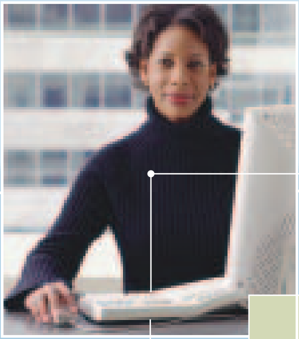
REAL ESTATE COUNCIL OF ONTARIO
Annual Report 2003-2004



# CONNECTING WITH OUR STAKEHOLDERS

REC O

## CORPORATE PROFILE

**The Real Estate Council of Ontario (RECO) has a dual mandate:**
**> To administer the regulatory requirements of the real estate industry as set down by the Government of Ontario; and**
**> To protect consumers and members through a fair, safe and informed marketplace.**

RECO administers the *Real Estate and Business Brokers Act* (the Act) on behalf of the Ministry of Consumer and Business Services. In addition, RECO has adopted its own by-laws, which provide an interim solution to real estate act reform and allow RECO to deliver more effective governance of the profession.

Under the Act, membership in RECO is a condition of registration. All registrants are therefore required to abide by the terms and conditions of membership in RECO.

RECO is governed by a 12-member Board of Directors, which includes nine elected representatives from the profession and three ministerial appointees.

RECO operates on a not-for-profit basis. Operating revenues are derived from registration fees. Any excess revenue is invested in improvements to programs and services.

As of March 31, 2004, RECO had 54 employees.

**RECO'S VISION:** Public trust in the real estate marketplace.

**RECO'S MISSION:** To provide a regulatory environment that earns the full confidence of consumers, registrants and government.

## CONTENTS

# HIGHLIGHTS

Year ended March 31, 2004

### IN 2003-2004, RECO:

> Worked closely with the Ministry of Consumer and Business Services on a new Code of Ethics and other regulations to take effect when the *Real Estate and Business Brokers Act, 2002* is proclaimed.

> Participated in a national task force on the concept of agency in the real estate profession.

> Worked to design and develop a new website that will offer electronic services such as online change of address, member surveys and personalized access to registration information.

> Resolved more than 1,100 consumer and member complaints about professional conduct – with only 4 per cent requiring a formal disciplinary hearing. *(Resolved complaints include some open files from complaints received the previous year.)*

> Inspected more than 600 brokerage offices to monitor compliance and educate brokers on their responsibilities.

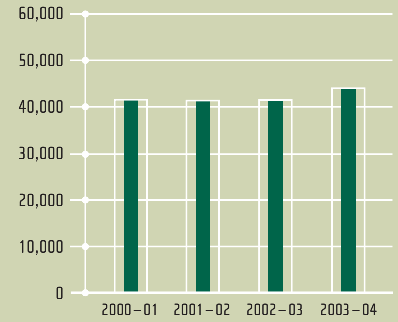
> Intensified enforcement by more than doubling the number of investigations launched.

> Smoothly handled a 13 per cent increase in registration transaction volume.

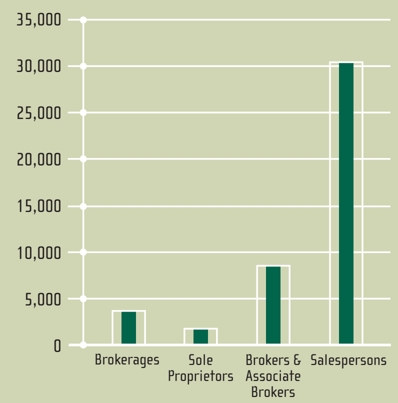
> Launched a comprehensive review of the Mandatory Continuing Education program after four years of operation.

> Held a competitive process and chose a new broker and insurer for RECO's Insurance program.

TOTAL REGISTRANTS




TOTAL REGISTRANTS
BY CATEGORY AS OF MARCH 31, 2004



# MESSAGE FROM THE CHAIR

**KEN HAJAS**
*Chair, Board of Directors*

In my view, RECO is adding significant value to Ontario's real estate industry by helping government improve the regulatory framework and by sustaining a consumer protection system that builds public trust.

# THE VALUE OF A REGULATED REAL ESTATE INDUSTRY

**It is a pleasure to present this Annual Report for the Real Estate Council of Ontario (RECO) for the fiscal year ended March 31, 2004.**

I have had the honour of serving as a director of RECO for the past five years and as Chair of the Board of Directors for the past year. Over both periods, no priority ranked higher for RECO than our relationships with the provincial and local real estate associations and with the Ministry of Consumer and Business Services, whose legislation we administer. We have welded strong, effective partnerships with our stakeholders – furthering our overriding goal of creating a fair, safe and informed marketplace.

In the past year, RECO provided advice and feedback as the Ministry developed a new Code of Ethics and other regulations to support the *Real Estate and Business Brokers Act, 2002.* I was pleased to participate in a working group on this important endeavour, along with two former Chairs of RECO's Board, our president, Registrar and senior staff and members of the real estate industry. This group built on the efforts of the RECO task force that worked with the Ministry on the Act itself and the early stages of the regulations.

The draft regulations are being released in stages in spring 2004. We look forward to participating in further consultations to fine-tune the provisions.

I believe this ongoing interaction with the Ministry has fostered a mutual respect and a deeper understanding of the real estate business within government. This can only be an advantage for our registrants and consumers.

As well, RECO has developed a constructive working relationship with the Ontario Real Estate Association and local real estate boards. This is reflected, for example, in the frequent invitations I and senior RECO staff have received to address these groups. Consumer protection has traditionally been a firm commitment in the real estate business. Both consumers and registrants increasingly recognize RECO's value in delivering on this commitment more effectively than ever.

Opinion studies show that real estate brokers and salespersons rate highly for professionalism. Part of the reason, I believe, is that the industry is a regulated one, with the checks and balances that status implies. Regulation gives consumers confidence that the people helping them in the largest financial transactions of their lives are competent, conscientious and reliable. The quality of real estate service is backed by insurance coverage. And consumers have an avenue of redress if not satisfied with the treatment they receive. All these protections build public trust – the cornerstone of the real estate marketplace.

Like the industry we oversee, RECO is committed to continuous improvement. That's why this year, committees of the Board undertook in-depth reviews of our Insurance program and our Mandatory Continuing Education program, respectively. We want to ensure that these key activities, which serve both consumers and members, remain in the forefront in terms of both efficiency and effectiveness.

In my view, RECO is adding significant value to Ontario's real estate industry by helping government improve the regulatory framework and by sustaining a consumer protection system that builds public trust. I am proud to be a member of a regulated real estate industry. I value the ultimate benefits such as increased consumer confidence, respect and professional integrity, which, in my opinion, are the framework for public trust in the real estate marketplace.

Sincerely,

**KEN HAJAS**
*Chair, Board of Directors*

# MESSAGE FROM THE PRESIDENT

**TOM WRIGHT**
*President/Chief Executive Officer*

We are committed to creating further value for both consumers and registrants in the year ahead.

# DOING BETTER WHAT WE ALREADY DO WELL

**In last year's annual report, I emphasized that the Real Estate Council of Ontario is committed to doing better what it already does well. We have delivered on that commitment during the 2003-2004 fiscal year.**

With the proclamation of the *Real Estate and Business Brokers Act, 2002* in the offing, we re-examined the way we do business in the context of the new regulatory environment. It is essential to align RECO's structure and processes with the new legislation and regulations to ensure we continue to deliver quality services. This effort will remain our top priority in the year ahead.

We have moved forward with our exciting plans for electronic services by developing a new website to be unveiled in mid-2004. The new site will include such capabilities as an improved online search feature, online surveys, electronic change of address and password-protected member access to individual information.

We also believe there is still a role for plain old hard-copy communications. This spring, we launched our member newsletter that we plan to issue three times a year. It is designed to keep readers up to date on our activities as well as on issues facing the profession – helping to create an informed marketplace.

In December 2003, the Board's Insurance Committee issued a Request for Proposals to supply the insurance coverages that protect both members and consumers. In view of changing market conditions, the committee felt it made sense to revisit the marketplace to guarantee competitive pricing and services. This process led to the selection of a new broker and a new insurer to be in place as of September 1, 2004.

Our Mandatory Continuing Education program added new education providers and new courses during the year. This program reflects a proactive approach to consumer protection. It prevents problems by creating more knowledgeable professionals.

RECO protects consumers and promotes fair play in the industry through compliance, disciplinary and enforcement roles. During the year we inspected more than 600 brokerage premises, resolved more than 1,100 complaints.

Another important contribution RECO makes to the Ontario industry is to liaise with real estate regulatory bodies across the country through the Canadian Regulators Group. CRG, as it is known, has formed a task force on agency – a core issue in today's active real estate market – to encourage uniform best practices across Canada.

As I have said before, it is RECO's employees who are the foundation for our success. I would like to take this opportunity to thank each of them for their commitment and hard work. Working together, they make RECO's goals a reality.

The Board of Directors recognizes that our staff are our most valuable asset. As tangible proof of this, RECO continued to make significant investments in training during the year. We will continue to invest in people as we prepare for proclamation of the new Act.

In 2003-2004 RECO again made a solid contribution to Ontario's real estate industry. Our programs provide a safety net for consumers involved in real estate transactions. And our presence maintains a level playing field and reinforces public confidence in real estate professionals. We are committed to creating further value for both consumers and registrants in the year ahead.

