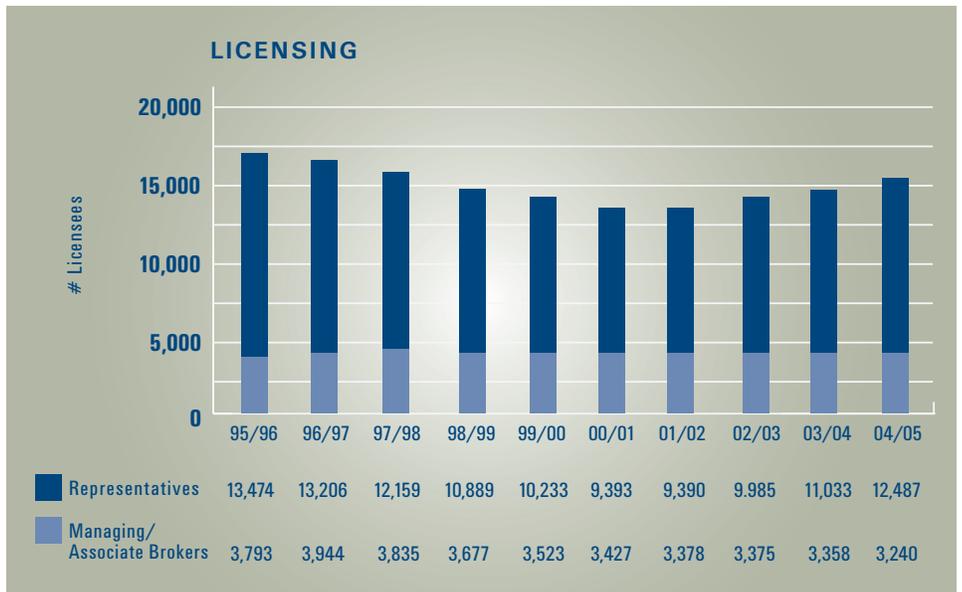
EDUCATION

For the fifth year in a row, enrollments in the Trading Services and Property Management Licensing Courses have increased. This trend is a result of the continued market activity throughout most regions of the province, but in particular, the Lower Mainland.



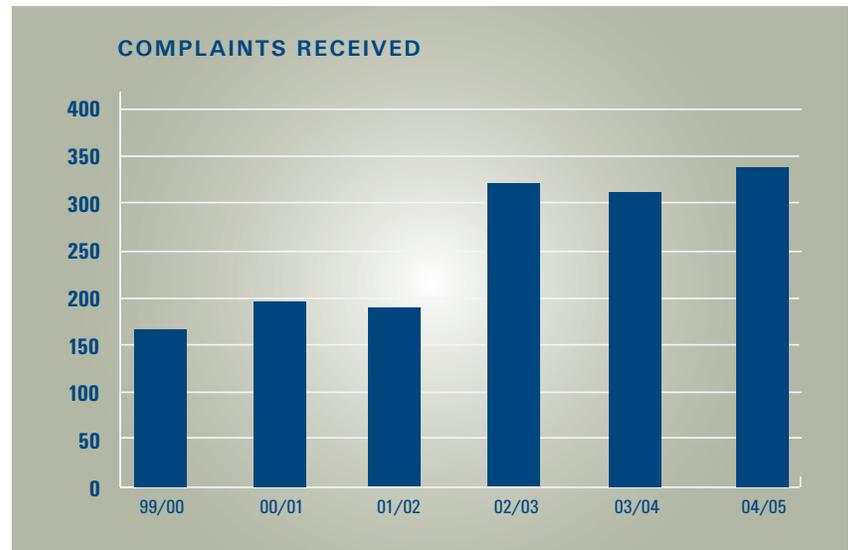
LICENSING

The figures shown to the right indicate that there was a 9.3 percent increase in the number of licensees over the past year. This is the third straight year that this upward trend has occurred and reflects less individuals leaving the industry and more new entrants as indicated in the licensing course statistics.



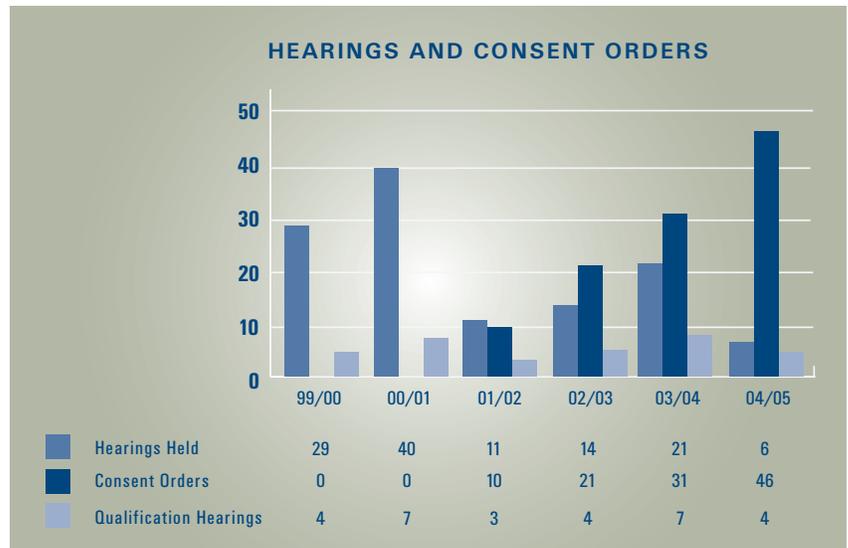
COMPLAINTS RECEIVED

As indicated in the following statistics, the number of complaints received at the Council continues to be over 300 for the third year in a row. While the number of complaints continues to be low relative to the number of trades in real estate occurring, the complexity of complaints has increased dramatically over the past few years.