Sincerely,

Tom Wright

**TOM WRIGHT**
*President/Chief Executive Officer*

# REPORT ON PRIORITIES

| STRATEGIC PRIORITY | 2003-2004 ACHIEVEMENTS |
|---|---|
| GOVERNANCE & ACCOUNTABILITY | > Governance training provided to new directors as part of orientation in 2003-2004<br>> Implemented a Board meeting evaluation process<br>> Governance Committee conducting ongoing work on director/Board performance evaluation<br>> Annual Report includes an overview of the activities of the Insurance Committee, Education Committee and Real Estate Act Task Force<br>> Implementation of Consumer Advisory Group underway; consultant engaged to assist with reviewing terms of reference, establishing the group, seeking members<br>> Directors participated in 15 trade shows/meetings throughout the province in 2003-2004<br>> Quarterly reports provided to Ministry; other information supplied as required; liaison meetings attended |
| NEW LEGISLATION | > Real Estate Act Task Force (and its working group) assisted Ministry of Consumer and Business Services with pre-consultation regulation development process<br>> Existing organizational structure under review in preparation for proclamation of new legislation<br>> Training for managers and staff provided; additional training opportunities identified |
| ENHANCE CONSUMER/REGISTRANT COMMUNICATIONS | > RECO website redesign planned with target launch date summer 2004; to include new sections and improved search features<br>> Public information provided through television appearances in Hamilton and Toronto<br>> New registrant newsletter developed; hard-copy version launched April 2004; electronic version to follow launch of the new website<br>> Continued to share publications and information with other organizations in direct contact with consumers<br>> Management continued to participate in trade shows, real estate board events and other industry events throughout the province over the course of the year |
| EDUCATION | > Insurance loss information and complaints data reflected in RECO Real Estate Update Course material<br>> Arranged for insurance broker to provide loss prevention bulletins and other loss control information on regular basis in 2004-2005<br>> Comprehensive review of Mandatory Continuing Education program initiated |
| IMPROVE OPERATIONAL EFFICIENCY | > Move to web-based system completed; many manual processes automated<br>> Work on new intranet and extranet begun with a target completion date of summer 2004<br>> Management/maintenance costs for systems and software reduced<br>> September 2003 insurance renewal activities outsourced, reducing operational costs<br>> No increase to administrative charges for Insurance Program in 2003-2004<br>> Number of inspections exceeded previous year’s total by 24 |

# CONNECTING WITH OUR STAKEHOLDERS

## BUILDING PRODUCTIVE PARTNERSHIPS

### WORK ON REGULATIONS PROCEEDS

The *Real Estate and Business Brokers Act, 2002* awaits proclamation. RECO has worked with the Ministry of Consumer and Business Services on reform since 1997, while the Ontario Real Estate Association (OREA) and local real estate boards have sought modernized legislation for many years.

Throughout 2003-2004, the Ministry continued to develop regulations – including a new Code of Ethics – to support the new Act. In spring 2003, RECO's Real Estate Act Task Force submitted recommendations for the content of the regulations and the rationale for changes. Then, RECO formed a working group that worked closely with Ministry staff to analyze regulatory issues in depth, providing input, feedback and clarification as required. The draft regulations were expected to be released for consultation in spring 2004.

Throughout 2003-2004, the Ministry continued to develop regulations – including a new Code of Ethics – to support the new Act.

### AGREEMENT WITH MINISTRY REVISED

During the year, RECO and the Ministry negotiated revisions to the administrative agreement that governs their relationship. Among other changes, the

### ACCESSIBILITY TO INFORMATION

As we face changes in legislation and regulations that will affect the day-to-day business of registrants, RECO wants to ensure that registrants have information available to them that will make it easier to comply. RECO looks forward to providing new and enhanced online services for registrants and making information and services accessible outside of regular business hours.

revised agreement reduces the oversight fees RECO pays to the Ministry, in line with the move to a cost-recovery model. This fee reduction enables RECO to invest in activities that are integral to its mandate, such as electronic service delivery.

### CONSUMER ADVISORY GROUP PLANNED

Consumer protection is central to RECO's mandate. The RECO Board has approved the establishment of a Consumer Advisory Group that will provide consumer input and feedback on a regular basis. The advisory group will help RECO keep its programs and services in tune with changing consumer needs. RECO is working with the Consumers Council of Canada to get the new advisory body in place, recruit members and develop the terms of reference for the advisory group.

The RECO Board has approved the establishment of a Consumer Advisory Group that will provide consumer input and feedback on a regular basis.

### OREA ADVERTISING TASK FORCE

Advertising remains a contentious topic in the real estate industry. RECO believes advertising standards should be updated to reflect the current marketplace and the Registrar has requested the Ontario Real Estate Association to create a task force on this issue.

OREA agreed to convene an industry group to review the advertising practices of registrants and the rules governing advertising. The task force is also to seek the opinion of registrants on changes needed. RECO looks forward to receiving the recommendations in 2004-2005.

### GREEN TIDE SUMMIT

RECO's president and past Chair represented the organization at the Green Tide Summit hosted by the Ministry of Community Safety and Correctional Services and the Ontario Association of Chiefs of Police in Toronto in March 2004. The purpose of this high-profile gathering was to explore ways to eliminate marijuana grow houses. The two-day summit brought together various levels of government, police services, public utilities and the private sector. It marked the first time these different interests have collaborated to share information and ideas on this serious threat to community safety.

### RECO ACTIVE ON NATIONAL SCENE

As Ontario's real estate regulator, RECO has formed positive links with its counterparts in Canada and internationally.

For example, RECO participates in the Canadian Regulators Group (CRG), comprising real estate regulatory bodies across the country. CRG has created an Agency Task Force to address what has become a core issue for the industry in Canada. RECO's Registrar is on the task force.

The way agency is interpreted affects the relationship between consumers and real estate professionals. Policies vary from province to province, and the task force has been asked to recommend a consistent national approach based on best practices. It would be up to each jurisdiction to adopt the recommendations, expected to be submitted in mid-2004.

RECO also participates in the Association of Real Estate License Law Officials (ARELLO) – a global association made up of entities involved in regulating the practice of real estate. A RECO Board member is currently a Canadian district director representing Ontario. ARELLO provides a valuable forum for sharing information and best practices to meet the common goal of improved regulatory services.

## IMPROVING SERVICES TO REGISTRANTS AND THE PUBLIC

### NEW WEBSITE TO DELIVER E-SERVICES

During the year, RECO designed and developed a new, more sophisticated website scheduled for launch in summer 2004. The new site will offer access to a range of e-services.

For example, the search feature will be improved so registrants and consumers can more easily check if salespersons or brokers are registered. As well, online polls and surveys and online change of address will be added. Registrants will have password-protected access to individual information including continuing education credits carried forward, registration expiry date and links to recent news, information and e-bulletins. Electronic payment options and other e-services are planned for the not-too-distant future. A new web-based system for RECO's internal operations and the processing of registrants' transactions will also be coming on-stream in spring 2004.

Registrants will have password-protected access to individual information including continuing education credits carried forward, registration expiry date and links to recent news, information and e-bulletins.

### ENHANCED COMMUNICATIONS

The new and improved website will help RECO respond to the anticipated demand for up-to-date information and revised publications when the new legislation is proclaimed.

In addition to expanding electronic communications, RECO launched a new hard-copy newsletter, *For the RECOrd,* in 2003-2004. The publication will be mailed to registrants about three times per year. The goal is to give readers information that will help them comply with legislation, regulations and RECO by-laws and keep them up to date on major issues facing the industry. This is one more way RECO promotes a fair, safe and informed marketplace.

RECO continued to distribute brochures, such as *Protecting You in a Real Estate Transaction* and *Consumers' Guide to Understanding the CCD Process,* through organizations with direct ties to consumers. During 2003-2004, 12,928 publications were distributed. As well, television appearances in Toronto and Hamilton helped get RECO's message across.

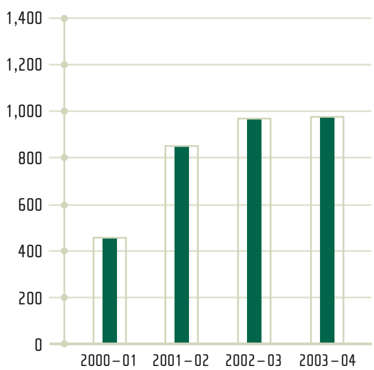
### FRENCH-LANGUAGE SERVICES

RECO offers service in the French language where and when warranted. French-speaking staff are available during regular business hours and communications received in French are answered in French.

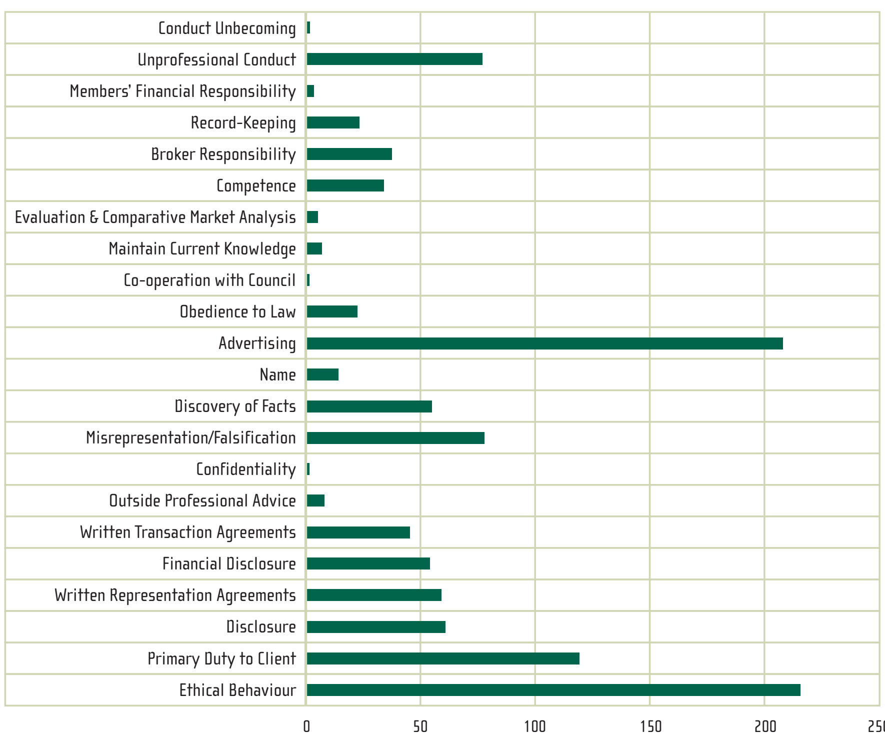
# RESOLVING COMPLAINTS

RECO is committed to creating a regulatory environment that earns the full confidence of consumers, registrants and government. RECO's member-approved Code of Ethics provides a guidepost on the path to fulfilling this mission. The Code sets out the minimum standards of conduct expected of real estate brokers and salespersons. It covers such areas as client and customer relationships, discovery of facts, misrepresentation, confidentiality, advertising, financial disclosure and presentation of offers. RECO has a responsibility to ensure compliance with the Code. It does this through the Complaints, Compliance and Discipline (CCD) process, which responds to complaints from consumers and members.

COMPLAINTS




SUMMARY OF CODE VIOLATIONS 2004




In 2003-2004, RECO received a total of 975 written complaints, virtually unchanged from 961 the year before. Considering that there are 43,000 RECO registrants, this indicates a high level of compliance with the Code of Ethics.

## INNOVATIVE PROCEDURES

Recognizing that all parties benefit from the prompt resolution of complaints, RECO continues to refine the process to make it more efficient without lessening consumer protection or procedural fairness.

In 2003-2004, the pre-hearing option – introduced by RECO the previous year – was requested by the RECO member in the vast majority of cases that were proceeding to a formal hearing. At a pre-hearing, the RECO prosecutor and the member informally discuss and clarify issues before a discipline committee member. The pre-hearing often results in an agreed statement of facts and penalty, leading to an abbreviated hearing. A disciplinary panel reviews and in most cases approves the agreement without the need for a formal hearing.

This was also the first full year for RECO's abbreviated process for simple advertising complaints. Where this process is used, RECO informs the member of the specific errors in the advertisement and requests a commitment to comply in future advertisements. If the member agrees, the process ends. If not, the usual complaint-handling procedures apply.

RECO also made more use of another option in 2003-2004 – caution by way of personal interview. This is a disciplinary step between a written caution and a full disciplinary hearing. Forty-two of these interviews were held this year, providing an opportunity for RECO to explain to registrants in person why their conduct was not in compliance with the Code of Ethics.

## FEW HEARINGS NECESSARY

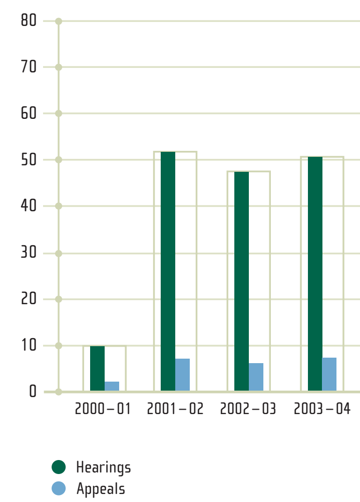
In 2003-2004, 1,145 complaints were resolved and only 43 of these closed complaints – or 4 per cent – involved a formal disciplinary hearing. Twenty-seven per cent of the complaints resulted in written cautions, 4 per cent led to personal interviews, 1 per cent were referred to the Registrar for further action, 40 per cent were dismissed after review by RECO's CCD manager, and 24 per cent were closed because the complainant withdrew the complaint or did not return the permission form.

A member has the right to appeal the decision of a discipline panel or the penalty or both to RECO's Appeals Committee, but only on jurisdictional or procedural grounds. RECO also has the right to lodge an appeal. During the year, the Appeals Committee reviewed seven cases, compared with six the year before.

## PROCEDURAL FAIRNESS A PRIORITY

In 2003-2004, RECO conducted a review of its disciplinary procedures in light of the impending proclamation of the *Real Estate and Business Brokers Act, 2002* and recent court decisions. Over the years, RECO's disciplinary panels have been moving toward the procedural standards of a statutory tribunal. These standards will apply under the new legislation. A court case this year found that RECO's CCD process met the principles of procedural fairness.

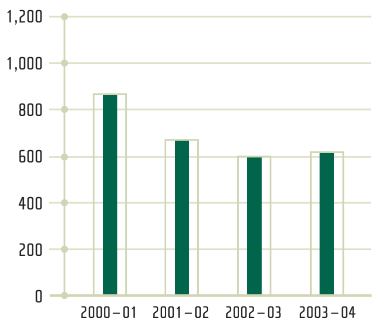
### HEARINGS AND APPEALS



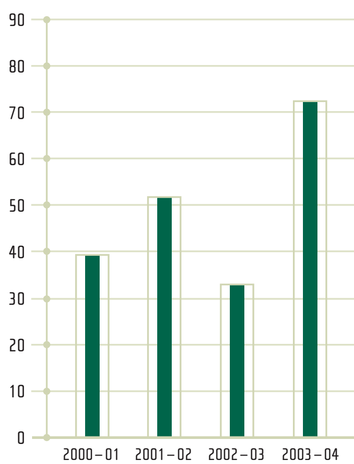
# MONITORING INDUSTRY PRACTICES AND ENFORCING THE LAW

RECO protects consumers by inspecting brokerage offices and by investigating alleged violations of real estate legislation and regulations. These monitoring and enforcement activities also promote a level playing field for the industry by ensuring the rules are respected.

INSPECTIONS




INVESTIGATIONS



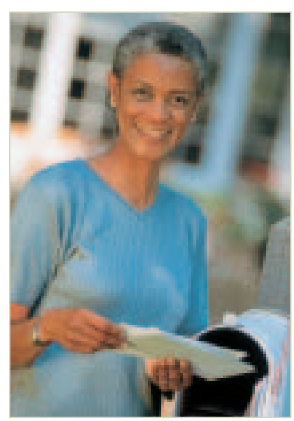

## INSPECTIONS

RECO employs a full-time staff of inspectors who visit brokerage offices on a regular basis. The purpose of inspections is to ensure that brokers are abiding by the *Real Estate and Business Brokers Act* and regulations. Areas examined range from trade contracts and trade record sheets to trust account records and other accounting documentation. The inspection process also gives brokers the opportunity to get immediate answers to questions about record-keeping and other requirements. Inspections are usually scheduled in advance, but can take place without notice if circumstances require.

The initial goal of RECO's inspection program was to visit every brokerage in the province, and this has been done. Inspections continue on a random basis, with emphasis on returning to brokerages with prior deficiencies (risk-based inspections). In addition, RECO offers courtesy inspections to new brokerages to help them set up proper records systems from the start. In all, RECO conducted 628 inspections in 2003-2004 – up slightly from 604 a year earlier.

## SERVICES TO NEW REGISTRANTS AND BROKERAGES

In January 2004, RECO started mailing out information packages to new registrants and new brokerages to ensure they are familiar with RECO – its role, services and activities. The new brokerage packages also offer brokers an opportunity to schedule a courtesy inspection in order to learn how to set up proper record-keeping systems from the outset and to have any questions they might have addressed by RECO's inspectors.



### INVESTIGATIONS INCREASE

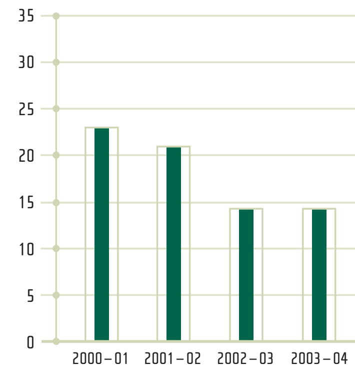
In 2003-2004 RECO launched 73 investigations of alleged violations of the *Real Estate and Business Brokers Act* or regulations – more than double the 34 investigations started in the previous year. Fifty-eight investigations were concluded in 2003-2004, up from 49 one year earlier.

This enforcement activity led to 14 prosecutions commenced in the Ontario Court of Justice – the same number as the year before. Ten convictions were obtained compared to 12 the previous year. Fines imposed more than doubled to $182,000 in 2003-2004 from $72,200 in 2002-2003. The convictions were for such violations as breach of trust account, providing false information on an application for registration and employment of unregistered sales staff by a broker.

RECO has experienced an increase in investigations about mortgage-related fraud and trust account irregularities. Both of these issues are serious matters that could potentially result not only in court action but also in loss of registration.

During the year, RECO took swift action to protect consumers by freezing monies held in trust by a brokerage whose registration had been terminated. RECO quickly issued a public advisory about the freeze and its implications.

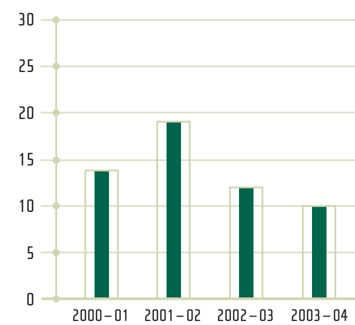
PROSECUTIONS




## REGISTERING REAL ESTATE SALESPERSONS, BROKERS AND BUSINESSES

Registration under the *Real Estate and Business Brokers Act* is required to trade in real estate in Ontario. As of March 31, 2004, 43,308 individuals and businesses were registered. This total reflects a 5 per cent increase from 41,430 one year earlier.

CONVICTIONS




### MORE TRANSACTIONS PROCESSED

RECO reviews and approves new applications for salesperson, broker or business registration as well as renewal applications. RECO also processes registration reinstatements, revisions, transfers and terminations.

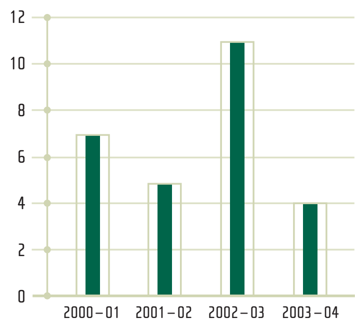
In all, RECO's registration staff handled 46,559 transactions in 2003-2004, a 13 per cent increase from 41,352 the year before. New registrations increased to 4,236 from 2,790 while renewals rose to 17,388 from 16,309.

### REFUSALS AND REVOCATIONS

A key consumer protection tool is the Registrar's authority to refuse, revoke or refuse to renew registration. The Registrar can use this power where the applicant cannot reasonably be expected to conduct business in a financially responsible way, or where past conduct gives reasonable grounds for belief that the applicant will not carry on business with integrity and honesty. In 2003-2004, the Registrar successfully refused or revoked four registrations, compared with 11 the previous year. An additional five proposals were in progress.

An applicant can appeal the Registrar's proposal to refuse or revoke registration to the Licence Appeal Tribunal (LAT). Two LAT hearings were held in 2003-2004, compared with one the year before.

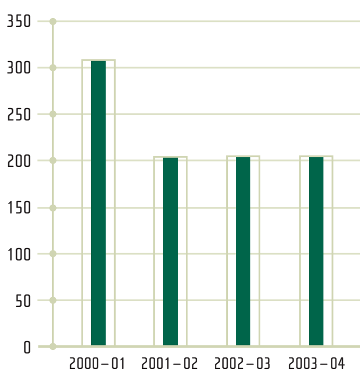
REFUSALS AND REVOCATIONS




### ADMINISTRATIVE REGULATORY ACTION

RECO promotes compliance and protects consumers through administrative regulatory action, such as issuing a reprimand or imposing terms and conditions on a registrant. The Registrar may invoke these sanctions where, for example, a judgment is outstanding against a registrant, an applicant has not disclosed pertinent information or an inspection has uncovered deficiencies. During 2003-2004, administrative action was taken in 203 cases, virtually unchanged from 204 the previous year.