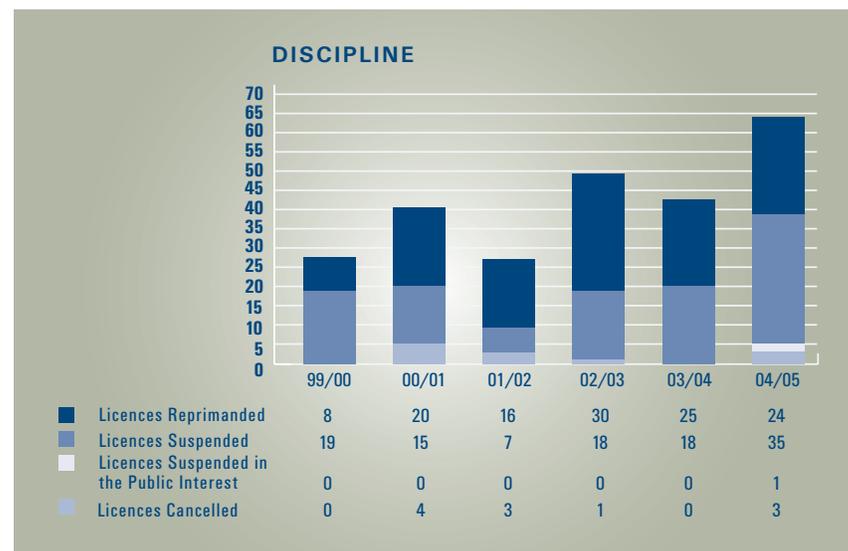
HEARINGS AND CONSENT ORDERS

While the number of hearings decreased compared with 2003/2004, the number of Consent Orders increased dramatically compared with the same time period. Despite this change, the overall number of disciplinary orders remained about the same as the year prior.



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 increased dramatically compared with previous years. It is also interesting to note that the number of licence suspensions continues its upwards trend, reflecting the seriousness of the contraventions of the real estate legislation. As a result of the Council's increased regulatory authority under the new *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. The first of these types of orders was issued in March of 2005.



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, 2005 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, 2005 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 9, 2005

ERNST & YOUNG LLP
Chartered Accountants

FINANCIAL REVIEW

BALANCE SHEET

As at June 30

	2005	2004
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	1,266,618	1,168,450
Short-term investments (market value 2005 - \$1,257,667; 2004 - \$1,211,650)	1,243,907	1,198,815
Accounts and accrued interest receivable	74,349	74,318
Prepaid expenses	48,278	46,187
	2,633,152	2,487,770
Property and equipment <i>[note 4]</i>	406,466	307,753
	3,039,618	2,795,523
LIABILITIES AND RETAINED INCOME		
Current		
Accounts payable and accrued liabilities	183,651	88,025
Unexpended capital contribution <i>[note 5]</i>	57,870	57,870
	241,521	145,895
Commitments <i>[note 8]</i>		
Retained income		
Unrestricted retained income	2,584,097	2,235,628
Internally restricted retained income <i>[note 6]</i>	214,000	414,000
	2,798,097	2,649,628
	3,039,618	2,795,523

See accompanying notes

On behalf of the Council:



Dougal Shewan
2005/2006 CHAIR



Robert O. Fawcett
EXECUTIVE OFFICER

FINANCIAL REVIEW

STATEMENT OF REVENUE, EXPENDITURES
AND RETAINED INCOME

Year ended June 30

	2005 \$	2004 \$
REVENUE		
Licensing		
Gross licence fees collected	1,120,900	964,250
Less: payable to Superintendent of Real Estate	(560,450)	(482,125)
Net fees collected	560,450	482,125
Assessments	3,071,600	2,450,650
Course fees	404,225	362,400
Interest and other investment income, net of expenses	9,522	1,277
Total revenue	4,045,797	3,296,452
OPERATING EXPENDITURES		
Administrative <i>[schedule 1]</i>	2,138,632	1,950,774
Investigation <i>[schedule 2]</i>	878,692	711,331
Other <i>[schedule 3]</i>	280,619	186,649
Total operating expenditures	3,297,943	2,848,754
Excess of revenues over expenditures from operations	747,854	447,698
Other revenue (expenditures)		
Real Estate Compensation Fund Corporation grant <i>[note 6c]</i>	(500,000)	—
Education grant <i>[note 7]</i>	(100,000)	—
Gain (loss) on sale of equipment	615	10,305
Excess of revenues over expenditures for the year	148,469	458,003
Retained income, beginning of year	2,649,628	2,191,625
Retained income, end of year	2,798,097	2,649,628
Retained income is comprised of:		
Unrestricted	2,584,097	2,235,628
Internally restricted <i>[note 6]</i>	214,000	414,000
	2,798,097	2,649,628