ADMINISTRATIVE REGULATORY ACTIONS




## PROMOTING CONTINUOUS PROFESSIONAL LEARNING

Professional education is an ongoing process in Ontario's real estate industry. In addition to pre-registration educational requirements and articling courses, all salespersons and brokers must complete 24 credit hours of continuing education in each two-year registration cycle.

### ENSURING HIGH STANDARDS AND PROTECTING CONSUMERS

The overall goal of continuing education is to ensure that registrants maintain a high level of skills and knowledge in order to facilitate their professional activities. A better educated registrant can offer improved services with fewer incidents of error – a benefit to both consumers and the industry at large.

RECO's Mandatory Continuing Education (MCE) program helps to equip real estate professionals with the knowledge and skills to do their jobs well. This translates into better service for their clients and customers.

## DIVERSE LEARNING OPPORTUNITIES

Under the program, six credit hours are devoted to the mandatory *RECO Real Estate Update Course* – either the residential or the commercial version – delivered by the Ontario Real Estate Association.

Members select the remaining courses themselves from hundreds of options offered by approved public and private sector education providers. In 2003-2004, RECO's Education Committee – a Board committee – approved 11 new providers and 30 new courses. Many courses are available by correspondence or online, making them more accessible. An audit process enables RECO to verify that members have met the educational requirements.

## COMPREHENSIVE REVIEW UNDERTAKEN

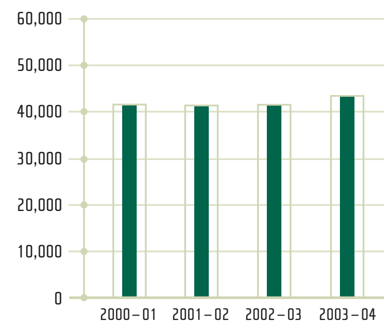
The MCE program began in 2000 and has received strong support from both members and education providers. After four years of operation, however, the Education Committee felt it was time for an in-depth review of the program. This process got underway during 2003-2004. A comparison with similar initiatives in the rest of Canada and some U.S. jurisdictions found that RECO's program was as developed as any other.

Among the committee's goals are a more level playing field for providers and a more streamlined course approval process. Changes in these areas could encourage more providers to offer courses, bring more courses on-stream faster and result in more choices for members. The committee is also looking at ways to improve member services, such as electronic tracking of credits completed. The committee expects to make recommendations to the RECO Board in 2004-2005 and both members and education providers would be consulted before changes are implemented.

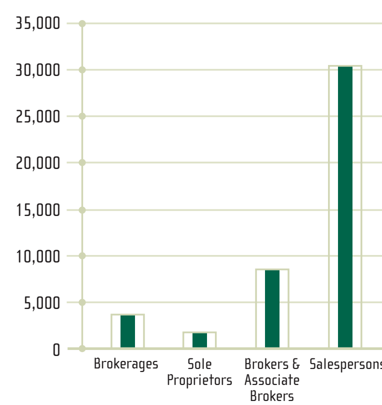
# INSURING AGAINST THE UNEXPECTED

RECO's Insurance Program includes three separate insurance policies: Consumer Deposit, Commission Protection and Errors & Omissions. The program protects registrants as they conduct business as well as consumers engaged in real estate transactions. Participation in the program, which began on September 1, 2000, is mandatory for all RECO members.

### TOTAL REGISTRANTS




### TOTAL REGISTRANTS BY CATEGORY AS OF MARCH 31, 2004



With nearly four years of practical experience and loss information on hand, the committee also decided to review the Insurance program in terms of stability, affordability and coverage.

## COMPETITIVE BIDS OBTAINED

RECO's Insurance Committee – a committee of the Board – oversees the Insurance Program. In 2003-2004, the committee decided to return to the marketplace to ensure competitive pricing and service. A Request for Proposals was issued in December 2003 and garnered a strong response by the March 2004 closing date. As a result of this process, a new broker – Aon Reed Stenhouse Inc. – and a new insurer – Lloyds of London – will provide RECO's Insurance Program coverage as of September 1, 2004 for a one-year period.

## PROGRAM REVIEW PLANNED

With nearly four years of practical experience and loss information on hand, the committee also decided to review the Insurance program in terms of stability, affordability and coverage. This long-range planning exercise in 2004-2005 will weigh all options, ranging from traditional coverage to various forms of risk-assuming insurance.

## CLAIMS STATISTICS

The Insurance Program has accumulated claim results for 42 months (as of March 1, 2004) and meaningful trends are appearing. Some highlights from the data are reported below.

### Consumer Deposit Insurance Policy

The Consumer Deposit policy protects consumers from loss of deposits due to broker fraud, insolvency or misappropriation of funds. The number of claims reported remains low for this component of the program.

### Commission Protection Insurance Policy

The Commission Protection policy shields members from loss of commissions as a result of broker fraud, insolvency or misappropriation of funds. The total cost of claims for the first three-and-one-half years of operation is estimated at $563,159.

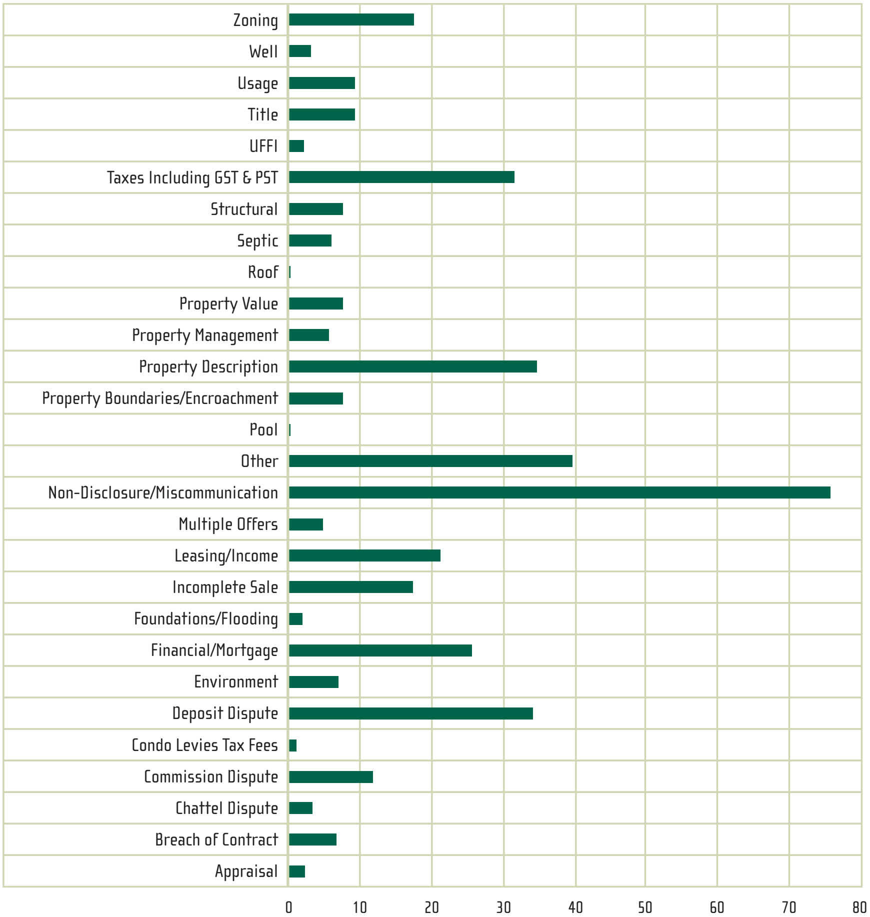
### Errors & Omissions Insurance Policy

The Errors & Omissions policy provides members with professional liability insurance for acts of negligence.

From inception until March 1, 2004, a total of 1,558 claims and incidents were reported and 895 claims were completed. These totals include 283 claims and incidents reported and 239 claims completed in the first half of year four.

Six-hundred and sixty-three claims remained in process as of March 1, 2004. This represented a slight decrease from 668 in process at the start of year four on September 1, 2003.

INSURANCE — Errors and Omissions Claims: Cause of Loss
(Urban and rural for 42 months ending February 29, 2004)




The total cost of claims, both completed and in process, from September 1, 2000 to March 1, 2004 is estimated at $6,143,148.

The total cost of claims, both completed and in process, from September 1, 2000 to March 1, 2004 is estimated at $6,143,148. Over this period, the cost of completed claims averaged $2,374 and the estimated cost of claims in process averaged $6,052. The latter figures reflect increases over the first half of year four from $2,154 for completed claims and $5,400 for claims in process.

Claims in process tend to be more complex and higher-value claims, which take longer to resolve. This explains why the average cost of claims in process is higher than the average cost of completed claims.

## LEARNING FROM LOSS EXPERIENCE

Loss information since September 2000 has been shared with RECO's Education Committee and OREA for use in assessing education needs. The RECO Real Estate Update Course material reflects lessons from this data.

# FINANCIAL REVIEW

**This financial review is based on the audited financial statements for the year ended March 31, 2004 and the comparative figures for the year ended March 31, 2003.**

### Overview

The Real Estate Council of Ontario comprises two distinct categories: general operations and the Insurance program. General operating receipts are derived primarily from registration fees required under the *Real Estate and Business Brokers Act*. Registration fees are amortized to income over the two-year period of each registration. Other fees include transfer fees, administrative fees related to the education nominee agreement with the Ontario Real Estate Association, cost recoveries and administrative penalties assessed by the discipline panels and miscellaneous revenues. These fees are recognized in the current year. All receipts related to the Insurance Program are required to be held in trust and segregated from general operating funds into three trust funds. Insurance payments include premiums, stabilization fees, administration fees (to cover broker fees, actuarial fees and program costs) and applicable taxes. Insurance receipts are amortized to income over the period of the insurance policy.

# GENERAL OPERATIONS

### Revenues

Recognized registration revenues increased from $6,088,666 in fiscal 2003 to $6,233,390 in fiscal 2004 due to an increase of over 4,000 new registrations between November 2002 and March 2004. Other operating revenues increased from $829,511 in fiscal 2003 to $1,204,317 in fiscal 2004. Administrative fees increased by $267,813 as we experienced the first full year under the education nominee agreement with the Ontario Real Estate Association; cost recoveries and administrative penalties assessed by discipline panels increased by $86,310; and transfers increased by $30,650 primarily due to the reorganization of a large brokerage and the transfer of all its salespeople. Other miscellaneous revenues decreased by $9,966. Interest increased from $72,162 to $82,711. Net revenues are total revenues less the goverment fee under the previous Administrative Agreement. In fiscal 2004 all amounts paid under the previous agreement were amortized. These amounted to $315,705 compared to $915,024 in fiscal 2003. There are no unamortized amounts.

Recognized registration revenues increased from $6,088,666 in fiscal 2003 to $6,233,390 in fiscal 2004 due to an increase of over 4,000 new registrations between November 2002 & March 2004.

### Expenses

Expenses include general operating departments and facilities; Board, committees and task force per diems and meeting costs; and other corporate expenses such as communications, external legal and consulting costs, election costs, the government fee under the new Administrative Agreement, and amortization. Total expenses decreased from fiscal 2003 by $816 to

$5,528,395. Operating departments were higher by $67,613; Board committees and task forces were lower by $6,121; and other corporate expenses were lower by $62,308.

### Net Income and Accumulated Fund Balance

Net income for the year was $1,676,318 compared to $546,104 in fiscal 2003. This income together with a reduction in the fund balances invested in capital assets resulted in a decrease in the accumulated deficit from $2,433,193 at the end of fiscal 2003 to $614,641 at the end of fiscal 2004.

### Net Current Assets

Net current assets, excluding deferred revenue, were $5,782,805 at March 31, 2004 compared to $3,492,568 at March 31, 2003.

## INSURANCE PROGRAM

### Revenues

Premium revenues increased by $437,641 to $4,557,725 due to an increase in the premiums billed for the period from September 1st, 2003 to September 1st, 2004; stabilization revenues declined by $12,129; and administration revenues declined by $14,252. Interest was $26,444 lower in fiscal 2004. Interest is allocated to the three trust funds – Premium Fund, Stabilization Fund, and Administration Fund – on the basis of the cash balances in each fund.

### Expenses

Premium expense was $4,218,961 in fiscal 2004 compared to $3,962,350 in fiscal 2003 due to an increase in subscribers to the program. No expenses are charged to the Stabilization Fund. Expenses of the Administration Fund increased from $497,993 in fiscal 2003 to $715,050 in fiscal 2004. This was primarily due to the change to annual billing, which increased expenses by $240,802; and the addition of an insurance coordinator increasing expenses by $43,365. These increases were offset by decreases in legal and audit of $20,519 and the recovery of $12,805 related to provincial sales tax compared to an expense of $59,727 in fiscal 2003.

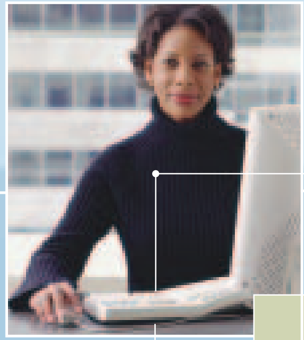
### Net Income and Accumulated Fund Balance

Following interest allocation to each fund, net income for fiscal 2004 was $360,034 for the Premium Fund compared to $187,119 in fiscal 2003; $731,814 for the Stabilization Fund compared to $756,745 in fiscal 2003; and $20,655 for the Administration Fund compared to $257,491 the previous year. At March 31st, 2004, the accumulated fund balances were: $854,199 in the Premium Fund; $2,551,867 in the Stabilization Fund; and $238,629 in the Administration Fund.

### Net Current Assets

Net current assets, excluding deferred revenues and premiums, are $4,336,907 at March 31, 2004 compared to $3,019,401 at March 31, 2003.

Premium expense was $4,218,961 in fiscal 2004 compared to $3,962,350 in fiscal 2003 due to an increase in subscribers to the program and an increase in the premiums.



# FINANCIAL STATEMENTS

Real Estate Council of Ontario
March 31, 2004

# AUDITORS' REPORT

May 6, 2004

## TO THE REGISTRANTS OF REAL ESTATE COUNCIL OF ONTARIO

We have audited the balance sheet of **Real Estate Council of Ontario** as at March 31, 2004 and the statements of operations and cumulative operations and insurance trust fund balances and cash flows for the year then ended. These financial statements are the responsibility of the organization'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 organization as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

**Chartered Accountants**
North York, Ontario

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

# BALANCE SHEET As at March 31, 2004

| | OPERATIONS FUND | | INSURANCE TRUST FUNDS | | TOTAL | |
|---|---|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| | **$** | $ | **$** | $ | **$** | $ |
| **ASSETS** | | | | | | |
| **Current assets** | | | | | | |
| Cash | **193,605** | 197,016 | **166,781** | 146,325 | **360,386** | 343,341 |
| Short-term investments | **5,614,516** | 3,149,502 | **4,050,000** | 3,159,571 | **9,664,516** | 6,309,073 |
| Accounts receivable | **252,785** | 240,673 | **50,727** | 87,796 | **303,512** | 328,469 |
| Prepaid insurance premiums | **–** | – | **1,836,982** | 1,565,659 | **1,836,982** | 1,565,659 |
| Deposits and prepaid expenses | **189,777** | 84,530 | **93,333** | 93,333 | **283,110** | 177,863 |
| Deferred insurance expense | **–** | – | **–** | 81,529 | **–** | 81,529 |
| Goods and services tax recoverable | **–** | – | **35,237** | 30,900 | **35,237** | 30,900 |
| Deferred government fee (note 2) | **–** | 315,705 | **–** | – | **–** | 315,705 |
| | **6,250,683** | 3,987,426 | **6,233,060** | 5,165,113 | **12,483,743** | 9,152,539 |
| **Property, plant and equipment** (note 3) | **462,892** | 605,126 | **–** | – | **462,892** | 605,126 |
| | **6,713,575** | 4,592,552 | **6,233,060** | 5,165,113 | **12,946,635** | 9,757,665 |
| **LIABILITIES** | | | | | | |
| **Current liabilities** | | | | | | |
| Accounts payable and accrued liabilities | **247,878** | 293,191 | **55,312** | 43,667 | **303,190** | 336,858 |
| Government fee payable | **220,000** | 201,667 | **–** | – | **220,000** | 201,667 |
| Provincial sales tax payable | **–** | – | **3,859** | 108,456 | **3,859** | 108,456 |
| Insurance premiums payable | **–** | – | **–** | 346,401 | **–** | 346,401 |
| Deferred registration revenue (note 4(a)) | **4,799,024** | 4,435,187 | **–** | – | **4,799,024** | 4,435,187 |
| Deferred insurance premiums (note 4(b)) | **–** | – | **1,936,150** | 1,601,919 | **1,936,150** | 1,601,919 |
| Deferred insurance stabilization (note 4(b)) | **–** | – | **282,547** | 255,600 | **282,547** | 255,600 |
| Deferred insurance administration (note 4(b)) | **–** | – | **310,497** | 276,878 | **310,497** | 276,878 |
| | **5,266,902** | 4,930,045 | **2,588,365** | 2,632,921 | **7,855,267** | 7,562,966 |
| **Deferred registration revenue** (note 4(a)) | **1,598,422** | 1,490,574 | **–** | – | **1,598,422** | 1,490,574 |
| | **6,865,324** | 6,420,619 | **2,588,365** | 2,632,921 | **9,453,689** | 9,053,540 |
| **ACCUMULATED FUND BALANCES** | | | | | | |
| **Investment in property, plant and equipment** (note 3) | **462,892** | 605,126 | **–** | – | **462,892** | 605,126 |
| **Restricted** | | | | | | |
| Insurance Premium Fund (schedule II) | **–** | – | **854,199** | 494,165 | **854,199** | 494,165 |
| Premium Stabilization Fund (schedule II) | **–** | – | **2,551,867** | 1,820,053 | **2,551,867** | 1,820,053 |
| Insurance Administration Fund (schedule II) | **–** | – | **238,629** | 217,974 | **238,629** | 217,974 |
| **Unrestricted** | **(614,641)** | (2,433,193) | **–** | – | **(614,641)** | (2,433,193) |
| | **(151,749)** | (1,828,067) | **3,644,695** | 2,532,192 | **3,492,946** | 704,125 |
| | **6,713,575** | 4,592,552 | **6,233,060** | 5,165,113 | **12,946,635** | 9,757,665 |

Approved by the Board of Directors

Director

Director

# STATEMENT OF OPERATIONS AND CUMULATIVE OPERATIONS AND INSURANCE TRUST FUND BALANCES

For the year ended March 31, 2004

| | OPERATIONS FUND | | INSURANCE TRUST FUNDS | | TOTAL | |
|---|---|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| | **$** | $ | **$** | $ | **$** | $ |
| **Revenues and Insurance Trust Fund receipts** | | | | | | |
| Registration fees [note 4] | **6,233,390** | 6,088,666 | **–** | – | **6,233,390** | 6,088,666 |
| Insurance premium fees [note 4] | **–** | – | **4,557,725** | 4,120,084 | **4,557,725** | 4,120,084 |
| Premium stabilization fees [note 4] | **–** | – | **668,587** | 680,716 | **668,587** | 680,716 |
| Insurance administration fees [note 4] | **–** | – | **724,303** | 738,555 | **724,303** | 738,555 |
| Other income | **1,204,317** | 829,511 | **–** | – | **1,204,317** | 829,511 |
| Less: Government fees | **(315,705)** | (915,024) | **–** | – | **(315,705)** | (915,024) |
| | **7,122,002** | 6,003,153 | **5,950,615** | 5,539,355 | **13,072,617** | 11,542,508 |
| **Expenses and expenditures** | | | | | | |
| Council expenditures [schedules I and II] | **5,528,395** | 5,529,211 | **4,934,011** | 4,460,343 | **10,462,406** | 9,989,554 |
| **Operating income before interest income** | **1,593,607** | 473,942 | **1,016,604** | 1,079,012 | **2,610,211** | 1,552,954 |
| **Interest income** | **82,711** | 72,162 | **95,899** | 122,343 | **178,610** | 194,505 |
| **Net income for the year** | **1,676,318** | 546,104 | **1,112,503** | 1,201,355 | **2,788,821** | 1,747,459 |
| **Opening accumulated fund balances** | **(2,433,193)** | (2,875,712) | **2,532,192** | 1,330,837 | **98,999** | (1,544,875) |
| **Fund balances invested in property, plant and equipment** [note 3] | **142,234** | (103,585) | **–** | – | **142,234** | (103,585) |
| **Ending accumulated fund balances** | **(614,641)** | (2,433,193) | **3,644,695** | 2,532,192 | **3,030,054** | 98,999 |