See accompanying notes

FINANCIAL REVIEW

STATEMENT OF CASH FLOWS

Year ended June 30

	2005 \$	2004 \$
OPERATING ACTIVITIES		
Excess of revenue over expenditures for the year	148,469	458,003
Items not involving cash:		
Amortization	175,762	124,410
Gain on sale of equipment	(615)	(10,305)
	323,616	572,108
Change in non-cash working capital:		
Increase in accounts and accrued interest receivable	(31)	(32,998)
Increase in prepaid expenses	(2,091)	(7,264)
Increase in accounts payable and accrued liabilities	95,626	35,716
Cash provided by operating activities	417,120	567,562
INVESTING ACTIVITIES		
Purchase of equipment, net of contributions applied	(274,475)	(227,461)
Sale proceeds of equipment	615	21,000
Cash used in investing activities	(273,860)	(206,461)
Net increase in cash	143,260	361,101
Cash, beginning of year	2,367,265	2,006,164
Cash, end of year	2,510,525	2,367,265
Cash is comprised of:		
Cash and cash equivalents	1,266,618	1,168,450
Short-term investments	1,243,907	1,198,815
	2,510,525	2,367,265

See accompanying notes

FINANCIAL REVIEW

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

The Real Estate 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.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash equivalents usually consist of highly liquid investments which are readily convertible into cash with maturities of three months or less when purchased.

Short-term investments

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

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.

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 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 \$
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
2004			
Computer equipment	200,030	54,609	145,421
Office equipment	230,319	166,671	63,648
Automotive equipment	47,844	665	47,179
Leasehold improvements	335,820	284,315	51,505
	814,013	506,260	307,753

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, 2005.

FINANCIAL REVIEW

NOTES TO THE
FINANCIAL STATEMENTS

6. INTERNALLY RESTRICTED RETAINED INCOME

	2005	2004
	\$	\$
Technology Fund	14,000	14,000
Legal Defence Fund	200,000	150,000
Special Compensation Fund	—	250,000
	214,000	414,000

- [a] The Technology Fund is to be used for modifications to new licensing systems software. In 2004 the Council utilized \$86,000 of the reserve, and the remaining \$ 14,000 is expected to be utilized during 2007.
- [b] In 2003 the year 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.
- [c] In compliance with Section 135 under the *Real Estate Services Act*, the Council is to contribute up to a maximum of \$500,000 as initial funding for a Special Compensation Corporation. During 2004 the Council established a Special Compensation Fund for this purpose and had designated \$250,000 from the retained income. An equal amount of \$250,000 was designated to the Special Compensation Fund during the year.

In December 2004, the Council paid a grant totalling \$500,000 to the Real Estate Compensation Fund Corporation and allocated the expenditure to reduce the Internally Restricted Special Compensation Fund to \$nil.

FINANCIAL REVIEW

NOTES TO THE
FINANCIAL STATEMENTS**7. EDUCATION GRANT**

During the year the Council approved a \$100,000 grant to the Stan Hamilton Professorship in Real Estate and Finance at the University of British Columbia. As at June 30, 2005 the grant has not yet been disbursed and is included in the balance of accounts payable and accrued liabilities.

8. COMMITMENTS

In 2003, the Council renegotiated the lease for their office premises for a five-year period ending on September 30, 2009 with an option to renew for another five-year period. Base rent due within each of the next five years is estimated as follows:

	\$
2006	127,913
2007	127,913
2008	127,913
2009	127,913
2010	31,978
	543,630

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

FINANCIAL REVIEW

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

	2005 \$	2004 \$
Amortization	175,762	124,410
Council members' per-diems	80,153	81,770
Equipment maintenance	33,467	33,181
Insurance	10,563	10,094
Office rent and operating costs, net	322,144	324,742
Postage, mailing and delivery	107,000	90,239
Printing and stationery	54,800	49,749
Professional services	29,628	56,510
Salaries	1,086,808	962,510
Telephone	18,965	15,044
Travel and accommodation	219,342	202,525
	2,138,632	1,950,774

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

	2005 \$	2004 \$
Court reporter services	14,317	17,475
Criminal records searches	10,324	9,256
Professional services	163,695	170,901
Salaries	647,414	474,977
Spot audits	25,473	20,888
Travel and hearings	17,469	17,834
	878,692	711,331

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

	2005 \$	2004 \$
Conferences	67,181	51,557
Dues, subscriptions and publications	7,572	8,580
Electronic communication	52,774	34,232
Post licensing education	16,555	19,835
Printing	72,424	67,855
Public relations	64,113	4,590
	280,619	186,649



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