# STATEMENT OF CASH FLOWS For the year ended March 31, 2004

| | OPERATIONS FUND | | INSURANCE TRUST FUNDS | | TOTAL | |
|---|---|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| | **$** | $ | **$** | $ | **$** | $ |
| **CASH PROVIDED BY (USED IN)** | | | | | | |
| **Operating activities** | | | | | | |
| Net income for the year | **1,676,318** | 546,104 | **1,112,503** | 1,201,355 | **2,788,821** | 1,747,459 |
| Item not affecting cash | | | | | | |
| Amortization | **237,957** | 339,728 | **–** | – | **237,957** | 339,728 |
| | **1,914,275** | 885,832 | **1,112,503** | 1,201,355 | **3,026,778** | 2,087,187 |
| Non-cash working capital items related to operations | | | | | | |
| Short-term investments | **(2,465,014)** | (434,873) | **(890,429)** | 2,383,221 | **(3,355,443)** | 1,948,348 |
| Accounts receivable | **(12,112)** | (153,556) | **37,069** | (1,066) | **24,957** | (154,622) |
| Prepaid insurance premiums | **–** | – | **(271,323)** | 90,629 | **(271,323)** | 90,629 |
| Deposits and prepaid expenses | **(105,247)** | (1,933) | **–** | – | **(105,247)** | (1,933) |
| Deferred insurance expense | **–** | – | **81,529** | (81,529) | **81,529** | (81,529) |
| Goods and services tax | **–** | – | **(4,337)** | (210,949) | **(4,337)** | (210,949) |
| Deferred government fee | **315,705** | 800,491 | **–** | – | **315,705** | 800,491 |
| Accounts payable and accrued liabilities | **(45,313)** | 7,420 | **11,645** | (13,502) | **(33,668)** | (6,082) |
| Government fee payable | **18,333** | (284,549) | **–** | – | **18,333** | (284,549) |
| Provincial sales tax | **–** | – | **(104,597)** | (282,995) | **(104,597)** | (282,995) |
| Insurance premiums payable | **–** | – | **(346,401)** | 195,669 | **(346,401)** | 195,669 |
| Deferred registration revenue | **471,685** | (179,486) | **–** | – | **471,685** | (179,486) |
| Deferred insurance premiums | **–** | – | **334,231** | (2,422,243) | **334,231** | (2,422,243) |
| Deferred insurance stabilization | **–** | – | **26,947** | (409,768) | **26,947** | (409,768) |
| Deferred insurance administration | **–** | – | **33,619** | (449,506) | **33,619** | (449,506) |
| | **(1,821,963)** | (246,486) | **(1,092,047)** | (1,202,039) | **(2,914,010)** | (1,448,525) |
| | **92,312** | 639,346 | **20,456** | (684) | **112,768** | 638,662 |
| **Investing activities** | | | | | | |
| Purchase of property, plant and equipment | **(95,723)** | (443,313) | **–** | – | **(95,723)** | (443,313) |
| **Increase (decrease) in cash during the year** | **(3,411)** | 196,033 | **20,456** | (684) | **17,045** | 195,349 |
| **Cash – Beginning of year** | **197,016** | 983 | **146,325** | 147,009 | **343,341** | 147,992 |
| **Cash – End of year** | **193,605** | 197,016 | **166,781** | 146,325 | **360,386** | 343,341 |

# NOTES TO FINANCIAL STATEMENTS March 31, 2004

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### NATURE OF ORGANIZATION

The Real Estate Council of Ontario (RECO) is a not-for-profit organization, incorporated by letters patent under the *Canada Corporations Act* on February 18, 1997. The organization is exempt from tax under the *Income Tax Act* (Canada).

On May 5, 1997, RECO assumed responsibility from the Ministry of Consumer and Business Services (MCBS) to administer the *Real Estate and Business Brokers Act*. RECO's mandate is to protect consumers and to administer the regulatory requirements of Ontario's real estate profession.

The Insurance program is a compulsory program to provide compulsory Consumer Deposit insurance, compulsory Errors & Omissions insurance and compulsory Commission Protection insurance. The program was created through By-law No. 12 approved by the members of the Council on March 3, 2000. It became effective September 1, 2000. Payments required under the program are designated to three funds: the Insurance Premium Fund, the Premium Stabilization Fund, and the Insurance Administration Fund.

The initial payments required by the plan were to provide coverage for the period from September 1, 2000 to September 1, 2002. Thereafter each member is required to provide payment to extend insurance coverage to September 1, 2004.

The Premium Stabilization Fund is a restricted fund that may be used to offset future increases in the premiums charged by the insurer. This fund may also be used to reduce the present level of premiums. A special insurance premium stabilization committee, comprised of members, must approve any use of the funds.

The Insurance Administration Fund is a fund used to pay insurance brokerage fees, actuarial fees and other administrative costs associated with the operation of the plan.

### REVENUE RECOGNITION

RECO follows the deferral method of accounting for revenue. RECO derives its revenue primarily from fees charged to register as a real estate salesperson, a broker and brokerage business and administration of insurance. Registration proceeds are for a two-year period. Revenue is recognized evenly over this two-year period to match the related expenditures. Amounts related to future years are recorded as deferred revenue. Insurance proceeds are for the one-year period of the insurance policy, which runs from September 1 of the current year to September 1 of the following year. Amounts related to the following year are recorded as deferred revenue.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and short-term deposits where the maturity is ninety days or less.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost, less accumulated amortization. Amortization is provided at the following annual rates on a straight-line basis:

| | |
|---|---|
| Computer equipment and software | 30% |
| Office furniture and equipment | 20% |
| Leasehold improvements | 10% |

### USE OF ESTIMATES

The preparation of the organization's financial statements and the accompanying notes in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts in the financial statements and the disclosure in the accompanying notes. Actual results could differ from those estimates used in preparing the financial statements.

### FINANCIAL INSTRUMENTS

The carrying value of the company's financial instruments consisting of cash, short-term investments, accounts receivable, deposits and prepaid expenses, accounts payable and accrued liabilities, approximates their fair values because of their short-term nature and maturities.

## 2. DEFERRED GOVERNMENT FEE

In accordance with the Administrative Agreement with the Ministry of Consumer and Business Services (MCBS), a fee of $54 has been payable to the Minister of Finance for each registration application processed. The registration is for a two-year period. The fee was expensed evenly over this two-year period to match the related revenues. Amounts related to future years were recorded as deferred government fee. This agreement expired on April 30, 2002. A new agreement, based on a cost recovery model, has been signed. Under this new agreement, the maximum fee payable will not exceed $220,000 per year. Amounts deferred under the previous agreement will be amortized in the same manner as previous years. Amounts payable under the new agreement will be recognized in the year incurred. At March 31, 2004, the deferred government fee balance was $nil.

| | **$** |
|---|---|
| Amounts to be recognized as expense in fiscal 2004 | 315,705 |

## 3. PROPERTY, PLANT AND EQUIPMENT

| | | | **2004** | 2003 |
|---|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Net** | Net |
| | **$** | **$** | **$** | $ |
| Computer equipment and software | **1,554,578** | **1,354,853** | **199,725** | 259,495 |
| Office furniture and equipment | **659,011** | **562,032** | **96,979** | 153,957 |
| Leasehold improvements | **283,766** | **117,578** | **166,188** | 191,674 |
| | **2,497,355** | **2,034,463** | **462,892** | 605,126 |

Fund balances invested in property, plant and equipment are as follows:

| | $ |
|---|---|
| Invested in property, plant and equipment – Beginning of year | 605,126 |
| Additions during the year | 95,723 |
| Amortization charge for the year | (237,957) |
| Invested in property, plant and equipment – End of year | 462,892 |

# 4. DEFERRED REVENUE

## A) OPERATIONS FUND

Deferred revenue represents registration fees received, which relate to subsequent periods. The movements in the deferred revenue balance during the year were:

| | $ |
|---|---|
| Opening balance | 5,925,761 |
| Registration fees received in fiscal 2003 | 6,705,075 |
| Less: Amounts recognized as revenue in the year | (6,233,390) |
| Ending balance | 6,397,446 |
| | |
| Amounts to be recognized as revenue in fiscal 2004 | 4,799,024 |
| Amounts to be recognized as revenue in fiscal 2005 | 1,598,422 |
| | 6,397,446 |

## B) INSURANCE TRUST FUNDS

| | Insurance Premium Fund $ | Premium Stabilization Fund $ | Insurance Administration Fund $ | Total $ |
|---|---|---|---|---|
| Opening balance | 1,601,919 | 255,600 | 276,878 | 2,134,397 |
| Insurance payments received in fiscal 2003 | 4,891,956 | 695,534 | 757,922 | 6,345,412 |
| Less: Amounts recognized as revenue in the year | 4,557,725 | 668,587 | 724,303 | 5,950,615 |
| Ending balance | 1,936,150 | 282,547 | 310,497 | 2,529,194 |
| Amounts to be recognized as revenue in fiscal 2004 | 1,936,150 | 282,547 | 310,497 | 2,529,194 |

# 5. MCBS TRANSITIONAL CONTRACT

MCBS provided certain administrative services during fiscal 2004 by providing staff on a seconded basis.

## 6. COMMITMENTS

The organization has minimum commitments under leases for premises and equipment. The future estimated lease payments are:

| | $ |
|---|---|
| 2005 | 353,000 |
| 2006 | 351,000 |
| 2007 | 347,000 |
| 2008 | 262,000 |
| 2009 | 5,000 |
| | 1,318,000 |

## 7. FUNDS HELD IN TRUST

The council holds in trust consumer deposits transferred by brokers as dormant trust funds. At March 31, 2004, these deposits, together with accumulated interest, amounted to $188,131 (2003 – $169,632). These amounts have not been included in the financial statements.

## 8. CONTINGENT LIABILITIES

The organization is involved in various claims and litigation both as plaintiff and respondent. In the opinion of management, the resolution of claims against the organization will not result in a material effect on the financial position of the organization. Any settlements or awards will be reflected in the statement of operations, as the matters are resolved.

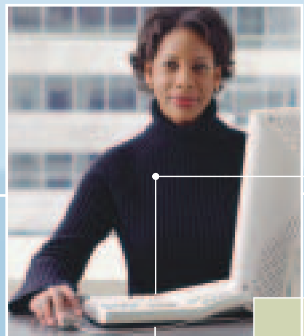
# SCHEDULE OF COUNCIL EXPENDITURES

For the year ended March 31, 2004

| | 2004<br>$ | 2003<br>$ |
|---|---|---|
| **Operating expenses** | | |
| Facilities costs | **822,704** | 739,250 |
| Registration department | **716,817** | 690,413 |
| Administrative support services | **595,857** | 533,970 |
| Inspections and investigations | **495,695** | 497,524 |
| Information technology | **205,282** | 390,998 |
| Complaints department | **409,648** | 388,377 |
| Legal department | **396,131** | 364,941 |
| President and Chief Executive Officer | **279,345** | 280,783 |
| Communications department | **170,643** | 150,354 |
| Office of the Registrar | **126,620** | 120,933 |
| MCBS service charges (note 5) | **90,526** | 84,112 |
| | **4,309,268** | 4,241,655 |
| **Board of Directors and task forces** | | |
| Board of Directors per diems | **40,797** | 51,811 |
| Board of Directors travel and meeting costs | **39,658** | 32,065 |
| Real Estate Act Task Force | **11,378** | 23,533 |
| Education Committee | **30,139** | 21,413 |
| Governance Committee | **5,967** | 5,258 |
| Audit Committee | **1,681** | 1,661 |
| | **129,620** | 135,741 |
| **Other corporate** | | |
| Amortization | **237,957** | 339,728 |
| Communications | **137,877** | 230,707 |
| Government fee (note 2) | **146,146** | 201,667 |
| Disciplinary activities | **152,987** | 149,070 |
| Legal and consulting | **172,024** | 69,952 |
| Directors' and officers' liability insurance | **123,700** | 55,546 |
| Annual general meeting | **52,194** | 48,822 |
| Elections | **36,070** | 34,216 |
| Audit fees | **30,552** | 22,107 |
| | **1,089,507** | 1,151,815 |
| | **5,528,395** | 5,529,211 |

# SCHEDULE OF FUND BALANCES For the year ended March 31, 2004

| | Insurance Premium Fund | Premium Stabilization Fund | Insurance Administration Fund | 2004 Total | 2003 Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Insurance funds** | | | | | |
| Insurance funds recognized | **4,557,725** | **668,587** | **724,303** | **5,950,615** | 5,539,355 |
| Interest earned | **21,270** | **63,227** | **11,402** | **95,899** | 122,343 |
| | **4,578,995** | **731,814** | **735,705** | **6,046,514** | 5,661,698 |
| **Expenditures** | | | | | |
| Brokerage fees | – | – | **224,000** | **224,000** | 224,000 |
| Actuarial fees | – | – | **150,000** | **150,000** | 150,000 |
| Provincial sales tax | – | – | **(12,805)** | **(12,805)** | 59,727 |
| Legal and audit | – | – | **23,130** | **23,130** | 43,649 |
| Insurance staffing | – | – | **52,629** | **52,629** | 9,264 |
| Insurance committee | – | – | **11,487** | **11,487** | 4,619 |
| Bank charges and other miscellaneous | – | – | **3,180** | **3,180** | 3,831 |
| Stabilization committee | – | – | **575** | **575** | 1,676 |
| Printing costs | – | – | **21,477** | **21,477** | 652 |
| Credit card discounts | – | – | **48,422** | **48,422** | 575 |
| Processing and mailing costs | – | – | **160,816** | **160,816** | – |
| System support | – | – | **32,139** | **32,139** | – |
| Insurance | **4,218,961** | – | – | **4,218,961** | 3,962,350 |
| | **4,218,961** | – | **715,050** | **4,934,011** | 4,460,343 |
| **Net income for the year** | **360,034** | **731,814** | **20,655** | **1,112,503** | 1,201,355 |
| **Opening accumulated fund balances** | **494,165** | **1,820,053** | **217,974** | **2,532,192** | 1,330,837 |
| **Ending accumulated fund balances** | **854,199** | **2,551,867** | **238,629** | **3,644,695** | 2,532,192 |



# BUSINESS PLAN

## for Fiscal 2005 to 2007

| STRATEGIC PRIORITY | BUSINESS OBJECTIVES | PERFORMANCE MEASURES |
|---|---|---|
| **GOVERNANCE & ACCOUNTABILITY** | Provide strategic leadership | > Implement an improved strategic planning process and a supporting strategic management model in 2004-2005<br>> Continue to participate in Canadian Regulators Group and Association of Real Estate License Law Officials; work with other organizations and associations that have common goals and objectives<br>> Complete a review of Insurance Program including long-term objectives and options |
| | Meet obligations as set out in the Governance Model adopted in 2002-2003 | > Implement a performance evaluation process for the Board of Directors and individual directors<br>> Evaluate the performance of committees and task forces based on the terms of reference and the work plan established by the Board<br>> Invest in ongoing governance training for new and returning directors |
| | Provide opportunities for consumers and registrants to provide input and feedback | > Consumer Advisory Group to be established and operational in 2004-2005<br>> Where possible, regionally elected directors to participate in trade shows, conferences and speaking engagements<br>> Conduct consumer/registrant satisfaction surveys in 2004-2005 |
| | Meet the requirements of the Administrative Agreement and provide the Ministry of Consumer and Business Services with input and feedback as required | > Consult with stakeholders in accordance with the process set out in the Administrative Agreement<br>> Formalize a process for handling and resolving complaints related to the administration of the *Real Estate and Business Brokers Act*<br>> Submit quarterly reports to the Ministry; provide other information as required; attend liaison meetings |
| **NEW LEGISLATION** | Improve consumer protection through flexible and relevant legislation | > Proclamation of the *Real Estate and Business Brokers Act, 2002* and enactment of regulations anticipated<br>> Continue to assist the Ministry during development of the regulations |
| | Ensure organizational structure supports administration of the new Act and regulations | > Continue to review existing organizational structure to identify necessary changes in reporting relationships; prepare to implement changes when the new Act is proclaimed |
| | Ensure staff have working knowledge of the new Act and regulations | > Invest in training for all management and support staff; provide ongoing training following proclamation of the *Real Estate and Business Brokers Act, 2002*<br>> Document all changes to departmental policies and procedures |

| STRATEGIC PRIORITY | BUSINESS OBJECTIVES | PERFORMANCE MEASURES |
|---|---|---|
| NEW LEGISLATION (continued) | Take a proactive approach to consumer protection through enhanced registration-related education | > Conduct comprehensive review of pre-registration education courses in 2004-2005; identify and address areas for improvement |
| ENHANCE CONSUMER/ REGISTRANT COMMUNICATIONS | Increase/improve the methods used to communicate with registrants; provide timely and relevant information | > Redesign of website completed; new features/sections added; access through website to password-protected registrant section<br>> Publish new hard-copy registrant newsletter beginning in spring 2004 (3-4 issues per year); continue to place articles in REM and other real estate trade publications<br>> Implement an electronic news delivery system in 2004-2005<br>> Revise all publications in preparation for proclamation of the new Act<br>> Develop new series of consumer-focused articles; post on website and distribute to media<br>> Provide opportunities for consumers and registrants to provide input and feedback through web-based surveys implemented in 2004-2005 |
| EDUCATION | Review continuing education requirements and courses utilizing information obtained through the complaints process, Insurance Program and Inspections Program | > Develop recommendations for changes to the Mandatory Continuing Education program based on the review undertaken in 2003-2004<br>> Revise the Mandatory Continuing Education program and policy as required<br>> Examine improved methods for tracking and reporting continuing education credits<br>> New course material incorporates the loss information gained from the insurance program and the main areas of complaints |
| | Ensure that brokerages maintain proper records | > Conduct risk-based inspections; conduct courtesy inspections for new brokerages |
| IMPROVE OPERATIONAL EFFICIENCY | Complete implementation of RECO's e-service delivery plan | > Implementation of web-based internal system completed in spring 2004<br>> Launch redesigned website in summer 2004<br>> Registrants provided with password-protected access to individual information<br>> Online payment for insurance renewals available for September 2004 renewal process<br>> Implement online surveys/polls implemented in 2004-2005<br>> Complete a review of the registration process with a view to pilot testing online registration in 2005 |
| | Increase investment in professional development for staff | > Provide opportunities for professional development in-house and through courses/seminars relevant to the individual's role |

# SUMMARY FINANCIALS FISCAL 2005 TO 2007

| | OPERATING FUND | | | INSURANCE FUNDS | | |
|---|---|---|---|---|---|---|
| | 2005 Budget | 2006 Plan | 2007 Plan | 2005 Budget | 2006 Plan | 2007 Plan |
| Registration fees | 6,221,262 | 6,265,524 | 6,353,857 | | | |
| Premium fund fees | | | | 4,453,231 | 4,485,000 | 4,485,000 |
| Premium stabilization fund fees | | | | 650,559 | 655,200 | 655,200 |
| Insurance administration fund fees | | | | 704,772 | 709,800 | 709,800 |
| Other revenues | 999,925 | 1,000,500 | 1,000,500 | 116,171 | 117,000 | 117,000 |
| Total revenues | 7,221,187 | 7,266,024 | 7,354,357 | 5,924,733 | 5,967,000 | 5,967,000 |
| Operating departments | 4,975,653 | 4,969,591 | 5,067,654 | 5,261,152 | 5,311,268 | 5,322,981 |
| Board, committees and task forces | 189,260 | 192,879 | 189,471 | | | |
| Other operating costs | 1,841,645 | 1,575,394 | 1,547,237 | | | |
| Amortization | 217,967 | 176,995 | 160,679 | – | – | – |
| Total expenses/expenditures | 7,224,525 | 6,914,859 | 6,965,041 | 5,261,152 | 5,311,268 | 5,322,981 |
| Income/(loss) | (3,338) | 351,165 | 389,316 | 663,581 | 655,732 | 644,019 |
| Net change in funds invested in capital | 41,579 | 156,995 | 140,679 | | | |
| Estimated opening accumulated fund balance | (904,999) | (866,760) | (358,600) | 3,505,478 | 4,169,059 | 4,824,791 |
| Closing accumulated fund balance | (866,760) | (358,600) | 171,395 | 4,169,059 | 4,824,791 | 5,468,810 |
| Increase/(reduction) in accumulated fund balance 2003 to 2007 | | | (2,604,590) | | | 2,936,618 |

## MANAGEMENT

### TOM WRIGHT, LL.B.

***President/CEO***

The President/CEO is responsible for the effective and efficient management of the organization in accordance with the policies and the budget established by the Board of Directors. This encompasses delegation of full authority over RECO's operating activities and resources, responsibility for achievement of RECO's strategic goals and accountability for RECO's results.

### ALLAN T. JOHNSTON

***Registrar***

The Registrar is responsible for providing leadership, integrity and fair-mindedness to the administration of the *Real Estate and Business Brokers Act*, and for ensuring the highest possible level of consumer protection and knowledge in the operation of the real estate brokerage industry in Ontario.

### BRIAN SCHLOTZHAUER

***Manager of Registration and Assistant Registrar***

The Manager of Registration and Assistant Registrar is responsible for providing daily management of the Registration and Education departments, developing and implementing operational objectives to ensure maximum administrative and service results and ensuring that the requirements of the *Real Estate and Business Brokers Act* and RECO's policies are interpreted and applied in a consistent fashion.

### JOHN BURNET

***Manager of Complaints, Compliance and Discipline***

The Manager of Complaints, Compliance and Discipline (CCD) is responsible for administering and managing, by various means, RECO's Complaints, Compliance and Discipline process and providing interpretation of the RECO Code of Ethics.

### BRIAN PRENDERGAST

***Manager of Inspections and Investigations***

The Manager of Inspections and Investigations is responsible for managing the activities of the Inspections and Investigations department by directing province-wide inspections and investigation services on behalf of RECO.

### GLORIA FOUGERE, C.A.

***Manager of Finance, Accounting and Administration***

The Manager of Finance, Accounting and Administration is responsible for establishing and overseeing all functions related to finance, accounting, and administrative services.

### SANDRA GIBNEY

***Manager of Communications and Corporate Initiatives***

The Manager of Communications and Corporate Initiatives is responsible for managing the public relations/corporate communications activities of the Council; managing and/or developing corporate strategies, plans and policies that support the Council's vision/mission; and assisting the CEO in the development of strategic plans, business plans and other corporate reports.

### JAMES LEUTRI, CCNP

***Manager of Information Technology***

The Manager of Information Technology is responsible for building and managing the IT organizational structure. The Manager of Information Technology understands RECO's strategy and business objectives and works with Management to determine how technology can be used to support and advance these objectives.

### ELIZABETH SILCOX, B.A. (HON), LL.B.

***Manager of Legal Services***

The Manager of Legal Services is responsible for managing and providing the legal services required to support the activities of all departments of RECO, including the Board of Directors, its committees, task forces, working groups and the office of the President/CEO as required.

### SHELLEY WESTLAKE-BROWN

***Executive Assistant***

The Executive Assistant is responsible for providing executive-level administrative management to the office of the President/CEO, including a wide range of complex and confidential administrative, operational and governance tasks. The Executive Assistant works closely with the Board of Directors, committees, task forces and management group.

# BOARD OF DIRECTORS

RECO is governed by a 12-member Board of Directors.

## ELECTED REPRESENTATIVES

**KENNETH R. HAJAS,**
MVA – Residential
***Chair***
Broker/Owner
NBR Regional Realty Network Inc.
Ancaster

**TERRENCE LANDON**
***Vice-Chair***
Broker/Part Owner
Re/Max Cornwall Realty Inc.
Cornwall

**THOMAS W. BOSLEY,** FRI, CRB
***President***
Bosley Real Estate Ltd.
Toronto

**BRUCE S. LAW,** SIOR, CCIM
***Vice-President Brokerage Services***
NAI Chambers Hall Real Estate
Hamilton

**JOE O. PINHEIRO**
***Broker/Owner***
Pinheiro Realty & Ins. Ltd.
London

**DAVID ROSSI,** FRI, CMR, CRB
***Broker***
Re/Max Professionals Inc.
Toronto

**PETER SACCOIA**
***Broker***
Saccoia Corp.
Vaughan

**TERRY STAFFORD**
***Broker/Owner***
Coldwell Banker
Graham Thomson Real Estate
Kingston

**DEANNA KATHLEEN WEAVER,**
MVA – Residential
***Associate Broker***
Re/Max Eastern Realty Inc.
Peterborough

## MINISTERIAL APPOINTEES

**MARY SHENSTONE**
***Director, Sector Liaison Branch***
Ministry of Consumer and
Business Services

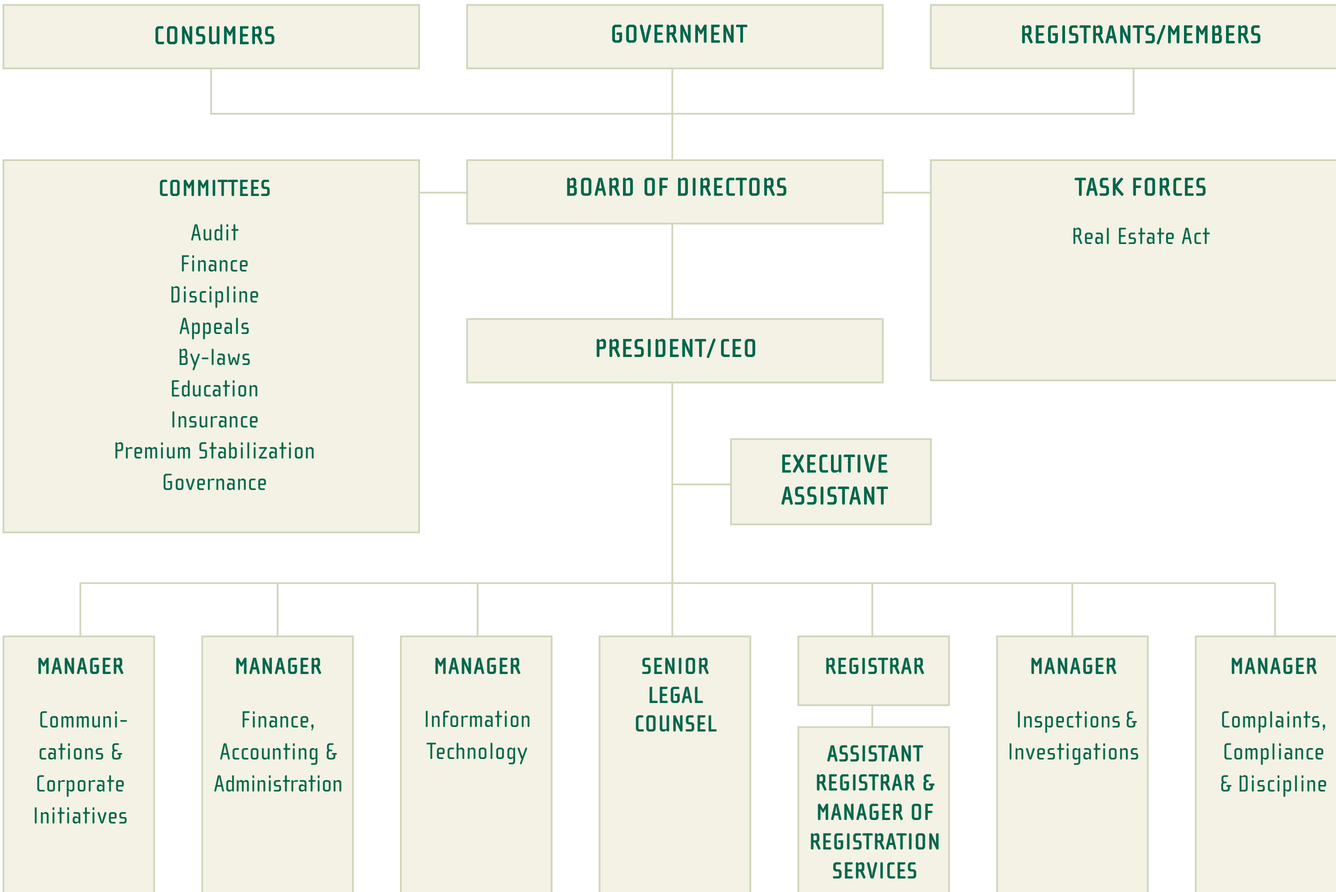
**BOB DUNLOP**
***President***
Carson, Dunlop & Associates
Toronto

**LAWRENCE BREMNER**
***Associate***
Gowling Lafleur Henderson LLP
Hamilton

## CHAIR'S BIOGRAPHY

**KENNETH R. HAJAS** has been a REALTOR since 1974. Actively involved with the Hamilton-Burlington District Real Estate Board, he served as Board President in 1998 and 2002 and has served on over 30 committees and task forces over the past several years. Ken was first elected as a RECO director in 1999. Ken has served on RECO Committees and Task Forces and is currently the Chair of the Real Estate Act Task Force. He was elected as RECO's Vice-Chair in June 2002 and elected as RECO's Chair in June 2003. His term as Chair continues until the close of RECO's Annual General Meeting on June 17, 2004.

## ORGANIZATIONAL CHART




## ORGANIZATIONAL STRUCTURE

RECO provides the following programs and services:
> Complaints, Compliance and Discipline
> Insurance
> Mandatory Continuing Education
> Inspections and Investigations
> Registration

These services are delivered through the structure outlined in the Organizational Chart.

Operating revenues are derived from registration fees. RECO operates on a not-for-profit basis. Any excess revenue is invested in improvements in compliance, public information, accessibility, education and technology.

**REAL ESTATE COUNCIL OF ONTARIO**
3250 Bloor Street West
Suite 600, East Tower
Toronto, ON M8X 2X9

**Main:**
Telephone: 416-207-4800
Toll-free: 1-800-245-6910
Fax: 416-207-4820
E-mail: information@reco.on.ca
Website: www.reco.on.ca

**Complaints, Compliance and Discipline:**
Telephone: 416-207-4847
Toll-free: 1-888-296-8755
Fax: 416-207-8851
E-mail: ccd@reco.on.ca